INDONESIA DEPOSIT INSURANCE CORPORATION

GLOBAL UPDATES

VOLUME 4 OF 2020

Contents

THREE SETS OF MESSAGES FROM IDIC CHAIRMAN TO ITS EMPLOYEES

Purbaya Yudhi Sadewa

Chairman

The role of IDIC in maintaining the national financial stability is quite important, especially in the troubled times caused by the COVID-19 pandemic. If in the future its role/mandate is expanded, IDIC is ready to contribute more to the Indonesian economy.

In the midst of a very busy schedule, especially after officially taking the position of the Chairman of Indonesia Deposit Insurance Corporation (IDIC), Purbaya Yudhi Sadewa is still willing to take his time to be interviewed. His simple and unpretentious nature was reflected in our short interview at the time.

Purbaya Yudhi Sadewa, was officially inaugurated by President Joko Widodo (Jokowi) on Wednesday, September 23, 2020. The appointment was based on an Indonesian Presidential Decree (Keppres) Number 58 / M / 2020 concerning the Dismissal and Appointment of Members of the Board of Commissioners of the Deposit Insurance Corporation.

Before being appointed as Chairman of IDIC, Purbaya served as a Deputy for the Coordination of Maritime Sovereignty and Energy at the Coordinating Ministry for Maritime Affairs and Investment.

Previously, he also served as the Head of the Danareksa Research Institute, a Special Staff to the Coordinating Minister for Economic Affairs, a Director of PT Danareksa (Persero), and a Deputy III for Strategic Issues Management of the Presidential Staff Office. Currently, Purbaya is also serving as the Commissioner of PT Inalum (Persero), a holding company for the state-owned mining enterprise (BUMN) or Mining Industry Indonesia (MIND.ID).

Born on the 7th of July, 1964, Purbaya is an alumni of the Bandung Institute of Technology (ITB) majoring in Electrical Engineering. He then continued his study and earned a doctorate degree in Economics from Purdue University, Indiana, United States.

His persistence in carrying out his job is reflected in this lightsome interview. He prefers to discuss his work, rather than his personal life. Needless to say, his integrity for work is no longer questionable.

As an IDIC official who has a very important position, Purbaya realizes that the role of this institution is equally no less important with other institutions in maintaining the national economic stability, especially in the financial sector. The IDIC has a role in maintaining public trust in banking while mitigating risk of burdening the state budget. Maintained in the public trust in the banking sector will lead to a strong and stable national economy.

“From previous crises experiences, we are well aware there is a risk for our money saved in the bank could be lost. However, with the presence of IDIC, depositors' money in the bank are insured up to IDR 2 billion, terms and conditions applied. This deposit insurance role of IDIC is very crucial. Though it may seem as a light task, it is highly important in maintaining the stability of Indonesia's financial system," he concluded.

As of now, IDIC is only able to resolve a bank if the bank has been declared a failure. This goes to show that IDIC must wait until a bank fails before it can be rescued or resolved. However, as we came to know, there is a discourse regarding the expansion of the IDIC’s mandate that the government will undertake in the future.

The plan to expand the IDIC’s authority is none other than the government's effort to increase the capacity of the financial system in preventing and handling the economic crisis which has been proposed to be included in the Government Regulation in Lieu of Law (Perpu) on Financial System Reform that has been widely discussed by the public since early September of 2020.

This is in line with the government’s official statement through the Minister of Finance regarding the regulation in order to strengthen the national financial sector.

"So first, we can hold our heads upright and be a little proud because we have provided inputs. This means that we have contributed to the country. Second, we must work hard to be able to live up to the expectations that are given to us. Third, we must continue and never stop learning," concluded Purbaya

The scope of the expansion of IDIC's authority will include several things, among others, assisting banks that are experiencing liquidity problems, conducting bank resolutions, assisting other parties in bank restructuring, providing input to Bank Indonesia (BI), the Financial Services Authority (OJK), the Minister of Finance, even the President in terms of maintaining the financial system stability.

"There is an idea to enable IDIC to move forward, including bank liquidity assistance. So, the role of the IDIC will be even greater in this regard. If this happens, IDIC will be put to work and, which of course, requires more skilled experts than ever," said Purbaya.

Previously, IDIC's authority was expanded through Law Number 2 of 2020 and Government Regulation (PP) Number 3 of 2020. The prescribed Law and Regulation enable IDIC to make offerings of problem banks to investors before the bank condition got worsens.

In addition, the Government Regulation (PP) Number 3 of 2020 also states that IDIC is authorized to carry out any necessary measures in dealing with financial system stability related problems arising from the COVID-19 pandemic and/or other economical/financial threats, which includes resolving bank problems.

In the event that the financial system reformation plan takes place, Purbaya continued, it will certainly be a new challenge. This includes challenges in terms of altering work patterns. Therefore, he plans to provide qualified and skilled employee that are capable of facing such challenges in the future.

In terms of human resources (HR), currently IDIC has a banking restructuring program (PRP) which is hoped to be ready to be exercised at any time needed. During the exercise of the PRP, IDIC will not only be selling the bank's assets, it is also expected to refine the financial condition of the bank. Hence, it is as important for IDIC to improve their human resources' competencies and level up their knowledge related to this matter, one of which is in the case of investment banks.

On the other hand, if the reform actually takes place within IDIC, it would certainly have an impolicy impact. Therefore, in the future, IDIC must also prepare and familiarize themselves with these sorts of changes. These could be considered as efforts to contribute more to the stability of the national economy.

"The President has requested that IDIC take more action in contributing to the economy, financial system stability, and to the society. Since IDIC is implored to be able to progress ahead, we all would have to think about the ways achieving for it. To which, I shall apply in the operations of IDIC. I aim for IDIC to be strong internally so that we can provide input up front and not only excel in dealing with failed banks. Ergo, we can anticipate the conditions well, and there will be is no such thing as a failed bank, "concluded Purbaya.

In addition to the challenges during the in reformation or change, this is also accompanied by looming risks. Purbaya emphasized that IDIC is not an arbitrary institution and its decision-making procedures are clear. If the main focus is to maintain the continuity of the country, any risks shall be faced.

Apart from that, there were several messages given by Purbaya, so that in the future of internal IDIC remains solid and ready to face changes. First, IDIC can take pride in providing various inputs to the President in the form of the right policies to deal with COVID-19. Not only in the financial sector, but also in the overall fiscal and monetary policy response.

IDIC’s performance has been quite good. Several problem banks have also been assisted, so that the stability of these banks can yet again improve. This at least provides peace for the bank and the public. We hope that in the future the role of the IDIC can continue to be recognized by banks and the public in its attempts in maintaining financial system stability in Indonesia.

1. Law Number 2 of 2020 on the Stipulation of Government Regulations in Lieu of Law No. 1 of 2020 on State Financial Policy and Stability of Financial Systems for the Management of Corona Virus Disease 2019 (COVID-19) and/or Encounter the Threat to National Economy and/or Financial System Stability

Along with the increasing cases of Corona Virus Disease 2019 (**"Covid-19"**) in Indonesia, on March 31, 2020 the President of the Republic of Indonesia stipulated 3 related regulations as a form of response to the pandemic. One of the regulations issued was the Government Regulation in Lieu of Law No. 1 Year 2020 on State Financial Policy and Stability of Financial Systems for the Management of Corona Virus Disease 2019 (Covid-19) and/or Encounter the Threat to National Economy and/or Financial Systems Stability.
(**"Perpu No. 1/2020**").

Perpu No. 1/2020 specifically regulates state financial policies, taxation policies, national economic recovery programs and financial system stability policies in connection with the management of Covid-19 pandemic and/or facing threats that endanger the national economy and financial system stability. The Perpu was then enacted as the Law Number 2 of 2020 on the Stipulation of the Government Regulation in Lieu of Law No. 1 Year 2020 on State Financial Policy and Stability of Financial Systems for the Management of Corona Virus Disease 2019 (Covid-19) and/or Encounter the Threat to National Economy and/or Financial Systems Stability on March 31,, 2020.

The Law enables the Government to implement a national economic recovery program in the form of State Capital participation carried out through State-Owned Enterprises (SOEs) appointed by the Government, placement of funds and/or Government investments carried out directly by the Government and/or through other institutions appointed by the Government, as well as guarantee activity with a scheme established by the Government and run directly by the Government and/or through one or several deposit insurance corporation appointed by the Government. The implementation of national economic recovery is regulated further by a Government Regulation.

Particularly for IDIC, the Law has provided several authorities in managing financial system stability issues, such as:

1. Along with the Financial Services Authority conducting preparations management for banks under intensive supervision and increasing the intensity of preparations for banks under special supervision, for managing bank solvency issues;
2. Conduct sales/repo of owned Government Bonds to Bank Indonesia, issuance of obligations, loans to other parties and/or loans to the Government, in the event of IDIC is expected to experience liquidity difficulties for handling failed banks;
3. Make a decision regarding the recovery of a bank other than a Systemic Bank which is declared a failed bank;
4. Formulate and implement a deposit guarantee policy for customer groups.

2. Government Regulation Number 33 of 2020 concerning the Implementation of the Authority of the Deposit Insurance Corporation in order to Implement Measures to Handle Financial System Stability Problems

Law Number 2 of 2020 provides a legal basis in the context of facing dangerous threats to the national economy and/or addressing the intended Financial System Stability issues, one of which is through strengthening the authority of IDIC.

Strengthening the authority of IDIC as stipulated in this Regulation of the Government, among others, regarding the implementation of the authority of IDIC to carry out measures to resolve Financial System Stability issues, additional authority in the case of IDIC is expected to experience difficulties in fulfilling liquidity needs for resolving Failed Banks, as well as additional criteria that need to be considered in deciding whether to carry out the rescue or not, by not only considering the estimated least-cost test.

Based on the aforementioned authority, in case of a Bank that is experiencing solvency problems, IDIC will conduct preparations and intensify the preparations together with OJK to address Bank solvency problems. The preparation for resolution and intensification of joint preparations is carried out, among others, by exchanging data and/or the latest information from OJK to IDIC and/or conducting joint examinations with OJK and IDIC on Banks experiencing such solvency problems. The resolution preparation is carried out when the Bank is determined as a Bank in intensive supervision, while the intensification of the preparation is carried out when the Bank is announced as a Bank in special supervision.

In addition, IDIC can carry out Bank Resolution preparations and intensification of preparations by placing funds with the Bank to manage and/or increase IDIC liquidity and/or prevent Bank failure as part of IDIC's forward-looking actions to maintain Financial System Stability. Furthermore, when IDIC is expected to experience liquidity problems in the context of resolving a Failed Bank, IDIC is given the authority to take action; making a Repo to BI, selling SBN held by IDIC to BI, issuing debt securities, making loans to other parties, and/or apply for a loan to the Government.

This authority is exercised by IDIC in the event of a crisis threat that threatens the national economy and applies to all banks experiencing solvency problems.

This Regulation of the Government also stipulates that in order to make decisions whether or not to rescue Non-Systemic Banks that are declared as Failed Banks by OJK, IDIC not only considers the least cost test, but also takes into account the economic conditions, the complexity of bank problems, the required resolution time, availability of investors, and/or effectiveness in dealing with problems of each Bank.

3. IDIC Regulation Number 1 of 2020 on the Implementation of Sharia Bank Deposit Insurance and Resolution

The regulation enables IDIC to conduct joint examinations in preparation for the Sharia Bank resolution and intensify its resolution bank preparation as well as to choose resolution option for Systemic and/ or Non-Systemic Failed Banks in accordance to sharia principles. Then, the government began to enforce this regulation on April 28, 2020.

In addition, the regulation also regulates the administration of IDIC capital placement in a Sharia Bank in its efforts maintaining the stability of the financial system.

This regulation also provides guidance on implementation of deposit insurance program and bank resolution for systemic and non-systemic sharia banks. The resolution of a sharia failed bank can be exercised by using one of the following methods:

1. Transferring parts or all of the failed bank's assets and/ or liabilities to a Sharia recipient bank;
2. Transferring parts or all of the failed bank's assets and / or liabilities to a Sharia Bridge Bank;.
3. Temporary capital placement; or
4. Bank liquidation.

Furthermore, in the event of deposit insurance claim payments, IDIC may sell its Sharia based investment instruments to fund the payout.

4. IDIC Regulation Number 2/2020 in lieu of IDIC Regulation Number 2/2010 on The Deposit Insurance Program

The regulation enables IDIC to apply relaxation on the penalty of late premium payment by the banks to mitigate the impact of the deteriorating banking system stability and, as well as to maintain the sustainability of the Banks' businesses. Other than the insurance premium late fee amount, the regulation also regulates the term of late fee payment and other related issues. Then, the government began to enforce this regulation on June 24, 2020.

5. IDIC Regulation Number 3/2020 Implementation Regulation of Government Regulation Number 33 of 2020 The Imlementation of Authority of The Deposit Security Institution in Implementation steps to handling Financial System Stability Program

The regulation enables IDIC to conduct joint examinations in preparing for Bank resolution and intensification of Bank resolution preparations as well as conducting the selection of resolution methods for Non-Systemic Banks declared as Failed Banks.

In addition, during the economic recovery as a result of the Corona Virus Disease 2019 (COVID-19) pandemic, IDIC may conduct Fund Placement on Bank to manage and/or increase IDIC liquidity and/or anticipate and/or solve financial system stability problems that may lead to Bank failure as part of IDIC's forward-looking measures to maintain Financial System Stability.

This Regulation also stipulates that in controlling the Corona Virus Disease 2019 (COVID-19) pandemic to manage and/or increase the liquidity of IDIC and/or in response to dangerous threats to the national economy and/or financial system stability, the IDIC, in making decisions select the resolution methods for

Non-Systemic Banks declared as Failed Banks by OJK, shall not only consider the least cost test but also taking into account the economic conditions, the complexity of Bank problems, the need for resolution time, the availability of investors, and/or effectiveness in the Bank's resolution. Then, the government began to enforce this regulation on July 20, 2020.

6. IDIC Regulation Number 4/2020 in lieu of IDIC Regulation Number 5/2019 on Commercial Customer–Based Insurance Data

The regulation enables IDIC to provide necessary adjustments on Bank's liabilities in submitting their reports on Single Customer View (SCV) data at a certain condition. The scopes of the adjustment are related to the due date of submission and/or the termination of report submission. This is a temporary measure took by IDIC in order to manage the impact of the COVID-19 pandemic and/or other threats that may endangering the financial system stability. Then, the government began to enforce this regulation on August 25, 2020.

7. IDIC Regulation Number 5/2020 in lieu of IDIC Regulation Number 6/2019 on about Amendment to IDIC Regulation of The Deposit Guarantee Institution number 6 of 2019 on Concerning about Commercial Bank Reports

The regulation enables IDIC to adjust term and conditions for the submission of report on the position of the commercial bank deposits. It allows banks to submit the both monthly deposit and financial reports electronically through the *e-Laporan* provided by IDIC until December 2020. The transition period of a maximum of 6 months may be applied when needed. Then, the government began to enforce this regulation on August 25, 2020.

Banking Growth and Stability

Indonesian banking industry closes the third quarter of 2020 (Q3-2020) with a moderate financial performance. As shown in Table 1, banking industry's assets grow by 8.6 % YoY (1.7% MtM), while profit decreases by 27.1% YoY (5.3% MtM). This growth is mainly driven by credits, which increased by 0.38% YoY (0.1% MtM). On the right-hand side of the industry's balance sheet, deposits (third parties funds) grow by 12.88% YoY (2.5% MtM), slightly higher than its growth in Q2-2020 (7.93% YoY, 1.4% MtM). Meanwhile, the industry's Tier 1 capital grow by 0.6% YoY (0.2% MtM).

Table 1: Indicators of Banking Industry (Trillion IDR)

Indicator	Sep-19	Aug-20	Sep-20	YoY	MtM
Asset	**8.333,4**	**8.902,4**	**9.053,2**	● **8,6%**	● **1,7%**
Conventional	8.008,4	8.543,5	8.678,2	● 8,4%	● 1,6%
Islamic	325,0	358,9	375,0	● 15,4%	● 4,5%
Credit	**5.580,7**	**5.594,1**	**5.602,1**	● **0,38%**	● **0,1%**
Conventional	5.362,2	5.358,2	5.361,1	● -0,0%	● 0,1%
Islamic	218,5	235,9	241,0	● 10,3%	● 2,1%
Third Parties Fund	**5.891,9**	**6.487,8**	**6.650,8**	● **12,88%**	● **2,5%**
Conventional	5.624,6	6.191,9	6.338,7	● 12,7%	● 2,4%
Islamic	267,3	295,9	312,1	● 16,7%	● 5,5%
Tier 1	**1.296,7**	**1.301,6**	**1.304,4**	● **0,6%**	● **0,2%**
Conventional	1.257,4	1.262,5	1.265,1	● 0,6%	● 0,2%
Islamic	39,3	39,1	39,3	● -0,0%	● 0,5%
Profit/Loss	**117,0**	**81,0**	**85,3**	● **-27.1%**	● **5,3%**
Conventional	114,8	79,1	83,2	● -27,6%	● 5,1%
Islamic	2,2	1,9	2,2	● -1,3%	● 11,7%

NOTE:
YoY : Year-on-Year growth
MtM : Month-to-Monthgrowth
● : Favorable
● : Unfavorable

The key financial ratios in Table 2 show that the Indonesian banking industry at the third quarter of 2020 still has a solid financial performance. The industry's CAR remains strong at 23.33%, increases 65 bps from last year, while Asset Quality, Gross, and Net NPL ratios have improved by 20 bps, 47 bps, and 16 bps respectively from last year. Though Operating Cost/Operating Revenue (OC/OR) has increased and NIM has been lower than last year.

Table 2: Financial Ratio of Banking Industry

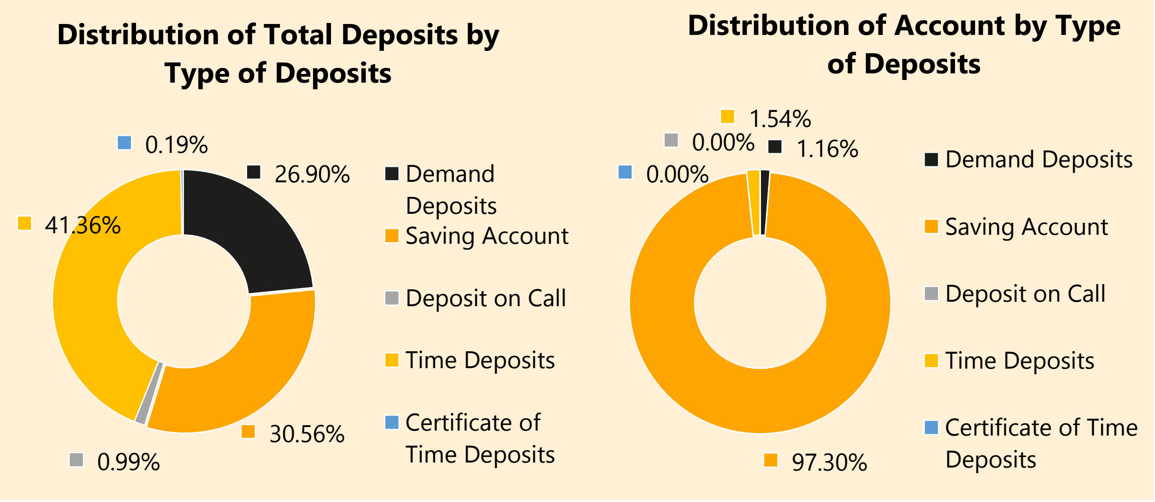
Ratio	Sep-19	Aug-20	Sep-20	YoY	MtM
CAR	22,69%	23,25%	23,33%	● 65bps	● 9bps
Asset Quality	1,89%	2,16%	2,09%	● -20bps	● 7bps
Gross NPL	2,63%	3,18%	3,11%	● 47bps	● 8bps
NNPL	0,37%	0,26%	0,20%	● 16bps	● 5bps
ROA	2,46%	1,89%	1,75%	● -71bps	● -14bps
ROE	12,85%	10,23%	9,51%	● -333bps	● -72bps
OC/OR	79,99%	83,93%	85,19%	● -520bps	● -126bps
NIM	4,42%	4,03%	4,04%	● -39bps	● -1bps
LDR	94,72%	86,22%	84,23%	● 1049ps	● 199bps
Interbank Liabilities	3,00%	2,15%	2,08%	● -92bps	● -7bps
CL/CA	17,96%	17,68%	18,26%	● 30bps	● 59bps

NOTE:
YoY : Year-on-Year growth MtM
MtM : Month-to-Monthgrowth
● : Favorable
● : Unfavorable

Deposit Insurance Updates

At the end of third quarter of 2020, total deposits in the Indonesian banking industry are still dominated by saving deposits in terms of account numbers. In particular, saving deposits account for 97.30% of the total number of accounts. However, in terms of market shares, savings contribute only 30.56% of total deposits. In contrast, time deposits, which represent only 1.54% of the total number of accounts, have the largest shares of total deposits (41.36%). Meanwhile, demand deposits, which mainly are for a transactional purpose, account for 1.16% of the total number of accounts and contribute to 26.90% shares of total deposits.

Figure 2: Distribution of Deposits in Banking Industry



Most of the deposits are belong to either individuals or corporations (third-party funds). There only 1.46% from the total deposits are interbank deposits. Conventional banks hold 95.33% of total deposits, while Islamic banks 4.67%.

Table 3: Distribution of Deposit Based on Type of Deposit

Total Deposits and Number of Accounts by Type of Deposits (Nominal in MillionUSD)												
Type of Deposits	August 2020				September 2020							
	Account	%	Nominal	%	Account	%	Nominal	%	ΔAccount	%	ΔNominal	%
Demand Deposits	3.847.392	1,16%	115,138	26,10%	3.898.367	1,16%	121,514	26,90%	50.975	1,32%	6,376	5,54%
Saving Account	321.810.558	97,28%	135,482	30,72%	326.545.883	97,30%	138,038	30,56%	4.735.325	1,47%	2,555	1,89%
Deposit on Call	4.261	0,00%	4,112	0,93%	4.020	0,00%	4,477	0,99%	-241	-5,66%	0,365	8,88%
Time Deposits	5.149.107	1,56%	185,348	42,02%	5.156.875	1,54%	186,820	41,36%	7.768	0,15%	1,473	0,79%
Certificate of Time Deposits	185	0,00%	0,996	0,23%	154	0,00%	0,849	0,19%	-31	-16,76%	-0,147	-14,76%
Total	**330.811.503**	**100,00%**	**441,077**	**100,00%**	**335.605.299**	**100,00%**	**451,699**	**100,00%**	**4.793.796**	**1,45%**	**10,622**	**2,41%**

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 and Number of Accounts by Ownership of Deposits (Nominal in Million USD)												
Ownership of Deposits	August 2020				September 2020							
	Account	%	Nominal	%	Account	%	Nominal	%	Δ Account	%	ΔNominal	%
Third Party-Fund	330.786.857	99,99%	434,480	98,50%	335.580.165	99,99%	445,449	98,54%	4.793.308	1,45%	10,969	2,52%
Funds From Other Bank	24.646	0,01%	6,596	1,50%	25.134	0,01%	6,619	1,46%	488	1,98%	0,023	0,35%
Total	**330.811.503**	**100,00%**	**441,077**	**100,00%**	**335.605.299**	**100,00%**	**452,068**	**100,00%**	**4.793.796**	**1,45%**	**10,992**	**2,49%**

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 and Number of Accounts by Type of Business Banks (Nominal in MillionUSD)												
Type of Business Banks	August 2020				September 2020							
	Account	%	Nominal	%	Account	%	Nominal	%	∆Account	%	∆Nominal	%
Conventional	301.536.114	91,15%	421,105	95,47%	305.957.521	91,17%	430,624	95,33%	4.421.407	1,47%	9,518	2,26%
Islamic	29.275.389	8,85%	19,971	4,53%	29.647.778	8,83%	21,075	4,67%	372.389	1,27%	1,104	5,53%
Total	**330.811.503**	**100,00%**	**441,077**	**100,00%**	**335.605.299**	**100,00%**	**451,699**	**100,00%**	**4.793.796**	**1,45%**	**10,622**	**2,41%**

Most of deposits accounts (98.28%) are individually less than IDR100 million (USD6,720*), which account for 13.59% of total deposits. In contrast, deposits accounts that are individually more than IDR5 billion (USD336,022) represent only 0.03% of the total number of accounts, but contribute to 49.24% of total deposits.

Note: (*)Exchange rate end of period= IDR14.880/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)	August 2020				September 2020							
	Account	%	Nominal	%	Account	%	Nominal	%	∆Account	%	∆Nominal	%
N≤100Mio	25.100.589	98,27%	60,122	13,63%	29.840.846	98,28%	61,391	13,59%	4.740.257	1,46%	1,269	2,11%
100Mio<N≤200Mio	2.579.242	0,78%	24,322	5,51%	2.612.757	0,78%	24,627	5,45%	33.515	1,30%	0,305	1,25%
200Mio<N≤500Mio	1.820.190	0,55%	39,279	8,91%	1.832.590	0,55%	39,497	8,74%	12.400	0,68%	0,218	0,56%
500Mio<N≤1Bio	704.391	0,21%	34,229	7,76%	708.648	0,21%	34,442	7,63%	4.257	0,60%	0,213	0,62%
1Bio<N≤2Bio	314.959	0,10%	30,165	6,84%	317.006	0,09%	30,369	6,72%	2.047	0,65%	0,204	0,68%
2Bio<N≤5Bio	185.112	0,06%	38,853	8,81%	185.475	0,06%	38,971	8,63%	363	0,20%	0,117	0,30%
N>5Bio	107.020	0,03%	214,107	48,54%	107.977	0,03%	222,402	49,24%	957	0,89%	8,295	3,87%
Total	**330.811.503**	**100,00%**	**441,077**	**100,00%**	**335.605.299**	**100,00%**	**451,699**	**100,00%**	**4.793.796**	**1,45%**	**10,622**	**2,41%**

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 (USD134,409), the IDIC's insurance program covers 99.91% of total deposit accounts fully and 0.09% of total deposit accounts partially (Table 7). In overall, the total insured deposits are about 50.87% of total deposits, while 49.13% are uninsured (Table 8).

Table 7: Distribution of Insured Deposit Based on Accounts

Distribution of Account by Insured Accounts September 2020			
Item	**Deposit Tiering (IDR)**	**Number of Accounts**	**%**
Account for Fully Insured Deposits	≤ 2 Billion	335.311.847	99,91%
Account for Partially Insured Deposits	> 2 Billion	293.452	0,09%
Total Account		**335.605.299**	**100,00%**

Table 8: Distribution of Deposit Based on Nominal

<table>
<tr><th colspan="4">Distribution of Deposits by Insured Deposits
(Billion IDR)
September 2020</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>2.832.047</td><td>42,14%</td></tr>
<tr><td>Partially Insured Deposits</td><td>> 2 Billion</td><td>586.904</td><td>8,73%</td></tr>
<tr><td colspan="2">Subtotal - Insured Deposits</td><td>3.418.951</td><td>50,87%</td></tr>
<tr><td>Uninsured Deposit</td><td>> 2 Billion</td><td>3.302.324</td><td>49,13%</td></tr>
<tr><td colspan="2">Subtotal - Uninsured Deposit</td><td>3.302.324</td><td rowspan="2">100,00%</td></tr>
<tr><td colspan="2">Total Account</td><td>6.721.276</td></tr>
</table>

Deposit Insurance Vietnam (DIV) Training Session on Bank Resolution

On the 27th of October 2020, the Deposit Insurance of Vietnam (DIV) have organized a training session to delve further into the topic on bank resolution. In this training session, DIV has exclusively invited IDIC to be the main speakers and was conducted on the basis of MoU implementation between IDIC and DIV which allows an exchange of information or knowledge related to the resolution of problemed banks, as well as sharing of IDIC's experiences in executing bank resolutions and insuring deposits.

In this occasion, Mr. Purbaya Yudhi Sadewa had been given an opportunity to introduce himself as the newly appointed IDIC Chairman for the period of 2020-2025, replacing Dr. Halim Alamsyah, to the high-level parties in DIV, including the new Chairman of DIV, Mr. Pham Bao La. Furthermore, Mr. Purbaya gave a brief presentation on the "Overview of Deposit Insurance and Bank Resolution System in Indonesia", following a session on "Bank Resolution Process" and "Reconciliation and Verification Process of Claim Payment" which were presented by Mr. Hermawan S. Wibowo, Director of the Bank Resolution Implementation Group, and Mr. Suhardiono, Director of the Claims Handling Group, respectively.

Special Dialogue IDX Channel

Anticipating the Impact of Recession in the Banking Sector

Source: https://youtu.be/ckVIxwtr5e0

The Special Dialogue segment aired by IDX Channel on November 5, 2020, has invited Purbaya Yudhi Sadewa as Chair of the LPS Board of Commissioners and senior economist to talk about anticipating the impact of the recession, especially on the banking industry. As has been released in the 3rd quarter of 2020 economic growth, according to the projection, Indonesia is declared to be minus and not too far from the government's projection of -3.49%. If the recession phase is prolonged into the next quarter, it will cause an economic depression.

In this interview, Purbaya explained that economic growth was seen to improve in the 3rd quarter, which recorded at -3.45%, compared to the 2nd quarter where the deficit reached -5.32%. He added that if you want to see what the future economy looks like or whether this really marks a recession, you can use the United States (US) method by calculating 2 consecutive quarters, quarter-on-quarter annualize. So quarterly growth, annualized, and then multiplied by 4. On the other hand, even though the YoY is negative, the economic growth figure can still look optimistic in the 3rd quarter where 5.05 quarter on quarter, higher than the previous quarter which were - 4.19. Usually in the 3rd quarter it grew by around 3.3%, so now it is way above the third quarter average. If calculated using the US method, within the third quarter, Indonesia's economic growth has been positive, which marks it coming out of recession.

Although in the 2nd quarter it was still the worst point of the economy, where the economy contracted -5.32% and money in the banking system experienced a very significant tightening, currently the Ministry of Finance together with Bank Indonesia (BI) has coordinated actions to increase money in the system in order to improve that banking liquidity. The latest data for October shows that the deposits in banks in all lines of BUKU 1 - 4, including rural banks, has improved than at the end of last year. It could be said that the impact of COVID-19 on bank liquidation has diminished begun to disappear and banks already have enough money to channel loans again. If this momentum is kept, the nation's economic condition will get better in the future.

Non-performing loans (NPL) data for banks in 2020 showed a decrease from 3.22% in August 2020 to 3.15% in September 2020. As for the amount of bank credit restructuring in 2020, sources quoted from the OJK, MSMEs reached about IDR 361.98 T (debtors 5.88 million), and non-MSMEs reached IDR 552.69 T (debtors 1.65 million). In this case, Purbaya explained that in terms of NPL and credit growth in 2020 has slowed down, namely MoM – in August around 1.4% and in September around 0.16%. "NPL or non-performing loans in banks are usually in line with our economic conditions," he added. As it is known that from March to June, our economy has experienced a significant slowdown as reflected in the second quarter where deficit of -5.32% occurred. Automatically in such circumstances, banks or people who borrow from banks are facing problems. Therefore, restructuring is necessary so that banks do not experience deterioration in the banking books while the government and other financial institutions are simultaneously trying to improve the economy. In Purbaya's view, NPLs should decrease when the economy starts to move and the key is continuous improvement in the economy going forward. Therefore, BI, Ministry of Finance, OJK, and LPS will continue to coordinate to maximize all existing instruments to push the economy forward and slowly towards positive development so that NPL will gradually decrease significantly.

Purbaya explained that in terms of banking liquidity, there had been a significant improvement in bank funds growth, where initially third-party funds were concentrated on large banks but now it has begun to spread evenly to relatively smaller-sized banks. Given that, banks are ready to distribute loans again. In addition, the new government policy became more effective in the second quarter leading up to the third quarter, so that if it is implemented consistently, the nation's economic system will increasingly feel its impact, including the banking sector. If the business has started, then the banking system will also improve its books. Purbaya then stated that consumer activity in Indonesia also decreased in the second quarter by 50% from the beginning of the year and now it has improved around 80-90% from the beginning of the year. This shows that the impact of sound fiscal and monetary policies and the Indonesian economy is moving towards improvement. Even though the situation has not yet reached the ideal situation, the direction of banking and the economy is already clear in the future, provided that the momentum will be maintained.

Responding to questions regarding the influence of external economies and trade wars on Indonesia's economic growth, Purbaya explained the structure of the Indonesian economy, where nearly 80% of the economy is contributed by domestic demand. This goes to show that good economic growth can be achieved by maintaining good domestic demand. When viewed from the global economic meltdown in 2008, Indonesia's policy funds were right on target and on time which allows Indonesia to still grow by 4.6%, even when most other countries experienced negative economic growth. this demonstrates that Indonesia has a large share of maintaining domestic economic growth. “In other words, the fate of our economy is in our own hands and not in foreign hands,” Purbaya added.

Purbaya considered that the anticipatory steps taken by the government were sufficient starting from the issuance of the Government Regulation in lieu of Law, the National Economic Recovery Program (PEN), the adjustment of the 2020 State Budget, as well as burden-sharing with Bank Indonesia (BI), but the implementation has not been optimal. The indicators for the economy look good, where economic aid and programs have been running smoothly. The most important thing is that we have learned that excessive lockdown in the second quarter has hit the economy very significantly. Hence, if the government is imposing any restrictions in the future, it must be done tactically in the sense that health protocols should not be ignored while simultaneously not killing the economy.

The banking condition in Indonesia was declared by Purbaya to be safe and he was optimistic about the Indonesian economy if it is consistent with its current momentum. In terms of potential deposit defaults, conditions have started to improve where money has started to enter from the Government and Bank Indonesia (BI) into the economic system which has had a positive impact on the banking liquidity condition so that banks are also ready to allocate credit to the national economic system. Thereby, Purbaya stated that the chance of default in commercial banks is currently close to zero when looking at their liquidity condition. Meanwhile, for rural banks, although they were under pressure in the previous months, the situation is now getting better. Even if there is a default, it will not alter the annual condition. Paired with a quick policy response, the impact of COVID-19 on the banking system, in Purbaya's view, has begun to be significantly reduced.

The total assets that IDIC currently have is Rp 138 trillion and from 1,676 commercial banks and 110 rural banks, the likelihood of the number of accounts insured by IDIC is 99.91%. At that rate, most of the third-party funds (DPK) are safe, except for a small portion of people who have trillions of rupiah in a single account. Regarding bank failure statistics in 2020, it has shown that commercial banks have not failed, however for rural banks there were about 6 failures, including Islamic rural banks. Though it may seem like a lot, it is only Rp 59.57 billion or equivalent to 0.04% of the total assets of rural banks or Islamic rural banks . Purbaya emphasized that this usually happens from year to year and it is not the time to raise concerns about massive failure trends, as the trend seems to have improved over the years.

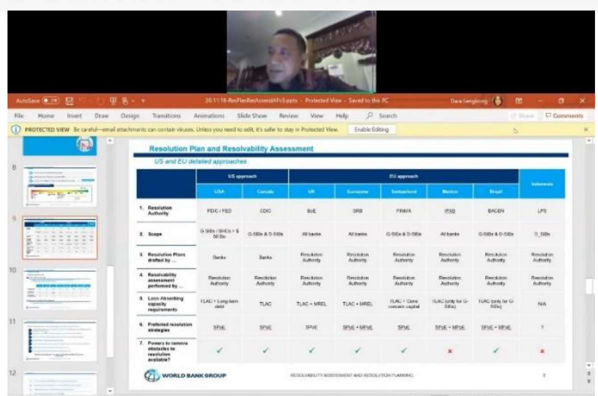
World Bank Technical Assistance

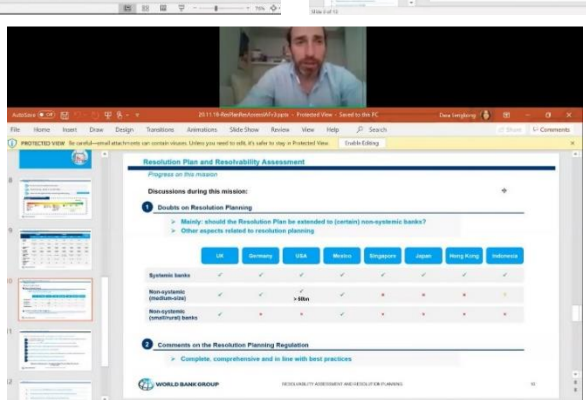
World Bank Group has supported IDIC in many ways throughout the previous years. It has yet again supported IDIC through Virtual Technical Assistance in 2nd Quarter of 2020.

Technical Assistance on Resolution Plan and its Regulation

As a continuation of the World Bank's Technical Assistances earlier this year, from 16th to 18th November 2020, IDIC has received another virtual Technical Assistance mission from the World Bank Group with the objective to continue its support in IDIC's efforts towards undertaking its mandate as the bank resolution authority. In this mission, World Bank Group mission team and IDIC officials have discussed developments in the Pilot Project Resolution Plan, benchmarking results on the resolution plan for banks other than systemic banks, as well as reviewing and conducting further discussions regarding the PLPS Resolution Plan for Systemic Banks.

Attending throughout this mission from the World Bank Group team members were Ismael Ahmad Fontán, a Senior Financial Sector Specialist, Dara Lengkong, a Senior Financial Sector Specialist, Neni Lestari, a Financial Sector Specialist.





Virtual Courtesy Meeting

In respect to the nomination of Mr. Purbaya Yudhi Sadewa, IDIC Chairman for the period of 2020-2025, at the IADI Executive Council Committee election 2020, several virtual courtesy meetings were held on the 5th and 6th of November 2020 with other Deposit Insurance Corporations from around the globe, such as Fondo Interbancario at Tutela dei Depositi (FITD) Italy, Autorité des Marchés Financiers (AMF) Quebec, Palestine DIC, PIDM Malaysia, Philippine DIC, and DICJ Japan. As a newly appointed Chairman, Mr. Purbaya seized the opportunity in this virtual courtesy meeting to introduce himself to the high-level counterparties as well as delivering IDIC's hope to continue with the membership in IADI as an Executive Council member (EXCO member).

Culture Festival

In order to internalize the values of institution i.e. "I CARE", particularly the value of "Excellence", it is deemed necessary to provide awards for employees with outstanding achievements. The awarding was done during the 1Novasi Festival (Innovation Festival) aims to encourage and inspire other employees to contribute their best for IDIC. The 1Novasi Festival also aims to foster a culture of innovation within IDIC. The Festival was held by the Transformation Management Group (GPTF) since November 1, 2019 . The 1Novasi Festival award was given to employees who have ideas that could have a big impact on the administration of IDIC's duties and functions according to the Law.

There were 17 participants (both individuals and groups) participating in the 1Novasi Festival. In the selection process of the Top 5, each participant has to present and provide a demo video of the innovation. On August 26, 2020, those Top 5 were then requested to present their innovation ideas to panelists, which consists of:

a. Mr. Suwandi, Executive Director of Bank Claims and Resolution as Chair of the Panelist Team
b. Mr. Didi Prakoso, Executive Director of Human Resources and Administration as a Panelist Team Member
c. Mr. Effendi Ibnoe, member of the Remuneration and HR Development Committee as a Member of the Panelist Team
d. Mr. Sih Anggoro Unggul, innovation expert team (external) as Panelist Team Member
e. Ms. Dian Alamanda, innovation expert team (external) as Panelist Team Member

The announcement of the winners for the 1Novasi Festival was took place in the Culture Festival on September 17, 2020. The following are winners of the 1Novasi Festival:

1st Winner (Individual Category)

Name	Group
Haris Desfianto	Strategic Planning & Organizational Development

Runner up (BLISS Category)

Name	Group
1. Iona Hiroshi Yuki Rombot	1. Bank Liquidation
2. Hanang Pandu Himawan	2. Bank Liquidation
3. Kahfiendra Nugrahsatya	3. Bank Liquidation
4. M. Faridz Gita Pandoyo y	4. Information System

Runner up (in Team)

Name	Group
1. Handika Rahman	1. Strategic Planning & Organizational Development
2. Hanna Mutia Agistha	2. Information System
3. Winza Muti Rahma	3. Analysis of Resolution Methods
4. Mutiara Aisyah	4. Information System

INDONESIA DEPOSIT INSURANCE CORPORATION

Non-linearity in the nexus between financial development and current account balances: New global evidence

This paper investigates the link between financial development and current account balances using a global sample of 218 countries during the 1993-2017 period. We find that financial development, proxied by domestic credit-to-GDP ratio, exhibits a U-shaped relationship with current account balances. A deeper investigation highlights that the U-shaped relationship between domestic credit and current account balances is more pronounced for developing countries. Further, our additional analyses find that the non-linear relationship between financial depth and current account balances can be partly attributed to the role of bank funding liquidity. Specifically, higher domestic credit can improve current account balances for countries with higher bank deposits ratio, and this finding is also more pronounced for developing countries. For developed countries, domestic credit has no clear impact on current account balances regardless of the role of bank funding liquidity. Our findings are consistent to a battery of robustness checks and provide a policy implication that boosting domestic credit is an important factor in improving financial imbalance as reflected in the current account balance.

Disclaimer: All views in this paper are the authors' and do not necessarily reflect the views of Indonesian Deposit Insurance Corporation (IDIC).

Source:
https://www.lps.go.id/documents/10157/1394659/Non-linearity+in+the+nexus+between+financial+development+and+current+account+balances_+New+global+evidence+r.pdf/173375e7-8632-415a-a694-3bf6c8ee21da

INDONESIA DEPOSIT INSURANCE CORPORATION

Excess Loan Growth, Funding Liquidity and Credit Risk

This paper sheds light on the interplay of loan growth, funding liquidity and credit risk in banking. Our empirical results highlight that above average loan growth (excess loan growth) is associated with higher credit risk. However, this behavior is mitigated if banks have more funding liquidity or are less dependent on non-core funding sources (non-deposits funding). Our further analyses show that the effect of interaction between excess loan growth and funding liquidity to credit risk is more pronounced for banks that have more exposure to market discipline by depositors, i.e. small, and non-government-owned banks. These findings align with the hypothesis that market discipline by depositors induce prudent risk-taking behavior by banks. Our empirical results are robust to different econometric specifications. As a policy reflection, our findings provide a support on the importance of limited deposit insurance scheme that balance between market discipline and protection to depositors, in order to promote banking system stability through a prudent lending behavior.

Disclaimer: All views in this paper are the authors' and do not necessarily reflect the views of Indonesian Deposit Insurance Corporation (IDIC).

Source:
https://www.lps.go.id/documents/10157/1394659/Excess+Loan+Growth%2C+Funding+Liquidity+and+Credit+Risk+r.pdf/3fb85a2c-76c5-41b8-976d-eb8d56c30142

The General Director of the State Corporation "Deposit Insurance Agency" (DIA Russia) Yury O. Isaev is elected President of the International Association of Deposit Insurers (IADI) at its 19th Annual General Meeting

09 December 2020

The International Association of Deposit Insurers elected Yury O. Isaev, General Director of the DIA Russia, to serve as its President and as the Chairman of its Executive Council for a two-year term during its 19th Annual General Meeting (AGM) held via correspondence. General Director Isaev succeeds IADI President Katsunori Mikuniya, Governor of the Deposit Insurance Corporation of Japan (DICJ), who served a three year term.

During the AGM, IADI Members elected the following 10 Designated Representatives as Executive Councilmembers:

1. Diane Ellis (Federal Deposit Insurance Corporation, USA),
2. Gregor Frey (esisuisse, Switzerland),
3. Karen Gibbons (Financial Services Compensation Scheme, United Kingdom),
4. Marija Hrebac (Croatian Agency for Deposit Insurance and Bank Resolution),
5. Alejandro J. López (Seguro de Depósitos Sociedad Anónima (SEDESA), Argentina),
6. KDeposit Insurance Corporation of Japan),
7. Chantal Richer (Canada Deposit Insurance Corporation),
8. Purbaya Yudhi Sadewa (Indonesia Deposit Insurance Corporation),
9. Piotr Tomaszewski (Bank Guarantee Fund, Poland) and
10. Eloise Williams Dunkley (Jamaica Deposit Insurance Corporation).

They shall act in the best interests of the Association, and shall each serve for a three year term.

The 25-member EXCO is the governing body of the Association, and nomination to stand for election was open to all of the Association's Designated Representatives.

Sources: IADI Member's Website
https://www.iadi.org/en/assets/File/Press%20Releases/02122020%20IADI%20-%20Press-release_AGM-EGM_2020_final.pdf

IADI publishes results of annual survey on deposit insurance and financial safety net frameworks

30 November 2020

IADI has published the results of its 2020 global survey on deposit insurance and financial safety net frameworks . The results are based on responses collected from 110 deposit insurance systems (DIS) across the world, representing approximately 85% of jurisdictions globally. Through this survey, IADI shares its knowledge on deposit insurers' key characteristics such as mandates and governance, membership and coverage, funding and their role in financial system crisis management and bank resolution.

Survey results show that many jurisdictions continue to strengthen their deposit insurance systems and are moving towards closer alignment with the IADI Core Principles for Effective Deposit Insurance Systems in a number of areas.

In addition to the International Survey, the Association has been monitoring the global situation related to COVID-19 and its impact on deposit insurers. Some of the key findings from these surveys can be found at: IADI COVID-19 resources. IADI will continue to monitor the COVID-19 situation and will be issuing a new survey in the weeks ahead to gather updates on new developments.

In the latest annual survey some of the most notable developments were in areas such as the ongoing evolution of mandates, coverage, improvements in reimbursement periods and increases in the use of differential premiums systems.

An excerpt of the survey responses has been published on IADI's website and Members and Associates of the Association are granted access to the full set of information.

Sources: IADI Website
https://www.iadi.org/en/news/iadi-publishes-results-of-annual-survey-on-deposit-insurance-and-financial-safety-net-frameworks1/

https://www.iadi.org/en/assets/File/Press%20Releases/IADI%20Annual%20Survey%20Results%20-%20Press%20Release%20-%2030%20November%202020.pdf

IADI Guidance Paper - "Risk Management and Internal Control System of Deposit Insurers"

06 November 2020

The International Association of Deposit Insurers (IADI) is pleased to release a Guidance Paper titled "Risk Management and Internal Control System of Deposit Insurers". The paper was prepared by the Risk Management & Internal Control Systems Technical Committee chaired by Mr. Giuseppe Boccuzzi, General Director of the Interbank Deposit Protection Fund in Italy. The Technical Committee was established under the IADI Core Principles and Research Council Committee.

The paper investigates by means of an extended survey the most recent experiences and practices among IADI Members in risk management and internal control systems. Specific guidance is provided on how risk management should be applied within deposit insurers.

The analyses conducted showed that the majority of deposit insurers participating in the research have a risk management framework and internal control system in place, with either a formal or informal organizational structure. The level of development/maturity of the framework varies significantly across members. Furthermore, the data collected enabled a benchmark tool to be created, with which a deposit insurer can compare itself against its peers.

Sources: IADI Website
https://www.iadi.org/en/news/iadi-guidance-paper-risk-management-and-internal-control-system-of-deposit-insurers/

IADI Brief on "Depositor Preference and Implications for Deposit Insurance"

30 October 2020

The International Association of Deposit Insurers (IADI) is pleased to release an IADI Brief on "Depositor Preference and Implications for Deposit Insurance". The paper was prepared by Kumudini Hajra and Ramadhian Moetomo of the IADI Secretariat Research Unit.

The briefing paper explores the different types of depositor preference, the advantages and disadvantages of depositor preference and the issues arising in the context of depositor preference that are relevant for deposit insurers. Highlights include:

Depositor preference has attracted renewed interest in the wake of the global financial crisis and particularly in the context of international regulatory reforms as it affects loss allocation among various stakeholders. This topic is important to deposit insurers given their responsibility to protect insured depositors and the need to minimise their net failed bank resolution costs.

Depositor preference changes the allocation of losses between preferred depositors and senior unsecured creditors of an insolvent bank by creating a new order of priority in claims. It may be general, applying to all depositors, specific (such as insured depositor preference), or tiered, applying to all depositors, but giving insured depositors preference over uninsured depositors.

Depositor preference is not a substitute for deposit insurance. Instituting depositor preference may improve the standing of uninsured depositors and through subrogation the DI in the creditor hierarchy. In the case of insured or tiered depositor preference, the cost to the DI could be further reduced.

For uninsured depositors, general or tiered depositor preference may lessen incentives to run and help to mitigate to some degree the likelihood of contagion. However, it can also increase moral hazard.

Depositor preference may help facilitate the implementation of resolution options, such as P&As, the use of bridge institutions, and the conversion of debt to equity.

Jurisdictions considering introducing depositor preference, or changing their existing depositor preference arrangements, should weigh the advantages and disadvantages in the context of their legal and judicial framework and financial system structure.

Sources: IADI Website
https://www.iadi.org/en/news/iadi-brief-on-depositor-preference-and-implications-for-deposit-insurance/

BCBS UPDATES

Fourth Quarter 2020

BANK FOR INTERNATIONAL SETTLEMENTS

BCBS issued various publications in Fourth Quarter 2020. List of publications during this period are as follows:

Table 1: BCBS Publication

Dates	Type of Publication	Titles
03 Nov 2020	Implementation Reports	Implementation of Basel standards - A report to G20 Leaders on implementation of the Basel III regulatory reforms
26 Nov 2020	Standards	Capital treatment of securitisations of non-performing loans
07 Dec 2020	Guidelines	Supplemental note to External audits of banks - audit of expected credit loss
10 Dec 2020	Quantitative Impact Studies	Basel III Monitoring Report

Basel III Monitoring Report
10 December 2020

This report presents the results of the Basel Committee's latest Basel III monitoring exercise, based on data as of 31 December 2019. 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 finalization of the Basel III reforms and the finalization of the market risk framework published in January 2019. Given the December 2019 reporting date, the results do not reflect the economic impact of the coronavirus disease (Covid-19) on participating banks. Nevertheless, the Committee believes that the information contained in the report will provide relevant stakeholders with a useful benchmark for analysis.

The Liquidity Coverage Ratio dashboard shows the development of the LCR, its components and related shortfalls since end-2012.

Data are provided for 173 banks, including 105 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 institutions that have been designated as global systemically important banks (G-SIBs). The Basel Committee's sample also includes 68 "Group 2" banks (ie banks that have Tier 1 capital of less than €3 billion or are not internationally active).

The Net Stable Funding Ratio dashboard shows the development of the NSFR, its components and related shortfalls since end-2012. Data are consistently based on the final NSFR framework released in October 2014 since the June 2015 reporting date.

The final Basel III minimum requirements will be implemented by 1 January 2023 and fully phased in by 1 January 2028. The average impact of the fully phased-in final Basel III framework on the Tier 1 minimum required capital (MRC) of Group 1 banks is lower (+1.8%) when compared with the 2.5% increase at end-June 2019 (see the "reduced estimation bias" part of the table below). For this calculation, for three G-SIBs that are outliers due to overly conservative assumptions under the revised market risk framework, zero change from the revised market risk framework has been assumed for the calculation of 31 December 2019 results. If these three banks are reflected with their conservative market risk numbers (see the "conservative estimation" part of the table), there is a 2.1% increase.

The report also provides data on the initial Basel III minimum capital requirements, total loss-absorbing capacity (TLAC) and Basel III's liquidity requirements. For the first time, the report is accompanied by a Tableau-style dashboard that presents the results of the liquidity section (both LCR and NSFR) of the Basel III monitoring report as using an interactive user-friendly tool to visualise the data. Similar dashboards related to other sections of the report may be added at a later stage.

Sources: BIS website
https://www.bis.org/bcbs/publ/d512.htm

Related Information:
- Press release: Basel III monitoring results based on end-December 2019 data published by the Basel Committee
  https://www.bis.org/press/p201210.htm

BANK FOR INTERNATIONAL SETTLEMENTS

Supplemental note to External audits of banks - audit of expected credit loss

07 December 2020

The Committee is issuing a supplemental note to its 2014 guidance External audits of banks following the implementation of expected credit loss (ECL) accounting frameworks in various jurisdictions that have brought about significant changes for banks and their external auditors. The objective of the guidelines is to contribute to the high-quality audits of internationally active banks by communicating supervisory expectations for the audit of ECL estimates and providing questions that banks' audit committees may ask the external auditor.

The guidance may be most useful for 2021 year-end audits, as audit committees and external auditors require time to consider the guidelines in the context of planning and executing an audit. Nevertheless, audit committees and external auditors may find the guidance helpful for 2020 year-end audits, particularly as they consider the use of forecasts and forward-looking information, the construction of macroeconomic scenarios and weightings, and model performance (including data availability and the need for post-model adjustments).

Sources: BIS website
https://www.bis.org/bcbs/publ/d513.htm

Related Information:
- External audits of banks
  https://www.bis.org/publ/bcbs280.htm

Capital treatment of securitizations of non-performing loans

26 November 2020

The Committee is publishing the technical amendment setting out capital requirements for non-performing loan securitisations. The rule, which the Committee started developing before the onset of the Covid-19 pandemic, closes a gap in the Basel framework by setting out prudent and risk sensitive capital requirements for non-performing loan securitisations.

The Committee consulted publicly on the technical amendment in June 2020. In contrast to the consultative proposal, the final rule allow banks to apply the external ratings-based approach to non-performing loans securitisation exposures, without the 100% risk weight floor. In addition, the final rule refines the definition of discount incurred by the originating bank that factors in the capital requirements.

Committee jurisdictions agreed to implement the technical amendment by no later than January 2023. The Committee would like to thank all those who contributed time and effort to express their views during the consultation process.

Sources: BIS website
https://www.bis.org/bcbs/publ/d511.htm

Related Information:
- Press release: 26 November 2020
  https://www.bis.org/press/p201126.htm

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

03 November 2020

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 the progress of Basel Committee member jurisdictions in implementing the Basel III regulatory reforms, and on Basel Framework-related measures taken by Basel Committee members in response to Covid-19.

Sources: BIS website
https://www.bis.org/bcbs/publ/d510.htm

Related Information:
- Press release: 3 November 2020
  https://www.bis.org/press/p201103.htm
- Implementation of the Basel standards
  https://www.bis.org/bcbs/implementation.htm

FSB Continuity of access to FMIs for firms in resolution: Informal summary of outreach and Q&A

09 December 2020

FSB responds to questions posed by external stakeholders on the questionnaire for gathering information about continuity of access to FMIs for firms in resolution.

On 14 August 2020, the FSB published a common template for gathering information about continuity of access to financial market infrastructures (FMIs) for firms in resolution. The template takes the form of a questionnaire that all FMIs are encouraged to complete. The responses to the questionnaire should be published or made available to firms that use the FMI services and their resolution authorities in other ways to inform their resolution planning.

On 23 September 2020, the FSB Secretariat, together with representatives of the official sector and industry, organised a virtual outreach meeting to explain the questionnaire to stakeholders and answer their questions.

This note provides an informal summary of the outreach meeting and responses to the questions posed by external stakeholders.

Sources: FSB website
https://www.fsb.org/2020/12/fsb-continuity-of-access-to-fmis-for-firms-in-resolution-informal-summary-of-outreach-and-qa/

The implications of climate change for financial stability

23 November 2020

Report discusses how climate risks might impact, or be amplified by, the financial system.

Building on the FSB *Stock take of financial authorities' experience in including physical and transition climate risks as part of their financial stability monitoring*, this report assesses the channels through which physical and transition risks could impact the financial system and how they might interact. Particular focus is on the potential amplification mechanisms and cross-border effects, and on the channels that could materialize in the short-to-medium term.

Current central estimates of the impact of physical risks on asset prices appear relatively contained but may be subject to considerable tail risk. The manifestation of physical risks could lead to a sharp fall in asset prices and increase in uncertainty. A disorderly transition to a low carbon economy could also have a destabilizing effect on the financial system.6

Climate-related risks – physical and transition risks – may also affect how the global financial system responds to shocks. They may give rise to abrupt increases in risk premia across a wide range of assets. This could alter asset price (co-) movement across sectors and jurisdictions; amplify credit, liquidity and counterparty risks; and challenge financial risk management in ways that are hard to predict. Such changes may weaken the effectiveness of some current approaches to risk diversification and management. This may in turn affect financial system resilience and lead to a self-reinforcing reduction in bank lending and insurance provision.

There are various actions that financial institutions can take – and are taking – to reduce or manage their exposure to climate-related risks. However, the efficacy of such actions taken by financial firms may also be hampered by a lack of data with which to assess clients' exposures to climate-related risks, or the magnitude of climate-related effects. Robust risk management might be supported by initiatives to enhance information with which to assess climate-related risk.

The FSB will conduct further work to assess the availability of data through which climate-related risks to financial stability could be monitored, as well as any data gaps.

Sources: FSB website
https://www.fsb.org/2020/11/the-implications-of-climate-change-for-financial-stability/

Reforming Major Interest Rate Benchmarks: 2020 Progress report

20 November 2020

Work to transition away from LIBOR needs to accelerate in early 2021.

This report covers reforms to a number of benchmarks, including the key London Inter-bank Offered Rate (LIBOR) benchmark.

During 2020, the disruption to global financial markets associated with the COVID-19 pandemic has further highlighted the fundamental weaknesses in LIBOR and reinforced the critical importance of the FSB's efforts to reform the production and use of global interest rate benchmarks. While some aspects of firms' transition plans have been temporarily disrupted or delayed, others have been able to continue, including the release by ISDA of new fallback language for derivative contracts and the publication of market conventions for loans and other products based on risk-free rates in a number of jurisdictions.

Given the extent of risks associated with a failure to prepare adequately for the transition, the onus of action is on firms. Global and national financial regulators will be monitoring progress closely.

In October the FSB published a global transition roadmap for LIBOR. The roadmap sets out a timetable of actions for financial and non-financial sector firms to take in order to ensure a smooth LIBOR transition by end-2021.

With only one year left, all market participants – both financial and non-financial firms across the globe – must now ensure they follow the necessary steps to avoid disruption to the performance of their contracts. For transition to occur on time, market participants will need to cease use of LIBOR as a benchmark in all new activity across global markets as soon as possible and this needs to be a key priority for the months ahead.

There have been a number of proposals by authorities and national working groups including in the US, UK and EU to help manage an orderly wind-down of LIBOR and, in particular, provide a legislative solution for tough legacy contracts. However, market participants should continue to progress their transition efforts and plans proactively, particularly through active conversion and the insertion of robust and workable fallbacks where feasible.

Consistent with the above and emphasizing the importance of action on this timetable, the administrator of LIBOR, ICE Benchmark Administration (IBA), on 18 November announced that it will consult on its intention that the euro, sterling, Swiss franc and yen LIBOR panels would cease at end-2021. Announcements in relation to US dollar LIBOR are expected to follow. In its role as regulator of IBA, the UK Financial Conduct Authority (FCA) has also set out its potential approach for use of new powers under proposed UK legislation to ensure an orderly wind down of LIBOR and published consultations on its proposed policies for using them.

FSB Official Sector Steering Group (OSSG) Co-Chairs Andrew Bailey and John C. Williams made the following statement: "*The message that all market participants should take from this Report and this week's announcements from the IBA and FCA is that we need to be prepared for the end of LIBOR. Everyone needs to be ready.*

We thank all of our colleagues across the OSSG jurisdictions for their support in producing this report, and their commitment to redouble efforts on this issue next year as we approach the culmination of many years of hard work to strengthen the global financial system."

Sources: FSB website
https://www.fsb.org/2020/11/reforming-major-interest-rate-benchmarks-2020-progress-report/

2020 Resolution Report: "Be prepared"

18 November 2020

Resolution preparedness remains a key priority.

This report updates on progress in implementing policy measures to enhance the resolvability of systemically important financial institutions and highlights the need for resolution preparedness. It also discusses lessons learnt from the COVID-19 pandemic, which confirmed the importance of ongoing work on resolvability, including for central counterparties (CCPs).

- Banks – Global systemically important banks (G-SIBs) are estimated to already meet the final 2022 minimum external total loss absorbing capacity (TLAC) requirement. While disclosure of external TLAC levels by G-SIBs has improved over the past year, little information is available to market participants on the distribution of TLAC within banking groups. Work is ongoing on the management, distribution and transferability of these resources.
- CCPs – Recent periods of market turmoil have demonstrated the benefits that central clearing brings for global financial stability. A review by the CPMI and the IOSCO qualified thirteen CCPs as systemically important in more than one jurisdiction. Enhancing the resilience of CCPs remains an FSB priority.
- Insurance – Progress on implementation of national insurance resolution regimes has slowed down, with no significant reforms, such as finalisation of new or enhanced insurance resolution frameworks, reported in this recent cycle. A number of jurisdictions have identified systemically important insurers for purposes of recovery and resolution planning. Key areas of attention for FSB work on resolution planning for insurers are intra-group interconnectedness and funding in resolution.

Sources: FSB website

https://www.fsb.org/2020/11/2020-resolution-report-be-prepared/

FSB FINANCIAL STABILITY BOARD

COVID-19 pandemic: Financial stability impact and policy responses

17 November 2020

Global financial conditions have continued to ease on the back of the decisive policy action taken to address risks from COVID-19. This report, which was delivered to G20 Leaders ahead of their November Summit, considers the financial stability impact and policy responses to the COVID-19 event.

Global financial conditions have overall continued to ease since the G20 meeting in July on the back of the decisive policy action taken earlier this year. However, risks to global financial stability remain elevated. Financial conditions may remain vulnerable to sharp shifts in investor sentiment. Deteriorating credit quality of non-financial borrowers poses risks to the financial sector. The intensification of the pandemic, together with the resulting necessary government containment measures as well as greater uncertainty about its duration, is increasing vulnerabilities in the non-financial sector.

These vulnerabilities may increasingly affect banks and the supply of financing to the real economy more generally. Bank capital ratios have held up so far and have allowed banks to continue lending. However, if banks face rising loan losses and a worsening in asset quality, they may be tempted to tighten credit conditions. In addition, further credit ratings downgrades could put bond markets under pressure. There is a risk that a deterioration in corporate sector health could lead to more downgrades.

The evolving nature of the COVID-19 pandemic and the associated economic uncertainties require continued efforts to support financial resilience and ensure a sustained flow of financing to the real economy. It is critical to address potential obstacles to the use of bank capital and liquidity buffers to absorb losses and support lending, while avoiding harmful deleveraging. The use of analytical tools such as stress testing is important to inform the assessment of potential solvency risks on financial stability and adjustments in policy responses. Authorities' communication of their expectations of future policy, at a time when conditions are changing fast and the outlook is uncertain, is important to support confidence.

The FSB [COVID-19 Principles] have continued to guide national responses to COVID-19. Coordination of the measures taken by jurisdictions has discouraged unilateral actions that could distort the level playing and lead to market fragmentation.

Sources: FSB website
https://www.fsb.org/2020/11/covid-19-pandemic-financial-stability-impact-and-policy-responses/

Guidance on financial resources to support CCP resolution and on the treatment of CCP equity in resolution: Overview of responses to the consultation
16 November 2020

On 4 May 2020, the FSB published a consultative document on *Guidance on financial resources to support CCP resolution and on the treatment of CCP equity in resolution*. The FSB received 19 responses to the public consultation.

In addition, the FSB held two virtual outreach events on the draft guidance on 25 and 30 June. Participants included representatives of CCPs, clearing members, buy-side firms, legal experts and academia as well as public authorities.

This note summarizes the main points from the responses, and provides an overview of the FSB's reaction to those comments, including changes made to the guidance.

Sources: FSB website

https://www.fsb.org/2020/11/guidance-on-financial-resources-to-support-ccp-resolution-and-on-the-treatment-of-ccp-equity-in-resolution-overview-of-responses-to-the-consultation/

Implementation and Effects of the G20 Financial Regulatory Reforms: 2020 Annual Report
13 November 2020

The report finds that the G20 reforms after the 2008 financial crisis have served the financial system well during the COVID-19 pandemic. Greater resilience of major banks at the core of the financial system has allowed the system largely to absorb, rather than amplify, the macroeconomic shock. Bold and decisive actions by authorities sustained the supply of credit to the real economy and helped maintain global financial stability.

Given the pandemic, there has been limited additional progress implementing the G20 reforms during the last year. Regulatory adoption of several core Basel III elements has generally been timely to date, but there have been delays in implementing other Basel III standards. Substantial work remains to operationalize resolution planning for systemically important banks and to implement effective resolution regimes for insurers and central counterparties.

The FSB and standard-setting bodies (SSBs) have extended implementation deadlines for certain international reforms to provide additional capacity for firms and authorities to respond to the COVID-19 shock. In addition, authorities in many jurisdictions have taken regulatory and supervisory measures to alleviate the economic impact of COVID-19 on the financial system.

The pandemic represents the first major global test of the post-crisis financial system, and an opportunity to examine whether reforms have worked as intended. The FSB and SSBs will carry out further work to identify potential lessons learned for international standards.

Furthermore, the COVID experience has demonstrated once again how interconnected the global financial system is. The FSB and SSBs will continue to promote approaches to deepen international cooperation, coordination and information-sharing, with the support of the G20.

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

	BASEL III[A]						COMPENSATION	OVER-THE-COUNTER (OTC) DERIVATIVES				RESOLUTION				NON-BANK FINANCIAL INTERMEDIATION	
Reform Area	Risk-based capital	Liquidity Coverage Ratio (LCR)	Requirements for SIBs	Large exposures framework	Leverage ratio	Net Stable Funding Ratio (NSFR)		Trade reporting	Central clearing	Platform trading	Margin	Minimum external TLAC requirement for G-SIBs	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)	Securiti-sation
Agreed phase-in (completed) date	2013 (2019)	2015 (2019)	2016 (2019)	2019	2018	2018		end-2012	end-2012	end-2012	2016 (2022)	2019/2025 (2022/2028)					
Argentina	C	C		C		C	△										**
Australia	C	C		C	&	C										*	
Brazil	C	C		C		C	△										**
Canada	C	C		C		C										**	
China	C, △	C	C, &	C		C	△	R, F									
France	MNC	LC	C														
Germany	MNC	LC	C														
Hong Kong	C	C		C		C											
India	C	LC		C		C											
Indonesia	LC	C		C		C										**	
Italy	MNC	LC	C														
Japan	C	C	C														
Korea	LC	C															
Mexico	C	C						R								**	*
Netherlands	MNC	LC	C														
Russia	C	C					△									**	
Saudi Arabia	C	LC		C		C		R									
Singapore	C	C		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, &				△										

Implementation of reforms in priority areas by FSB jurisdictions (as of October 2020).

Sources: FSB website
https://www.fsb.org/2020/11/implementation-and-effects-of-the-g20-financial-regulatory-reforms-2020-annual-report/

2020 list of global systemically important banks (G-SIBs)

11 November 2020

The 2020 list of global systemically important banks (G-SIBs) uses end-2019 data and an assessment methodology designed by the Basel Committee on Banking Supervision (BCBS).

Compared with the list of G-SIBs published in 2019, the number of banks identified as G-SIBs remains 30. The assignment of G-SIBs to buckets, in the list published today, determines the higher capital buffer requirements that will apply to each G-SIB from 1 January 2022. Three banks have moved to a lower bucket: JP Morgan Chase has moved from bucket 4 to bucket 3, Goldman Sachs and Wells Fargo have moved from bucket 2 to bucket 1. One bank has moved to a higher bucket: China Construction Bank has moved from bucket 1 to bucket 2.

Sources: FSB website
https://www.fsb.org/2020/11/2020-list-of-global-systemically-important-banks-g-sibs/

Enhancing Cross-border Payments: Stage 3 roadmap

13 October 2020

This report provides a roadmap to enhance cross-border payments. The G20 has made enhancing cross-border payments a priority during the Saudi Arabian Presidency. Faster, cheaper, more transparent and more inclusive cross-border payment services, including remittances, while maintaining their safety and security, would have widespread benefits for citizens and economies worldwide, supporting economic growth, international trade, global development and financial inclusion.

This report presents a roadmap to address the key challenges often faced by cross-border payments and the frictions in existing processes that contribute to these challenges. These challenges, namely high costs, low speed, limited access and insufficient transparency, affect end-users and service providers, though not all in the same way. Individuals and small companies face particular challenges with retail cross-border payments, and financial inclusion remains a challenge for many, especially in emerging market and developing economies. Low-value payments may incur high fees as a percentage of the amount sent and face cumbersome processes. The unbanked and individuals and firms from fragile states are amongst those who may not be able to access payment services at all.

This roadmap has been developed by the FSB, in coordination with the Committee on Payments and Market Infrastructures (CPMI) and other relevant international organisations and standard-setting bodies. It builds on the FSB's Stage 1 report, setting out the challenges and the frictions in cross-border payments that contribute to them, and the CPMI's Stage 2 report, describing the necessary elements of a response, in the form of a set of 19 building blocks.

The roadmap provides a high-level plan, which sets ambitious but achievable goals and milestones, and is designed to allow for flexibility and adaptation in the path to get there as the work progresses, while ensuring that the safeguards in terms of secure processing and legal compliance are observed. It encompasses a variety of approaches and time horizons, in order to achieve practical improvements in the shorter term while acknowledging that other initiatives will need to be implemented over longer time periods. It follows the structure of the Stage 2 report, setting out actions and indicative timelines in the following five focus areas:

- Committing to a joint public and private sector vision to enhance cross-border payments
- Coordinating on regulatory, supervisory and oversight frameworks
- Improving existing payment infrastructures and arrangements to support the requirements of the cross-border payments market
- Increasing data quality and straight-through processing by enhancing data and market practices
- Exploring the potential role of new payment infrastructures and arrangements

The first four focus areas seek to enhance the existing payments ecosystem. The fifth is more exploratory and covers emerging payment infrastructures and arrangements. While each of the building blocks in the first four focus areas individually has the ability to bring notable benefits to cross-border payments, they have many interdependencies and the most significant enhancements are likely to be achieved if they are all implemented in a coordinated manner. The potential for new payment infrastructures and arrangements will also depend on the first four focus areas delivering change.

Strong commitment, coordination and accountability will be critical to success. The roadmap incorporates a framework where individual actions are taken forward by the most suitable expert bodies, in accordance with their mandates, with the FSB providing coordination and reporting annually on progress to the G20 and the public. This process will provide an opportunity to update and adapt the roadmap over time in order to keep it on track to meet its overall goals.

The involvement of the private sector, sharing their insights and practical expertise, as well as delivering change, will be key to support the practical implementation of the roadmap. The work under each building block will consider how to most effectively involve them. Public consultation on the individual building blocks will take place at the appropriate points, in order to ensure transparency and accountability.

Sources: FSB website

https://www.fsb.org/2020/10/enhancing-cross-border-payments-stage-3-roadmap/

BigTech firms in finance in emerging market and developing economies

12 October 2020

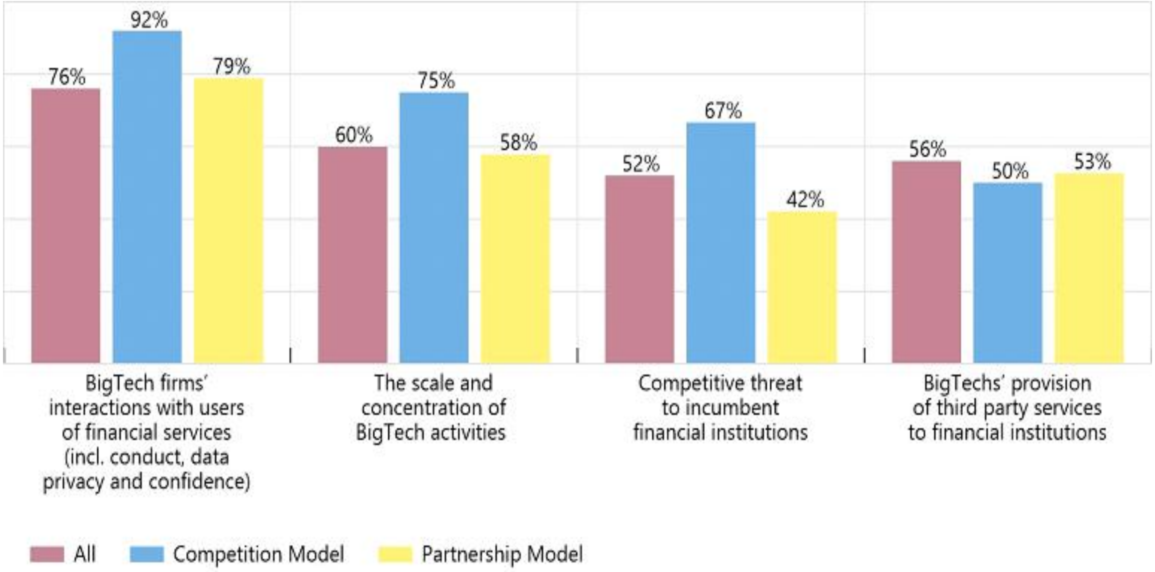
This report considers market developments and financial stability implications from the provision of financial services by BigTech firms in emerging market and developing economies (EMDEs).

The report finds that the expansion of BigTech firms in financial services in EMDEs has generally been more rapid and broad-based than that in advanced economies. Lower levels of financial inclusion in EMDEs create a source of demand for BigTech firms' services, particularly amongst low-income populations and in rural areas where populations are under-served by traditional financial institutions. The supply of financial services by BigTech firms in EMDEs has been supported by the increasing availability of mobile phones and internet access. Such technology – along with the data it generates and the flow of such data across borders – allows these firms to reach customers who were previously under-served, for example due to their lack of credit history. BigTech firms also make lending decisions based on novel sources of customer data, including from their core technology businesses.

The expansion of BigTech firms in EMDEs has had benefits but can also give rise to risks and vulnerabilities. It has also given rise to financial services that can be cheaper, more convenient, and tailored to users' needs, thereby offering opportunities to improve consumer welfare and support financial stability. However the expansion of BigTech activity also gives rise to risks and vulnerabilities. Risks concerning consumer protection may also be larger in the case of EMDEs, particularly where customers have lower financial literacy, and when BigTech firms' make greater use of personal data (including that acquired from their non-financial business).

Where BigTech firms are the principal or even sole providers of financial services to some EMDE populations, they may be particularly prone to dominating the market for such services. They may also be subject to heightened operational risks, particularly in environments with weaker communications and financial infrastructure. Competition from BigTech firms may, in places, also reduce the profitability and resilience of incumbent financial institutions and lead to greater risk-taking.

The experience of some EMDEs demonstrates the positive role that strong regulation, supervision and other official-sector policy can play in supporting innovation in financial services and mitigating risks. Governments in some EMDEs have also driven the development of financial infrastructures and digital identity. In doing so, they have facilitated the growth of financial technology, including that employed by BigTech firms.



Risks to financial stability identified by survey respondents associated with BigTech firms' provision of financial services: Risks rated moderate/large as a percentage of survey respondents.

The experience of EMDEs also underscores the need to apply the principle of 'same risk – same regulation' with respect to BigTech firms' activities, whilst tailoring regulatory frameworks to reflect the relative size and scope of those firms' activities.

Financial authorities may also usefully contribute to the development of robust public policy and frameworks with respect to data governance, consumer protection and operational risk management.

Sources: FSB website
https://www.fsb.org/2020/10/bigtech-firms-in-finance-in-emerging-market-and-developing-economies/

The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions: Market developments and financial stability implications

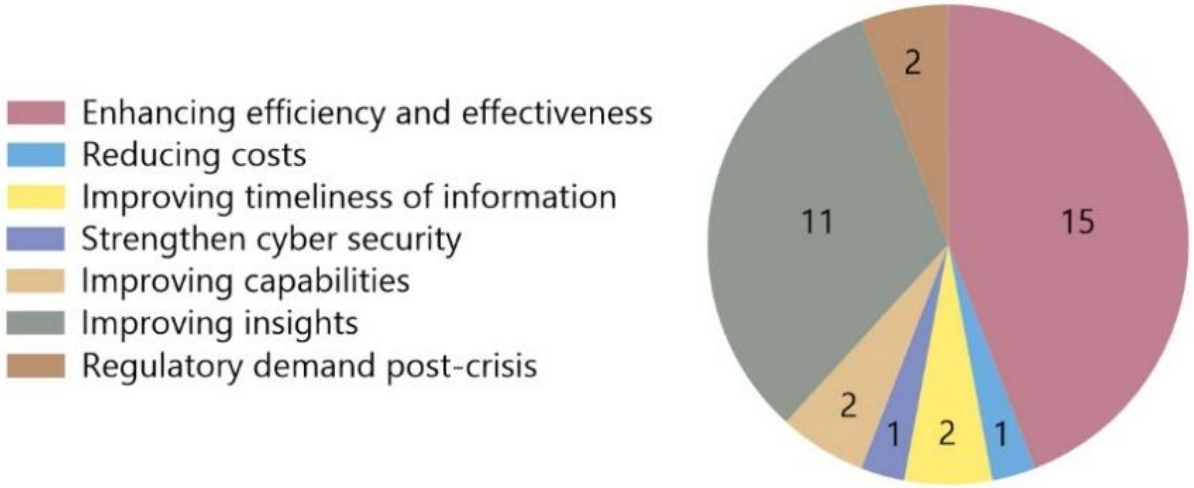
09 October 2020

This report finds that technology and innovation are transforming the global financial landscape, presenting opportunities, risks and challenges for regulated institutions and authorities alike.

The opportunities offered by SupTech and RegTech have been created by the substantial increase in availability and granularity of data, and new infrastructure such as cloud computing and application programming interfaces. These allow large data sets to be collected, stored and analysed more efficiently. Authorities and regulated institutions have both turned to these technologies to help them manage the increased regulatory requirements that were put in place after the 2008 financial crisis.

SupTech and RegTech tools could have important benefits for financial stability. For authorities, the use of SupTech could improve oversight, surveillance and analytical capabilities, and generate real-time indicators of risk to support forward looking, judgement based, supervision and policymaking. For regulated institutions, the use of RegTech could improve compliance outcomes, enhance risk management capabilities, and generate new insights into the business for improved decision-making. For both authorities and regulated institutions, the efficiency and effectiveness gains, and possible improvement in quality arising from automation of previously manual processes, is a significant consideration.

SupTech is a strategic priority for an increasing number of authorities. Based on a survey of FSB members, the majority of respondents had a SupTech, innovation or data strategy in place, with the use of such strategies growing significantly since 2016.



Primary demand drivers for developing a SupTech strategy: No. of authorities who rank driver as most important

Authorities are also vigilant to possible risks that could arise from the use of SupTech and RegTech technologies. Survey responses indicated that the risk reported to be of greatest concern was around resourcing, followed by cyber risk, reputational risk and data quality issues. A particular risk is over-reliance on methods built on historic data, which could lead to incorrect inferences about the future, and the potential for limited transparency of SupTech and RegTech tools. Looking to the future, the potentially catalytic role of data standards and the importance of effective governance frameworks for the use of SupTech and RegTech were also emphasised.

Sources: FSB website
https://www.fsb.org/2020/10/the-use-of-supervisory-and-regulatory-technology-by-authorities-and-regulated-institutions-market-developments-and-financial-stability-implications/

FSB FINANCIAL STABILITY BOARD

Fifth Progress Report – Countdown to 2021 in light of COVID-19

07 October 2020

This report provides an overview of the progress on the implementation of the second phase of the G20 Data Gaps Initiative (DGI-2).

Accurate and timely data are crucial for informing policy decisions, especially during a crisis. The progress made to date by participating economies under the DGI-2 has proven its value during the COVID-19 pandemic. Policymakers have been able to gain better access to key information to monitor risks in the financial and non-financial sectors as well as to analyse interconnectedness and cross-border spillovers, although further improvement is needed. In October 2009, the FSB and IMF published The Financial Crisis and Information Gaps, a report which responded to a request from the G20 Ministers and Governors to explore information gaps and provide appropriate proposals for strengthening data collection. The report, which set out a series of recommendations to address identified data gaps, was endorsed by G20 Ministers and Governors and led to the first phase of work (DGI-1). In September 2015 it was agreed that the DGI work should continue into a second phase (DGI-2).

The main objective of DGI-2 is to implement the regular collection and dissemination of reliable and timely statistics for policy use. DGI-2 also includes new recommendations to reflect evolving policymaker needs. Its twenty recommendations are clustered under three main headings: (i) monitoring risk in the financial sector; (ii) vulnerabilities, interconnections and spillovers; and (iii) data sharing and communication of official statistics. DGI-2 maintains continuity with the DGI-1 recommendations while setting more specific objectives for G20 economies to compile and disseminate minimum common datasets for these recommendations.

The report sets out the challenges encountered by participating economies during this pandemic and the remaining steps to implement the DGI-2 recommendations in 2021. The report highlights that:

The COVID-19 pandemic posed significant challenges to the 2020 DGI work programme, and thus participating economies agreed to extend DGI work by six months to December 2021.

Nevertheless, progress in implementing the DGI-2 recommendations continued, despite the challenges that COVID-19 poses. Positive developments include enhancements in compilation processes, data sharing arrangements, production and dissemination of additional tables, as well as instrument and sector breakdowns.

To continue addressing data needs beyond 2021, many participating economies support maintaining an organised international collaboration process.

The COVID-19 crisis has increased policymakers' needs to obtain more granular, relevant, and reliable data. A possible new mandate could help address emerging policy questions. A general framework could be defined during 2021 and presented in the next DGI-2 progress report, which will be published in the second half of 2021 and delivered to G20 Finance Ministers and Central Bank Governors.

Sources: FSB website
https://www.fsb.org/2020/10/fifth-progress-report-countdown-to-2021-in-light-of-covid-19/

Central Bank of UAE to Helm IFSB Chairmanship for 2021

10 December 2020

The Council of the Islamic Financial Services Board (IFSB) today resolved to appoint its Chairperson and Deputy Chairperson for the year 2021. H.E. Abdulhamid M. Saeed Alahmadi, Governor of Central Bank of the United Arab Emirates will take over the Chairmanship of the IFSB, while H.E. Dr. Reza Baqir, Governor of the State Bank of Pakistan will be the Deputy Chairman. H.E. Abdulhamid M. Saeed Alahmadi will take over the chairmanship of the IFSB from H.E. Nor Shamsiah Mohd Yunus, Governor of Bank Negara Malaysia. The new appointments will take effect on 1 January 2021.

Brief profiles of the newly appointed Chairperson and Deputy Chairperson are as follows:

H.E. Abdulhamid M. Saeed Alahmadi was appointed as Governor of the Central Bank of the United Arab Emirates (CBUAE) on 2 April 2020.

H.E. Alahmadi's experience spans approximately 38 years in the Banking and Finance industry, where he held significant positions in both government and private sectors. Prior to his appointment as Governor of the Central Bank of the UAE, His Excellency held senior executive positions, including his roles as Vice President at Citi Bank and Managing Director of First Gulf Bank PJSC, followed by his appointment as Chief Executive Officer of First Abu Dhabi Bank PJSC, as a result of the merger between First Gulf Bank PJSC and National Bank of Abu Dhabi PJSC in March 2017.

His Excellency has been sharing his expertise with numerous corporations in the UAE as a member of the executive board, including Abu Dhabi Investment Holding Company, First Abu Dhabi Bank PJSC, Mubadala Investment Company, and Sky News Arabia.

H.E. Alahmadi holds a Bachelor of Arts degree in Business Administration, from the University of Arizona, USA.

H.E. Dr. Reza Baqir was appointed as the Governor of the State Bank of Pakistan by the President of Pakistan on 4 May 2019. H.E. Dr. Baqir has eighteen years of experience with the IMF and two years with the World Bank. His Excellency was the Head of the IMF's Office in Egypt and Senior Resident Representative since August 2017. He also held positions as IMF Mission Chief for Romania and Bulgaria, Division Chief of the IMF's Debt Policy Division, Head of the IMF delegation to the Paris Club, Deputy Division Chief of the IMF's Emerging Markets Division, IMF Resident Representative to the Philippines, and numerous other positions.

H.E. Dr. Baqir's research has been published in top journals of the economics profession, including the Journal of Political Economy and the Quarterly Journal of Economics. H.E. Dr. Baqir holds a Ph.D in Economics from the University of California at Berkeley and an A.B. (Magna cum Laude) in Economics from Harvard University.

The 37th meeting of the IFSB Council, hosted by Bank Negara Malaysia was held on 10 December 2020 via online. The Council Meeting was chaired by H.E. Nor Shamsiah Mohd Yunus, Governor of Bank Negara Malaysia and Chairperson of the IFSB for 2020, attended by the Central Bank Governors, Deputy Governors, Heads of regulatory and supervisory authorities, senior representatives from among the Council and Full members of the IFSB, representing 21 countries and Islamic Development Bank.

Sources: IFSB website
https://www.ifsb.org/preess_full.php?id=548&submit=more

The IFSB Council Adopts Two New Standards for the Islamic Financial Services Industry

10 December 2020

The Council of the Islamic Financial Services Board (IFSB) at its 37th Meeting, has resolved to approve the adoption of two new standards.

The two new standards are:

IFSB-24: Guiding Principles on Investor Protection in Islamic Capital Markets; and

IFSB-25: Disclosures to Promote Transparency and Market Discipline for *Takāful/Retakāful* Undertakings

IFSB-24 Guiding Principles on Investor Protection in Islamic Capital Markets
The standard on investor protection in Islamic capital markets (ICM) recognizes the crucial role that investor protection plays in the development and integrity of the ICM. The Guiding Principles sets out minimum requirements to be applied in the ICM for the protection of investors and the promotion of financial stability, in relation to: (i) appropriate product governance processes; (ii) robust and proportionate Sharīʿah governance processes and protection of investors against misleading claims of Sharīʿah compliance; (iii) enhanced transparency and information to investors in relation to Sharīʿah-compliant equities, and protection of minority shareholders;

(iv) protection against misconduct by financial intermediaries, including suitability and appropriateness assessment, fit and proper criteria, best execution, marketing and promotion, and conflicts of interest;; (v) protection against the misuse of client assets; (vi) effective means of redress or resolution of disputes in the case of misconduct; and (vii) effective investor education.

The objectives of IFSB-24 are:

- to identify the Islamic finance-specific issues that need to be considered within regulatory frameworks for investor protection;
- to define best practices for investor protection in relation to the specific features of the Islamic capital market;
- to support the development of robust investor protection frameworks for the Islamic capital market; and
- to increase harmonisation of regulatory practice, to support the development of international Islamic capital markets.

The standard is intended to apply to ICM products (including sukūk, ICIS and Sharīʿah-compliant equities) and market intermediaries operating in the ICM, particularly those that are interfacing with clients (brokers, asset managers, portfolio managers, investment advisers, etc.). The provisions in the standard also address emerging financial technologies in the ICM, including crypto-asset platforms (specifically those that deal with assets which represent an interest in a business), peer-to-peer financing platforms, equity crowdfunding platforms and online retail trading and investment platforms.

IFSB-25 Disclosures to Promote Transparency and Market Discipline for Takāful/Retakāful Undertakings

The standard on disclosures to promote transparency and market discipline for takāful/retakāful undertakings, is developed to enhance the stability and soundness of takāful/retakāful industry. It focuses on the required disclosures of takāful, particularly takāful/retakāful include various distinguishing features than conventional insurance/reinsurers. IFSB-25 is intended to set out requirements to be applied by regulatory and supervisory authorities to takāful/retakāful undertakings to promote transparency and market discipline by providing sufficient disclosures both to the market and to actual or potential participants.

The main objectives of the IFSB-25 are:

- to facilitate access to relevant, reliable and timely information by *takāful* market players generally, and by *takāful* participants in particular, thereby enhancing their capacity to monitor and assess the performance of TUs/RTUs;
- to improve comparability and consistency of all disclosures made by *takāful* operators (TOs)/*retakāful* operators (RTOs);
- to support the protection of current and potential participants, by helping TOs to offer useful information disclosures on *takāful* products; and
- to enable market players to complement and support, through their actions in the market, the implementation of the IFSB standards.

IFSB-25 covers two types of disclosure, public and private. First, it deals with the key disclosures that should be made publicly by TOs/RTOs with a view to market discipline. These disclosures have a mainly prudential aim, in order to ensure the soundness and stability of the industry. Public disclosures about environmental, social and governance (ESG) issues operate in a broadly similar way and, in governance particularly, overlap with the prudential disclosures. The second area of disclosure is disclosures to participants and potential participants about the contract they are considering entering, in order for them to make an informed decision about it, or about the performance of a contract under which they are already participants.

The softcopies of IFSB-24 and IFSB-25 will be available on the IFSB website, www.ifsb.org in both English and Arabic languages in due course.

The Council Meeting was attended by Central Bank Governors and Deputy Governors, top senior officials and Heads of Regulatory and Supervisory Authorities as well as senior representatives from among the Council and Full members of the IFSB, representing 21 countries and the Islamic Development Bank.

Sources: IFSB website

https://www.ifsb.org/preess_full.php?id=546&submit=more

ISLAMIC FINANCIAL SERVICES BOARD

The IFSB – BIBF Renew Their MoU to Enhance Stability of the Islamic Financial Services Industry

26 November 2020

The Islamic Financial Services Board (IFSB) and the Bahrain Institute of Banking and Finance (BIBF) are renewing their Memorandum of Understanding (MoU) to strengthen the efforts of two institutions in promoting an exchange of information, research and development, training as well as education for the Islamic financial services industry (IFSI). The IFSB Secretary-General, Dr. Bello Lawal Danbatta and BIBF Director, Dr. Ahmed Al Shaikh, signed the MoU on 26 November 2020.

Dr. Bello Lawal Danbatta, in his statement mentioned, "The IFSB is pleased to renew its collaboration for the third time with BIBF, in line with the key result areas of IFSB's Strategic Performance Plan 2019-2021 on enhanced global visibility and collaboration with stakeholders and international counterparts." He also added, "The IFSB acknowledges the importance of setting up a network of mutual co-operation, collaboration and support to strengthen the efforts between the two institutions by undertaking research, development, training and education in IFSI.

On his part, the BIBF Director, Dr. Ahmed Al Shaikh stated, "We are honoured to reaffirm this partnership that has proven its importance and benefits onto both organisations. I believe this is a positive step forward towards delivering high quality training and development programmes to further increase awareness and facilitate the implementation of the IFSB standards. The Islamic Finance industry has seen a double digit growth over the past decade and as the industry grows, so does the demand for professionals in this field as Islamic Finance has been wildly sought after as a business and a career path."

The IFSB and BIBF signed a Memorandum of Understanding (MoU) on 22 March 2012 and its second on 22 October 2017. The collaborations between these two institutions have provided relevant activities relating to the training and education of Islamic finance; building of awareness among the industry players through joint conferences, seminars and other events as well as developing capacity and skill buildings among Islamic finance practitioners.

Sources: IFSB website
https://www.ifsb.org/preess_full.php?id=543&submit=more

The IFSB Publishes Frequently Asked Questions (FAQs) for Standards on Corporate Governance (IFSB-3), Governance for Islamic Collective Investment Schemes (IFSB-6), Risk Management for Takāful Undertakings (IFBS-14) and Financial inclusion (TN-3)

23 November 2020

The IFSB is releasing its third set of Frequently Asked Questions (FAQs) on four of its Standards, namely, Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (IIFS) (IFSB-3); Guiding Principles on Governance for Islamic Collective Investment Schemes (ICIS)" (IFSB-6); Standard On Risk Management for Takāful Undertakings (IFSB-14); and Technical Note on Financial Inclusion and Islamic Finance (TN-3) today. These FAQs are aimed at enhancing the implementation of the four IFSB standards among the member jurisdictions through presenting clarifications and explanative directions on the issued Standards.

The Secretary-General of the IFSB, Dr. Bello Lawal Danbatta commented on the significance of the IFSB's implementation initiatives via FAQs publication, "The IFSB has always promoted consistency when it comes to membership support. The current situation of COVID-19 have further necessitated a great need for alternative approaches to business processes."

Dr. Bello continued, "The IFSB thus leverages on technological solutions through easily accessible implementation tools to help build a proper understanding and application of issued IFSB standards and technical notes." FAQs for IFSB-3 gives explanations, among other things, of main principles on establishing a comprehensive governance policy framework for IIFS, provides insights on best practices for the governance committee in the IIFS and managing investment account holders. It also offers recommendation on obtaining rulings from Sharī`ah scholars and dealing with different Sharī`ah opinions.

The FAQ responses for IFSB-6 provide guidance on what ICIS are. It also expounds on whether Sukūk may be considered as ICIS in addition to following up with the scope of ICIS governance and main guiding principles.

IFSB-14 covers the risk management for Islamic insurance, and FAQs for this standard are developed to address the risks specific to Takāful and Sharī`ah specificities in risk managements process for takāful undertakings, as well as the key elements of the supervisory review process are also covered.

The fourth standard, TN-3, is a relatively new IFSB standard. a technical note that provides a comprehensive view on financial inclusion from Islamic finance perspective. In order to assist in understanding good practices in regulating the financial sector to enhance financial inclusion through Islamic finance, FAQ for TN-3 gives explanatory notes to definition of financial inclusion on Islamic finance, its specificities, its compliance with regulatory requirements and some contemporary challenges.

The second set of FAQs were published on 30 December 2019 for these Standards; Disclosure Requirements for Islamic Capital Market (ICM) Products (IFSB-19), Key Elements in the Supervisory Review Process of Takâful/Retakâful Undertakings (IFSB-20), Core Principles for Islamic Finance Regulation [Islamic Capital Market Segment] (IFSB-21); and Revised Standard on Disclosures to Promote Transparency and Market Discipline for IIFS [Banking Segment] (IFSB-22).

The IFSB welcomes enquires, suggestions and comments for improvement of the FAQs. Comments and suggestions can be sent to ifsb_sec@ifsb.org. These FAQs are available on the IFSB website under the 'Standards Development' section for download.

Sources: IFSB website
https://www.ifsb.org/preess_full.php?id=542&submit=more

The IFSB Disseminates Data for 2020Q1-Q2 for Islamic Banking Sector in Member Countries
19 October 2020

The Islamic Financial Services Board (IFSB) is pleased to announce the dissemination of country-level prudential and structural data on the Islamic banking sector for Q1 and Q2 of 2020 from IFSB member jurisdictions. This 17th dissemination makes available, quarterly data from 2013Q4 to 2020 Q2. This PSIFIs project currently compiles data from 24 reporting countries - Afghanistan, Bahrain, Bangladesh, Brunei, Egypt, Indonesia, Iran, Jordan, Kazakhstan, Kuwait, Kyrgyz Republic, Lebanon, Libya, Malaysia, Nigeria, Oman, Pakistan, Palestine, Qatar, Saudi Arabia, Sudan, Turkey, the United Arab Emirates and the United Kingdom.

The Secretary-General of the IFSB, Dr. Bello Lawal Danbatta stated, "This database project, which began the implementation of its 3-year Medium Term Plan under Phase V of the project in 2020, will continue to enhance the availability and the quality of data on the Islamic banking sector." In this regard, he appreciated the continued support of the Task Force members for timely collection and dissemination of the data. He further stated, "The IFSB will continue to collect and disseminate timely data during these challenging times due to the global COVID-19 pandemic. The availability of data on the Islamic financial sector has never been more important, to enable the assessment of the impact of the crisis on the stability and growth of the Islamic financial sector."

The IFSB Task Force on PSIFIs – comprising representatives from the 24 participating jurisdictions - has been importantly committed in facilitating the collection of Islamic banking data. A total of six regulator and supervisory authorities (RSAs) from the takāful sector and four RSAs from the Islamic capital markets sector have joined the project to compile PSIFIs database for their respective sectors. The IFSB completed the first dissemination of data on the takāful sector in September 2020. The IFSB Secretariat has been regularly conducting capacity building workshops/meetings with the country representatives of the Task Force, where three international organisations – the International Monetary Fund (IMF), Islamic Development Bank (IDB) and the Asian Development Bank (ADB) – also the IFSB members, focusing on enhanced clarity and consistency of reporting indicators across jurisdictions.

The PSIFIs Database (full set of data with metadata) is available on the PSIFIs portal at the IFSB website https://psifi.ifsb.org.

Sources: IFSB website

https://www.ifsb.org/preess_full.php?id=541&submit=more

Our Team

Editor:

- Ramadhian Moetomo

Contributors:

- Herman Saheruddin, PhD
- Haydin Haritzon
- Trisnani Dewi
- Ade Evelina
- Amirah Laras Ulinnuha
- Nurul Adrisa
- Aldila Hapsari

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

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: hin@lps. o.id
Phone : +62 21 515 1000 (huntin)
Fax : +62 21 5140 1500/1600

LPS Indonesia @lps_idic @lps_idic LPS_IDIC Official