# GLOBAL UPDATES

INDONESIA
DEPOSIT
INSURANCE
CORPORATION

Volume 2, 2021

# Contents

INDONESIA
DEPOSIT
INSURANCE
CORPORATION

# IDIC Updates

## Second Quarter 2021

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## Contents

# Key Financial Highlights

## Banking Growth and Stability

In February 2021, the Indonesian banking industry recorded mixed financial performance indicators. Its assets grew by 6.30% YoY, while profits declined by 12.40% YoY. Asset growth was not accompanied by growth in credits, which dropped by 2.30% YoY.

Interestingly, Islamic banks significantly outperformed their conventional peers in terms of asset and credit growth YoY. On the right-hand side of the industry's balance sheet, deposits (third parties funds) grew by 10.08% YoY and the industry's Tier 1 capital grew by 19.60% YoY.

Table 1: Indicators of Banking Industry (Trillion IDR)

| Indicator | Apr-20 | Mar-21 | Apr-21 | YoY | MtM |
|---|---|---|---|---|---|
| **Asset** | **8.640,2** | **9.291,9** | **9.243,8** | 🟢 **7,0%** | 🔴 **-0,5%** |
| **Conventional** | 8.291,9 | 8.878,8 | 8.817,8 | 🟢 6,3% | 🔴 -0,7% |
| **Islamic** | 348,3 | 413,1 | 425,9 | 🟢 22,3% | 🟢 3,1% |
| **Credit** | **5.676,1** | **5.558,3** | **5.543,4** | 🔴 **-2,3%** | 🔴 **-0,3%** |
| **Conventional** | 5.448,2 | 5.308,4 | 5.292,6 | 🔴 -2,9% | 🔴 -0,3% |
| **Islamic** | 227,9 | 249,8 | 250,8 | 🟢 10,1% | 🟢 0,4% |
| **Third Parties Fund** | **6.128,1** | **6.806,2** | **6.798,5** | 🟢 **10,90%** | 🔴 **-0,1%** |
| **Conventional** | 5.839,0 | 6.485,2 | 6.472,5 | 🟢 10,8% | 🔴 -0,2% |
| **Islamic** | 289,0 | 321,0 | 326,0 | 🟢 12,8% | 🟢 1,6% |

| Indicator | Apr-20 | Mar-21 | Apr-21 | YoY | MtM |
|---|---|---|---|---|---|
| **Tier 1** | **1.244,9** | **1.307,4** | **1.315,3** | 🟢 **5,7%** | 🟢 **0,6%** |
| **Conventional** | 1.206,4 | 1.261,7 | 1.269,3 | 🟢 5,2% | 🟢 0,6% |
| **Islamic** | 38,5 | 45,7 | 46,0 | 🔴 19,6% | 🟢 0,7% |
| **Profit/Loss** | **50,4** | **33,4** | **44,1** | 🔴 **-12,4%** | 🟢 **32,0%** |
| **Conventional** | 49,4 | 32,4 | 42,8 | 🔴 -13,3% | 🟢 31,9% |
| **Islamic** | 1,0 | 1,0 | 1,3 | 🟢 34,5% | 🟢 34,1% |

**Note :** YoY : Year-on-Year growth
MtM : Month-to-Month growth
🟢 : Favourable
🔴 : Unfavourable

## Table 2: Financial Ratio of Banking Industry

| Ratio | Apr-20 | Mar-21 | Apr-21 | YoY | MtM |
|---|---|---|---|---|---|
| **CAR** | **21,91%** | **23,67%** | **23,74%** | 🟢 **184bps** | 🟢 **7bps** |
| **Asset Quality** | **2,02%** | **2,00%** | **2,04%** | 🔴 **1bps** | 🔴 **4bps** |
| **Gross NPL** | **2,86%** | **3,14%** | **3,18%** | 🔴 **32bps** | 🔴 **5bps** |
| **Net NPL** | **0,23%** | **0,15%** | **0,16%** | 🟢 **-7bps** | 🔴 **0bps** |
| **ROA** | **2,32%** | **1,89%** | **1,86%** | 🔴 **-46bps** | 🔴 **-3bps** |
| **ROE** | **12,76%** | **11,37%** | **11,24%** | 🔴 **-153bps** | 🔴 **-13bps** |
| **OC/OR** | **83,00%** | **84,11%** | **83,93%** | 🔴 **93bps** | 🟢 **-17bps** |
| **NIM** | **4,11%** | **4,18%** | **4,21%** | 🟢 **11bps** | 🟢 **4bps** |

**Note :** YoY : Year-on-Year growth
MtM : Month-to-Month growth
🟢 : Favourable
🔴 : Unfavourable

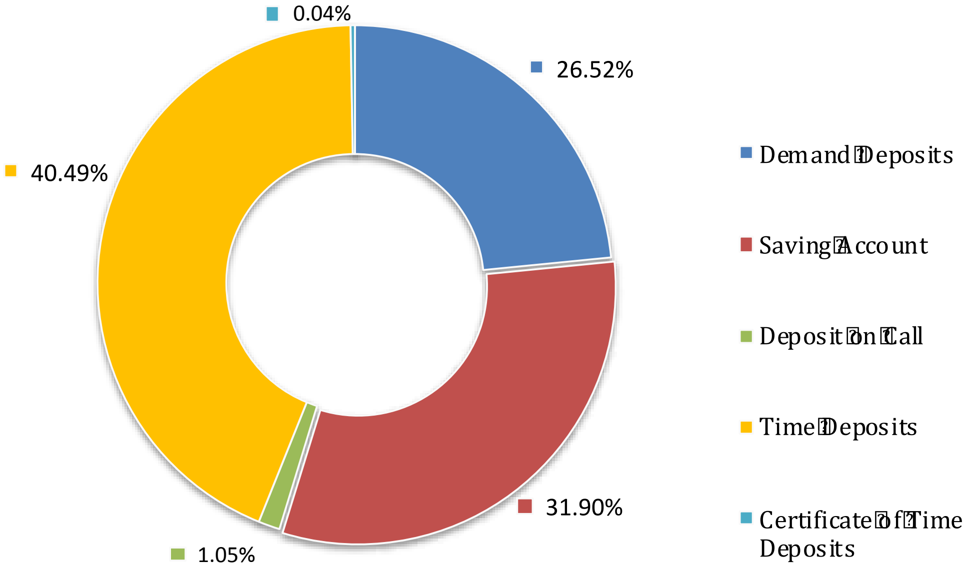
Table 2 shows that the industry's Gross NPL were higher than last year while Net NPL improved. Such occurance suggests a slight improvement in credit quality. However, the improvement in Net NPL was not suficient to prevent bank operating eficiency from declining compared to previous year.

Profitability ratios, ROA and ROE, also declined in alignment with the operating ratios. Despite negative trend in eficiency and profitability, the banking industry CAR grew healthily at 23.74%. The increase in CAR implies that the Indonesian banking industry remains stable over the period of April 2020 to April 2021.

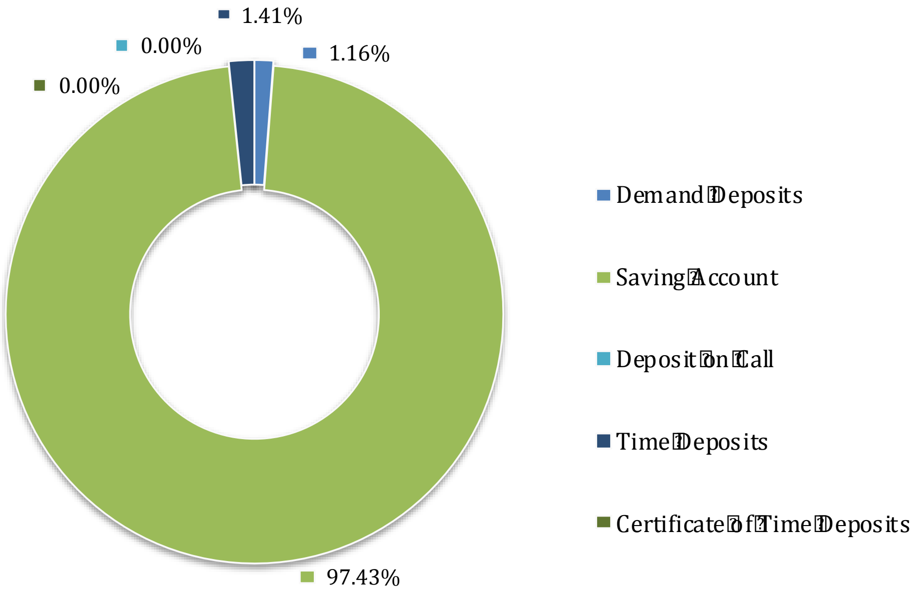
# Deposit Insurance Updates

Per deposit distribution data in Q2 2021, total deposits in the Indonesian banking industry is still dominated by saving deposits in terms of account numbers. To be exact, saving deposits accounts for 97.43% of the total number of accounts. However, in terms of market shares, savings contributes only 31.90% of total deposits. In contrast, time deposits, which represents only 1.41% of the total number of accounts, has the largest shares of total deposits (40.49%). Meanwhile, demand deposits, which mainly for transactional purpose, accounts for 1.16% of the total number of accounts and contribute to 26.52% shares of total deposits.

Figure 1: Distribution of Deposits in Banking Industry



## Figure 2: Distribution of Deposits in Banking Industry



Most of the deposits belong to either individuals or corporations (third-party funds). Only 1.37% of the total deposits are interbank deposits. Conventional banks hold 95.21% of total deposits, while Islamic banks hold 4.79%.

## Table 3: Distribution of Deposits Based on Type of Deposits

**Total Deposits and Number of Accounts by Type of Deposits (Nominal in Million USD)**

| Type of Deposits | Apr-21 | | | | May-21 | | | | ∆ MoM | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Account | % | Nominal | % | Account | % | Nominal | % | ∆ Account | % | ∆ Nominal | % |
| Demand Deposits | 4.286.289 | 1,18% | 127,871 | 26,55% | 4.179.162 | 1,16% | 128,710 | 26,52% | -107.127 | -2,50% | 0,838 | 0,66% |
| Saving Account | 354.022.467 | 97,43% | 152,711 | 31,71% | 352.333.553 | 97,43% | 154,798 | 31,90% | -1.688.914 | -0,48% | 2,087 | 1,37% |
| Deposit on Call | 3.455 | 0,00% | 5,155 | 1,07% | 3.195 | 0,00% | 5,106 | 1,05% | -260 | -7,53% | -0,049 | -0,95% |
| Time Deposits | 5.060.961 | 1,39% | 195,586 | 40,62% | 5.094.804 | 1,41% | 196,457 | 40,49% | 33.843 | 0,67% | 0,871 | 0,45% |
| Certificate of Time Deposits | 44 | 0,00% | 0,234 | 0,05% | 34 | 0,00% | 0,185 | 0,04% | -10 | -22,73% | -0,049 | -20,97% |
| **Total** | **363.373.216** | **100,00%** | **481,557** | **100,00%** | **361.610.748** | **100,00%** | **485,255** | **100,00%** | -1.762.468 | -0,49% | 3,699 | 0,77% |

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

## Table 4: Distribution of Deposits Based on Ownership of Deposits

**Total Deposits and Number of Accounts by Ownership of Deposits (Nominal in Million USD)**

| Ownership of Deposits | Apr-21 | | | | May-21 | | | | ∆ MoM | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Account | % | Nominal | % | Account | % | Nominal | % | ∆ Account | % | ∆ Nominal | % |
| **Third Party-Fund (DPLK)** | 363.347.392 | 99,99% | 474,600 | 98,56% | 361.584.692 | 99,99% | 477,583 | 98,63% | -1.762.700 | -0,49% | 2,983 | 0,63% |
| **Funds From Other Bank** | 25.824 | 0,01% | 6,957 | 1,44% | 26.056 | 0,01% | 6,619 | 1,37% | 232 | 0,90% | -0,338 | -4,85% |
| **Total** | **363.373.216** | **100,00%** | **481,557** | **100,00%** | **3.615.872.978** | **100,00%** | **484,202** | **100,00%** | **3.252.499.762** | **895,09%** | **2,645** | **0,55%** |

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

## Table 5: Distribution of Deposits Based on Type of Business Banks

**Total Deposits and Number of Accounts by Type of Business Banks (Nominal in Million USD)**

| Type of Business Banks | Apr-21 | | | | May-21 | | | | ∆ MoM | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Account | % | Nominal | % | Account | % | Nominal | % | ∆ Account | % | ∆ Nominal | % |
| Conventional | 330.740.354 | 91,02% | 458,600 | 95,23% | 326.139.851 | 90,19% | 461,998 | 95,21% | -4.600.503 | -1,39% | 3,398 | 0,74% |
| Islamic | 32.632.862 | 8,98% | 22,956 | 4,77% | 35.470.897 | 9,81% | 23,257 | 4,79% | 2.838.035 | 8,70% | 0,300 | 1,31% |
| **Total** | **363.373.216** | **100,00%** | **481,557** | **100,00%** | **361.610.748** | **100,00%** | **485,255** | **100,00%** | **-1.762.468** | **-0,49%** | **3,698** | **0,77%** |

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

Most of deposits accounts (98.37%) were individually less than IDR100 million (USD6,885*), which account for 13.79% of total deposits. In contrast, deposits accounts that were individually more than IDR5 billion (USD344,234) represented only 0.03% of the total number of accounts, but contributed to 49.19% of total deposits.

Note: (*)Exchange rate end of period= IDR14.525/USD

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

**Total Deposits by Tiering of Nominal
(Nominal in Million USD)**

| Deposit Tiering (IDR) | Apr-21 | | | | May-21 | | | | ∆ MoM | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Account | % | Nominal | % | Account | % | Nominal | % | ∆ Account | % | ∆ Nominal | % |
| N ≤ 100 Mio | 357.439.609 | 98,37% | 66,392 | 13,79% | 355.570.580 | 98,33% | 66,043 | 13,61% | -1.869.029 | -0,52% | -0,348 | -0,52% |
| 100 Mio < N ≤ 200 Mio | 2.700.607 | 0,74% | 26,494 | 5,50% | 2.749.842 | 0,76% | 26,948 | 5,55% | 49.235 | 1,82% | 0,454 | 1,71% |
| 200 Mio < N ≤ 500 Mio | 1.888.846 | 0,52% | 42,245 | 8,77% | 1.927.712 | 0,53% | 43,132 | 8,89% | 38.866 | 2,06% | 0,887 | 2,10% |
| 500 Mio < N ≤ 1 Bio | 723.807 | 0,20% | 36,507 | 7,58% | 735.676 | 0,20% | 37,083 | 7,64% | 11.869 | 1,64% | 0,577 | 1,58% |
| 1 Bio < N ≤ 2 Bio | 322.075 | 0,09% | 31,986 | 6,64% | 326.431 | 0,09% | 32,359 | 6,67% | 4.356 | 1,35% | 0,373 | 1,17% |
| 2 Bio < N ≤ 5 Bio | 187.570 | 0,05% | 41,050 | 8,52% | 188.977 | 0,05% | 41,320 | 8,52% | 1.407 | 0,75% | 0,271 | 0,66% |
| N > 5 Bio | 110.702 | 0,03% | 236,884 | 49,19% | 111.530 | 0,03% | 238,370 | 49,12% | 828 | 0,75% | 1,486 | 0,63% |
| **Total** | **363.373.216** | **100,00%** | **481,557** | **100,00%** | **361.610.748** | **100,00%** | **485,255** | **100,00%** | **-1.762.468** | **-0,49%** | **3,698** | **0,77%** |

**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 (USD137,694), the IDIC's insurance program covers 99.92% number of accounts fully and 0.08% number of accounts partially up to IDR2 billion (Table 7).

In terms of the nominal amount of deposits, about 51.04% of total deposits are fully insured, while the rest of the 48.96% are partially insured up to IDR2 billion (Table 8).

## Table 7: Distribution of Insured Deposit Based on Accounts

**Distribution of Account by Insured Accounts**
**May 2021**

| Item | Deposit Tiering (IDR) | Number of Accounts | % |
|---|---|---|---|
| Account for Fully Insured Deposits | ≤ 2 Billion | 361.310.241 | 99,92% |
| Account for Partially Insured Deposits | > 2 Billion | 300.507 | 0,08% |
| **Total Account** | | **361.610.748** | **100,00%** |

## Table 8: Distribution of Deposit Based on Nominal

**Distribution of Deposits by Insured Deposits**
**Billion IDR - May 2021**

| Item | Deposit Tiering (IDR) | Number of Accounts | % |
|---|---|---|---|
| Fully Insured Deposits | ≤ 2 Billion | 2.935.470 | 42,36% |
| Partially Insured Deposits | > 2 Billion | 601.014 | 8,67% |
| Subtotal - Insured Deposits | | **3.536.484** | **51,04%** |
| Uninsured Deposits | > 2 Billion | 3.392.958 | 48,96% |
| Subtotal - Uninsured Deposits | | **3.392.958** | **100,00%** |
| **Total Account** | | **6.929.442** | |

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

# IDIC Activities

## Second Quarter 2021

# Audit Report on IDIC Financial Statement for the Year 2020, IDIC Received an Unqualified Opinion for 7 Times in a row

The Supreme Audit Agency (BPK) directly submitted the 2020 Deposit Insurance Agency Audit Report and IDIC received Unqualified Opinion. With this, IDIC has received the revered unqualified opinion from BPK for the seventh time in a row.

The chairman of the IDIC Board of Commissioners, Purbaya Yudhi Sadewa, stated that this achievement could be an encouragement for IDIC, as one of the government agencies, to continue to improve the performance of the institution, especially in managing and being responsible for state finances.

“IDIC, as an entity audited by BPK, has obtained an opinion of fair presentation in all material aspect on the Financial Statements Audit Report for the last 7 consecutive years. Not only making us proud, this achievement also serves as boost of motivation for IDIC to continue to improve the performance of the institution so that the opinion of the Financial Statements can be maintained,“ he said.

# IDIC Journalist Award 2021

27 April 2021

The event that brings synergy and appreciation of Indonesia Deposit Insurance Corporation (IDIC) to the press members, entitled IDIC Journalist Award 2021 with the theme "The Role of the IDIC in Maintaining Banking Stability", has officially ended. This was symbolized by awarding champion titles to journalists that participated in the hybrid competition which was held in Jakarta on Thursday, 27 April 2021.

On that occasion, IDIC Corporate Secretary, Dimas Yuliharto, thanked the press members who had participated in the IDIC Journalist Award 2021. “My highest appreciation to fellow journalists who have helped to socialize the role of IDIC through positive reporting. Marked by the inclusion of hundreds of journalistic works, this shows that there is extraordinary attention to IDIC. Hopefully this will be useful, especially when our economic condition is declining so that with the information of IDIC’s role, people will have more confidence in banking, and help restore the economy," he said.

Meanwhile, the competition period will be held from December 1, 2020 to March 31, 2021. In total there are 39 journalistic writings and 576 photojournalism works, with details of 255 journalistic photo works in the broadcast category and the rest in the non-show category. And the press members who were crowned the winners were as follows:

## Published Photo Category on Media

**1st Prize:**
**Arif Julianto**
– Okezone.com
“IDIC Prepares Payment of Customer Deposit Claims”

**2nd Prize:**
**Angga Yuniar**
– Liputan6.com
“IDIC Insures Customer Deposits Up To 2M”

**3rd Prize:**
**Angger Putranto**
– Kompas
“Tawang Alun Rural Bank Cooperative Closed, IDIC Asks Customers to Not Panic”

## Unpublished Photo Category on Media

**1st Prize:**
**Elvis Sendouw**
– SinarHarapan.id
“IDIC Encourages Banks to Increase Financing For SMEs”

**2nd Prize:**
**M Ali Wafa**
– Viva.co.id
”IDIC’s role in long-term development project funding”

**3rd Prize:**
**Hendra A Setyawan**
– Kompas
“IDIC’s Contributory Actions”

## Article Writing Category

**1st Prize:**
**Fira Nursyabani**
– AyoBandung.com
“Easy and Fast, IDIC Pays Deposit Claims for Brata Nusantara Rural Bank Customers”

**2nd Prize:**
**Agatha Olivia V.**
– Katadata.co.id
“IDIC's Contribution Behind the Zero Bank Failure During the Pandemic”

**3rd Prize:**
**Moehamad Maolan**
– NusaBali.com
“Dear Customers of BPR Sewu Bali, Calm down, IDIC will return funds no later than July 14, 2021”

# Federal Deposit Insurance Corporation (FDIC) Training on Bank Resolution

## 20 – 29 May 2021

Indonesia Deposit Insurance Corporation (IDIC), in collaboration with the Federal Deposit Insurance Corporation (FDIC) and the World Bank Group, has hosted a 5-days virtual training on Bank Resolution from 20th to 27th May 2021.

With various FDIC experts pooled in as speakers for this training session, participants have gained knowledge and were made aware of FDIC's experiences on executing bank resolution, including bank resolution methods, asset valuation, purchase and assumption, bridge bank, and communication strategies. Plenty of detailed technical aspects and know-hows about bank resolution from keynote sessions, discussions, and exercises led by the field experts were also covered during this training.

Attending this training as participants were colleagues from IDIC, the Indonesian Financial System Stability Committee (FSSC) members, and other Deposit Insurers such as Malaysia Deposit Insurance Corporation, Deposit Protection Agency Thailand, Deposit Protection Office Lao, Philippine Deposit Insurance Corporation, and Deposit Insurance Vietnam.

# Philippine Deposit Insurance Corporation (PDIC) Sharing Session on Liquidation of Rural Banks

31 May 2021

On 31st May 2021, Indonesia Deposit Insurance Corporation (IDIC) hosted a sharing session on PDIC's Experience on the Liquidation of Rural Banks in the Philippines. This was conducted as means to provide a platform for IDIC's capacity building by exchanging information and ideas with PDIC, as well as further discuss PDIC's end-to-end liquidation process starting from the revocation of rural banks to the termination of liquidation.

In this occasion, PDIC has brought in field experts such as Atty. Nilo Aldrin M. Lucinario, Vice President (VP) of Receivership and Bank Management Group, Shirley G. Felix, VP of Loans Management Group, Ma Bernadette R. Sanchez, VP of Asset Management and Disposal Group, and Dorothy C. Eamilao, Officer-in-Charge of Receivership and Liquidation Support Group. Through this engagement, IDIC longs for continuous promotion of the resolution system within the country as well as contribute the best effort on a global scale.

"Legal Framework, Timeline and Major Stages of Bank Liquidation in the Philippines"

by

**Atty. Nilo Aldrin M. Lucinario**

*Vice President,*

*Receivership and Bank Management Group*

Materials available to download from the link sent in the chat box.

"Management and Resolution of Loan Receivables"

by

**Shirley G. Felix**

*Vice President,*

*Loans Management Group*

"Management and Resolution of Acquired Assets (ROPA)"

by

**Ma. Bernadette R. Sanchez**

*Vice President,*

*Asset Management and Disposal Group*

"Management of Recoveries from Closed Banks and Support Services to Liquidation Operations"

by

**Dorothy C. Eamilao**

*Officer-in-Charge,*

*Receivership and Liquidation Support Group*

Materials available to download from the link sent in the chat box.

Mr. Suwandi, the Executive Director of IDIC Claim and Bank Resolution Directorate, delivered his welcoming remarks and consequently the session was wrapped up by Mr. Jose G. Villaret, Corporate Affairs Group. Also, enthusiastically attending this sharing session were colleagues from IDIC's Liquidation, Asset Management, and Resolution Method Analysis Groups, as well as colleagues from PDIC.

# Signing of MoU between Indonesia Deposit Insurance Corporation (IDIC) and Palestine Deposit Insurance Corporation

8 Juni 2021

On June 8, 2021, the Chairman of Indonesia Deposit Insurance Corporation (IDIC), Purbaya Yudhi Sadewa, and the Chairman of Palestine Deposit Insurance Corporation (Palestine DIC), Firas Melham, signed a virtual Memorandum of Understanding (MoU) via circular email to encourage cooperation and collaboration between the two institutions to improve the effectiveness of the implementation of the duties and responsibilities of each institution in providing deposit insurance and maintaining the stability of the banking system in respective countries.

The signing of the MoU was carried out as a follow-up to a virtual courtesy meeting between the Chairman of the LPS Board of Commissioners and the General Manager of Palestine DIC, Zaher Hammuz, on November 5, 2020, discussing potential cooperation that could be implemented and heightened between the two institutions for institutional capacity development. The MoU regulates cooperation in various fields including information exchange, research, training, and so forth.

As part of its efforts to improve its capabilities in carrying out its duties and functions, in addition to collaborating with Palestine DIC, IDIC is also active in collaborating with similar institutions from various countries, such as PIDM Malaysia, DIA Russia, FDIC USA, and Philippine DIC, among others.

# IDIC Prepares Insurance Claim Payment of Customers of BPR LPN Tapan (in Liquidation) and BPR Sumber Usahawan Bersama (in Liquidation)

The Indonesia Deposit Insurance Corporation (IDIC) processes customer deposit claims and liquidation of PT BPR LPN Tapan, Pasar Bukit Village, Kab. South Coast, West Sumatra Province and BPR Sumber Usahawan Bersama, Siduarjo Regency, East Java. The reimbursement process of customer deposit claims and liquidation is carried out after the business license of PT BPR LPN Tapan was revoked by the Financial Services Authority (OJK) on April 7, 2021 and BPR Sumber Usahawan on July 2, 2021. IDIC will ensure that customer deposits can be paid in accordance with applicable regulations. IDIC will reconcile and verify the deposit data and other information to determine the reimbursement amount.

# Strengthening Regulation and Supervision for FinTech Consumer Protection

The COVID-19 pandemic has changed many aspects of social and economic life, including consumer behavior in adopting online platforms. This has increased public interest in FinTech (Financial Technology) products. The FinTech industry, currently growing rapidly, brings significant changes, among others, related to lifestyle such as loan or credit patterns. Previously, people borrowed from banks, but now with FinTech, everyone can get loans more easily from online platforms.

As is known, Indonesia's FinTech start-up landscape is dominated by FinTech Payment and FinTech Lending companies. As of Jan 2021, there are 151 FinTech Payment companies, followed by 41 Fintech Lending companies.

"To protect consumer interests, a strong regulatory and supervisory approach is needed, such as using Regulatory Technology (RegTech), rather than a guarantee program that requires several prerequisites to reduce potential risks," said the Chairman of Indonesia Deposit Insurance Corporation (IDIC), Purbaya Yudhi Sadewa, in a webinar themed “Overview of FinTech and its Impact on Financial Sectors and Deposit Insurance” organized by Korea Deposit Insurance Corporation (KDIC) in Collaboration with Perbadanan Insurans Deposit Malaysia (PIDM), on Wednesday (02/05/2021).

Chairman Purbaya mentioned that several banks in Indonesia have improved their digital platforms to heighten user experience and customer loyalty, as well as increase their efficiency. offline which is dominated by banks. Trust and credibility in digital transaction services and e-money is very important for the smooth running of the payment system, therefore, risk mitigation measures are very important." he explained.

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INDONESIA DEPOSIT INSURANCE CORPORATION

# Promoting Public Information Services

# IADI Updates

## Second Quarter 2021

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### Content

# Joint International Association of Deposit Insurers (IADI), Islamic Financial Services Board (IFSB), and Arab Monetary Fund (AMF) Webinar on the Core Principles for Effective Islamic Deposit Insurance Systems

21 June 2021

The International Association of Deposit Insurers, the Islamic Financial Services Board and the Arab Monetary Fund hosted a joint webinar on the Core Principles for Effective Islamic Deposit Insurance Systems (CPIDIS). The webinar promoted understanding of the key elements of the CPIDIS and how they reflect issues specific to Islamic banking. The Islamic Financial Services Industry (IFSI) has developed in recent years and spread beyond Muslim-majority economies to other emerging markets and advanced economies, bringing new products and services. As such, the IFSI has gained significant market share and has become a relevant element of the financial system in many jurisdictions, raising a number of challenges for them and their financial safety net.

An Islamic Deposit Insurance System (IDIS) has the potential to promote stability and resilience in the IFSI by enhancing depositor confidence. The IADI-IFSB Core Principles for Effective Islamic Deposit Insurance Systems (CPIDIS), building upon the existing IADI Core Principles for Effective Deposit Insurance Systems, are meant to:

- serve as a benchmark international framework to facilitate the development and implementation of an effective IDIS;
- enable existing IDIS to identify best-practice gaps in their current systems; and
- facilitate an independent, third party or self-assessment of the compliance with the CPIDIS.

The joint webinar also provided a platform for IADI, IFSB, and AMF to collaborate and strengthen relations for the benefit of their combined membership. David Walker, Secretary General of IADI, delivered the Welcome Speech. Subsequently, Dr. Bello Lawal Danbatta, Secretary General of IFSB, and Dr. Abdulrahman A. Al Hamidy, Director General Chairman of the Board of AMF delivered Opening Remarks. This was followed by presentations on salient features of the Core Principles for Effective Islamic Deposit Insurance, Sharia'h governance, and Sharia'h issues. David Walker delivered closing remarks.

The remaining presentations highlighted the uniqueness of Islamic Banking and the need to comply with Shari'ah principles, as well as the challenges in implementation of Islamic deposit insurance systems and the specificities of Islamic banks and Sharīʻah governance requirements leading to the need to develop a set of Core Principles to address these issues. In total, 12 CPs from the original IADI Core Principles for Effective Deposit Insurance Systems were adjusted to align the CPIDIS with Sharía rules and principles. A new Core Principle on Sharīʻah Governance was introduced. This new Core Principle emphasizes that the Islamic deposit insurance system should have in place a comprehensive and properly functioning Sharīʻah governance system.

The webinar was attended by 222 participants from the Financial Stability Task Force in Arab Countries, the Arab Committee on Banking Supervision, IADI, IFSB, and AMF Members, highlighting the importance of deposit insurance systems in contributing to financial stability.

**Source.** IADI Website
https://www.iadi.org/en/assets/File/Press%20Releases/Joint%20IADI%20IFSB%20AMF%20Webinar%20Press%20Release%20Final.pdf

# IADI Regional Research Paper – "Contingency Plan Testing in North America"

17 June 2021

This paper by IADI's Regional Committee of North America (RCNA) presents the results of a research project undertaken by the Canada Deposit Insurance Corporation (CDIC) on behalf of the RCNA. It analyses the contingency plan testing programs of deposit insurers and resolution authorities in Canada, the United States and Mexico and offers four case studies.

**Source.** IADI Website
https://www.iadi.org/en/news/iadi-regional-research-paper-contingency-plan-testing-in-north-america/

# 2021 IADI Chart Pack

18 May 2021

This new product offers a snapshot of the key characteristics of deposit insurance systems from around the world. Topics include deposit insurer structure, coverage and funding, reimbursement and resolution activities, public awareness and financial inclusion.

**Source.** IADI Website
https://www.iadi.org/en/assets/File/Core%20Principles/Chart_Pack_2021/Chart%20Pack%20-%20IADI%20-%206%20May%202021.pdf

# International Association of Deposit Insurers hosts 6th Biennial Research Conference “Navigating the New Normal for Financial Stability, Deposit Insurance and Bank Resolution"

18 May 2021

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The International Association of Deposit Insurers (IADI) hosted its 6th Biennial Research Conference from 10-12 May 2021 at the Bank for International Settlements (BIS) in Basel, Switzerland. The conference was attended by 450 participants representing a global audience of around 100 jurisdictions, a new record for the conference.

The conference focused on the theme of “Navigating the New Normal for Financial Stability, Deposit Insurance and Bank Resolution” featuring six invited papers chosen from 45 submissions received in response to a Call for Papers. Each paper was presented by the author and discussed by a reviewer. The attendees were welcomed by David Walker, Secretary General, IADI, who mentioned that this research conference was the first that IADI has held virtually due to the Covid-19 pandemic.

Yury Isaev, President and Chair of the Executive Council of IADI and General Director of the Deposit Insurance Agency of the Russian Federation, delivered the Opening Remarks. He stressed the importance of working with the research community and the Association’s partner international financial institutions on exploring the new risks and examining the effects of new developments and international initiatives on deposit insurance, bank resolution and financial stability issues. As a result, IADI has committed to enhancing its research and policy development efforts as part of IADI’s new 5-year Strategic Plan, including revising the IADI Core Principles for Effective Deposit Insurance Systems.

The Keynote Address was delivered by Andrew Metrick, the Janet L. Yellen Professor of Finance and Management at the Yale School of Management and Director of the Yale Program on Financial Stability. Mr Metrick spoke about his research on the causes and consequences of financial crises, the regulation of systemic risk and the use of resolution tools to manage crises. The research incorporates both quantitative analysis as well as reliance on case studies to better understand lessons learned. Some of the key challenges he raised included managing the trade-offs between maintaining financial stability and minimising moral hazard. Looking ahead, he mentioned a number of areas to monitor such as shadow banking and the possible spill-over risks into the traditional financial sector.

The invited papers covered topics such as the persistent real effects of resolving failed banks, deposit insurance pricing and its related distortions and moral hazard implications, deposit insurance coverage, dynamic banking and the value of deposits, Covid-19 and the stress testing of bank's digital capabilities and analysing the capital cost consequences for creditors and borrowers related to the completion of the EU banking union. The paper presenters, discussants and session chairs were largely from academia but also included speakers from deposit insurance organisations, central banks and international financial institutions.

Guest Speaker, Fernando Restoy, Chairman of the Financial Stability Institute, began his address by identifying the lack of an effective funding mechanism to facilitate orderly market exit in the European Union (EU). He provided recommendations for reforms such as modifying the financial cap for deposit insurance scheme funding, adjusting MREL requirements and modifying conditions for access to the EU Single Resolution Fund. He saw also the removal of supra-preference for covered deposits and introducing a European Deposit Insurance Scheme (EDIS) as important areas to consider.

Guest Speaker, Martin Merlin, Director, Bank, Insurance, and Financial Crime, Directorate-General for Financial Stability, Financial Services and Capital Markets Union of the European Commission, stressed that deposit insurance was a key ingredient supporting financial stability.

He spoke about progress enhancing stability since the global financial crisis through the introduction of measures such as the EU Bank Recovery and Resolution Directive. He said further work was needed to enhance the EU crisis management and deposit insurance framework and a consultation process is presently underway. He closed his remarks by emphasizing the need to complete the banking union and introduce EDIS.

The conference ended with a stimulating discussion at the Regulators' Roundtable where the panellists shared their perspectives on navigating the risk environment ahead. The panellists included Eva Hüpkes, Head of Regulatory and Supervisory Policies, Financial Stability Board, Peter Routledge, President and CEO of the Canada Deposit Insurance Corporation and Marc Dobler, Deputy Division Chief, Financial Crisis Preparedness and Management, International Monetary Fund, and was chaired by David Walker, IADI.

Bert Van Roosebeke, Senior Policy and Research Advisor, IADI, provided the concluding remarks for the conference.

IADI is thankful to the BIS for their support of the conference.

**Source.** IADI Website
https://www.iadi.org/en/assets/File/Press%20Releases/18052021%20IADI%20-%20Press-release_Research%20Conference_2021_final.pdf

# BCBS Updates

## Second Quarter 2021

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## Content

Consultative

# Prudential treatment of cryptoasset exposures

10 June 2021

The Basel Committee on Banking Supervision has published a public consultation on preliminary proposals for the prudential treatment of banks' cryptoasset exposures. This document builds on the contents of the Committee's 2019 discussion paper and responses received from a broad range of stakeholders, as well as ongoing initiatives undertaken by the international community.

The Committee welcomes comments on all aspects of the preliminary proposals, including the questions in the consultative document. Comments on the proposals should be uploaded here by Friday 10 September 2021. All comments will be published on the website of the Bank for International Settlements unless a respondent specifically requests confidential treatment.

**Source.** BIS Website
https://www.bis.org/bcbs/publ/d519.htm

Related Information:
Press release: Basel Committee consults on prudential treatment of cryptoasset exposures

Working Papers

# The procyclicality of loan loss provisions: a literature review

25 May 2021

The recent introduction of expected credit loss (ECL) accounting standards under International Financial Reporting Standard 9 Financial Instruments (IFRS 9) and US Generally Accepted Accounting Principles (US GAAP) (Current Expected Credit Losses (CECL)) has impacted the amount and timing of loan loss provisions (LLPs) relative to the previous incurred loss (IL) standards. ECL standards require banks to recognise credit losses projected to crystallise in the future and credit losses already incurred. Recognition of such future losses, however, was generally not permitted under IL standards, which placed significant constraints on this practice. Many contend that the constraints under IL accounting led to a possible 'too little, too late' problem that reinforced the inherent procyclicality of the banking sector and amplified the depth and duration of the 2007–09 financial crisis.

The purpose of this literature review is to shed light on the role that credit loss accounting standards play in affecting procyclicality as viewed from the lens of a prudential policymaker. Accordingly, we take as our starting point the concept of 'procyclicality' considered by the Financial Stability Forum and BCBS as being related to the reinforcing interaction between the functioning of the banking sector and the real economy, leading to excessive economic growth during upturns and deeper recessions in the downturns. In this case, procyclicality is the idea that the banking sector, through a variety of channels or 'causal' links with the real economy, can exacerbate economic cycles. This interaction is a major policy consideration, since it can hinder the efficient allocation of resources in the economy and adversely affect credit growth and financial stability. Developing a better understanding of the degree to which IL and ECL standards support (ie strengthen or weaken) these causal links – and, therefore, procyclicality – is a key aim of this literature review.

With this concept of procyclicality in mind, we note that a key expectation of prudential policymakers is that the move from IL to ECL standards should, in fact, address the 'too little, too late' problem and benefit financial stability and the broader economy. This intended effect, however, depends on bank behaviour under the ECL standards, as well as the extent to which ECL standards improve (relative to IL standards) the timeliness and accuracy of loss recognition and increase the transparency of bank balance sheets. These effects are still not well established, making it difficult to assess ex ante the impacts of ECL standards, including the risk of unintended effects. This uncertainty has prompted some to question whether ECL standards might exacerbate procyclicality relative to IL. This question has become especially prominent in light of the coronavirus disease (Covid-19) crisis and its potential consequences for banks' LLPs. One could argue that actions taken by regulatory authorities around the globe to moderate the impacts of ECL standards and facilitate banks' ability to support economic activity during the Covid-19 crisis to some extent acknowledge this question. It is also important to bear in mind that the characteristics of the unforeseen Covid-19 shock plus the additional support measures introduce further challenges for the evaluation of the procyclicality of ECL standards. More robust evidence needs to be established on loss recognition practices under IFRS 9 and CECL and the extent to which these impact bank lending behaviour before a need for regulatory intervention to address procyclicality stemming from accounting standards can be evaluated.

**Source.** BIS Website

https://www.bis.org/bcbs/publ/wp39.htm

Working Papers

# Assessing the impact of Basel III: Evidence from macroeconomic models: literature review and simulations

23 April 2021

The first part of this report reviews the different channels of transmission of financial shocks (including regulatory changes) highlighted in the literature in the past 15 years. While a very large number of new models have been made available since the Committee's assessment of the long-term economic impact of stronger capital and liquidity requirements, standard models still concentrate mostly on capital requirements and more rarely on liquidity. Alternative models consider other policies (unconventional monetary policies, etc) as well as new, highly relevant challenges like interactions with the shadow banking system. However, the latter models are not yet sufficiently operational to allow an empirical assessment of the impact of the regulatory changes.

The second part of the report provides a simulation of regulatory scenarios replicating the implementation of Basel III reforms, using "off-the-shelf" macro-finance models. These simulations provide novel estimates of the impacts of Basel III. In a nutshell, whenever the costs and benefits of regulation are introduced in the model, the effects of Basel III are positive on GDP. However, in the transition phase the positive effects may be associated by a temporary slowdown accommodated by monetary policy.

**Source.** BIS Website
https://www.bis.org/bcbs/publ/wp38.htm

Related Information:
An assessment of the long-term economic impact of stronger capital and liquidity requirements (August 2010)

Other

# Climate-related financial risks - measurement methodologies

14 April 2021

This report provides an overview of conceptual issues related to climate-related financial risk measurement and methodologies, as well as practical implementation by banks and banking supervisors. According to the report:

- Climate-related financial risks entail unique features, which means that sufficiently granular data and forward-looking measurement methodologies are needed to address them.
- To date, measurement of climate related financial risks has centred on mapping near-term transition risk drivers into bank exposures. Credit risk measurement has attracted the most effort, with a lesser focus on other risk categories. Initial scenario analyses and stress tests have in many cases focused on selected portfolios or exposures for transition risks, and selected hazards for physical risks.
- Key areas for further analysis relate to gaps in data and risk classification, as well as methodologies to address uncertainties associated with the nature of climate change and the potentially longer time horizon for risks to manifest.

**Source.** BIS Website
https://www.bis.org/bcbs/publ/d518.htm

Related Information:

- ➢ Press release: Basel Committee publishes analytical reports on climate-related financial risks
- ➢ Climate related risk drivers and their transmission channels

Other

# Climate-related risk drivers and their transmission channels

14 April 2021

This report explores how climate-related risk drivers, including physical risks and transition risks, can arise and affect both banks and the banking system via micro- and macroeconomic transmission channels. According to the report:

- The economic and financial market impacts of climate-related risks can vary according to geography, sector and economic and financial system development.
- Traditional risk categories used by financial institutions and reflected in the Basel Framework (eg credit risk, market risk, liquidity risk, operational risk) can be used to capture climate-related financial risks.
- There is limited research and accompanying data that explore how climate-related risks feed into the traditional risks faced by banks. A better understanding of climate risk drivers and their impact on banks' exposures across all risk types would be gained from further research by a broader community.

**Source.** BIS Website
https://www.bis.org/bcbs/publ/d517.htm

Related Information:

- Press release: Basel Committee publishes analytical reports on climate-related financial risks
- Climate-related financial risks - measurement methodologies

FSB FINANCIAL STABILITY BOARD

# FSB Updates

## Second Quarter 2021

## Content

# Policy proposals to enhance money market fund resilience: Consultation Report

30 June 2021

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Enhancing MMF resilience will help address systemic risks and minimize the need for future extraordinary central bank interventions to support the sector.

The FSB's holistic review of the March 2020 market turmoil highlighted structural vulnerabilities in MMFs and related stress in short-term funding markets. MMFs are susceptible to sudden and disruptive redemptions, and they may face challenges in selling assets, particularly under stressed conditions. These features can make individual MMFs, or even the entire MMF sector, susceptible to runs, and may also give rise to system-wide vulnerabilities.

The policy options in the report aim to address these vulnerabilities and are intended to inform jurisdiction-specific reforms and any necessary adjustments to the policy recommendations for MMFs issued by the International Organization of Securities Commissions (IOSCO). Enhancing MMF resilience will help address systemic risks and minimize the need for future extraordinary central bank interventions to support the sector.

The policy options are grouped according to the main mechanism through which they aim to enhance MMF resilience – namely, to: impose on redeeming investors the cost of their redemptions; absorb losses; reduce threshold effects; and reduce liquidity transformation. The report assesses the likely effects of each option on the behavior of MMF investors, fund managers and sponsors, as well as their implications for the underlying markets, The consultation report also sets out considerations on how different policy options could be selected and combined to address all the vulnerabilities arising from different types of MMFs. The optimal combination should take account of jurisdiction-specific circumstances and policy priorities, as well as cross-border considerations including to prevent regulatory arbitrage that could arise from adopting divergent approaches across jurisdictions.

Policies aimed at enhancing the resilience of MMFs could be accompanied by additional reforms in two areas: (i) policies to support robust risk management by fund managers and risk monitoring by authorities; and (ii) measures to improve the functioning of the underlying short-term funding markets.

**Source.** FSB Website

https://www.fsb.org/2021/06/policy-proposals-to-enhance-money-market-fund-resilience-consultation-report/

# Thematic Peer Review on Corporate Debt Workouts: Summary Terms of Reference

28 June 2021

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Effective corporate restructuring and insolvency frameworks are necessary to help minimise risks to financial stability that could be caused by widespread defaults.

The Financial Stability Board (FSB) is seeking feedback from stakeholders as part of its thematic peer review on corporate debt workouts. The objective of the review is to support COVID-19 response efforts by examining FSB member jurisdictions' practices, experiences and lessons from out of court debt workouts (OCWs), and the implications for financial stability.

The peer review will take stock of existing and planned OCW frameworks in FSB jurisdictions. It will examine the experience of particular mechanisms that have been, or are being used, to address corporate stress, including the role of financial sector authorities. The review will also seek to identify good practices and lessons on how well OCW frameworks have worked in terms of preserving value for viable companies and how useful their debt restructurings are for resolving non-performing loans and dealing with a large number of distressed corporates.

The Summary Terms of Reference provide more details on the objectives, scope and process for this review. The FSB has distributed a questionnaire to member jurisdictions to collect information in this area. In addition, as part of this peer review, the FSB invites feedback from financial institutions, corporates, insolvency practitioners and other stakeholders on out of court corporate debt workouts. This could include comments on:

- the types of OCW frameworks (e.g. informal workouts, enhanced workouts and hybrid workouts) most often used in your jurisdiction and why;

- features of OCW frameworks that may be particularly helpful to minimize the economic and financial system damage caused by corporate defaults due to COVID-19;
- the appropriate role of financial sector authorities in facilitating debt restructuring, including to incentivize the participation of various stakeholders in an OCW; and
- experiences and challenges in the use of OCWs, including to manage the volume of non-performing loans in the financial system.

The peer review report is expected to be published in early 2022.

**Source.** FSB Website

https://www.fsb.org/2021/06/thematic-peer-review-on-corporate-debt-workouts-summary-terms-of-reference/

# Interest rate benchmark reform: Overnight risk-free rates and term rates

2 June 2021

The FSB has recognized that in some cases there may be a role for risk-free rate-derived term rates.

Interest rate benchmarks play a key role in global financial markets. To ensure financial stability, benchmarks which are used extensively must be especially robust. Consistent with this, the FSB, working through the Official Sector Steering Group (OSSG) it set up to coordinate international work to review and reform interest rate benchmarks, welcomes the progress that has been made by public authorities and private sector working groups in transitioning to overnight risk-free, or nearly risk-free, rates (RFRs) that are sufficiently robust for such extensive use.

Some of the working groups on RFRs have considered the development of forward-looking term rates derived from overnight RFRs (also described as “RFR-derived term rates”). However, in many markets, notably the largest part of the interest rate derivative markets, transition to the new overnight RFRs, rather than to these types of term rates, remains particularly important. This is for a number of interconnected reasons:

- Derivative markets represent a particularly large and often highly leveraged proportion of exposures to interest rate benchmarks.
- The overnight index swap (OIS) structure substantially reduces the incentive to manipulate individual IBOR settings by removing the stub payment risk.
- Deep and liquid derivative markets based on the overnight RFRs are an essential prerequisite for creation of robust term benchmarks.
- Due to their basis in inputs from other derivatives markets, widespread use of term RFRs in derivatives would create the potential for actual or perceived conflicts of interest for market participants.

The derivatives industry has recognized the importance of these issues, and, where IBORs are ending, has developed mechanisms to transition cleared derivatives to overnight RFRs via CCP rule changes, and uncleared derivatives to overnight RFRs via the International Swaps and Derivatives Association (ISDA) Protocol.

The FSB has recognized that in some cases there may be a role for RFR-derived term rates and sets out the circumstances where the limited use of RFR-based term rates would be compatible with financial stability.

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**Source.** FSB Website

https://www.fsb.org/2021/06/interest-rate-benchmark-reform-overnight-risk-free-rates-and-term-rates-2/

FSB FINANCIAL STABILITY BOARD

# Targets for Addressing the Four Challenges of Cross-Border Payments: Consultative document

31 May 2021

A foundational step in the G20 Roadmap for Enhancing Cross-border Payments consists of setting quantitative global targets for addressing the challenges of cost, speed, transparency and access faced by cross-border payments.

This consultation sets out quantitative targets for addressing the challenges of cost, speed, transparency and access faced by cross-border payments.

The targets are a foundational step in the G20 Roadmap for Enhancing Cross-border Payments. 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. The targets will be set at a global level and will play an important role in defining the ambition of the work on enhancing cross-border payments and creating accountability. They will act as a commitment mechanism to drive change. These targets will therefore need to be monitored and publicly reported on over time.

The consultation:

- describes the principles, and key design features underpinning, the targets and target metrics;
- proposes three market segments (wholesale, retail and remittances) for which targets will be set across the four challenges;
- considers factors in setting the targets; and
- proposes a small number of high-level, simple targets that are focused on end-users

**Source.** FSB Website

https://www.fsb.org/2021/05/targets-for-addressing-the-four-challenges-of-cross-border-payments-consultative-document/

# Peer Review of the United Kingdom

14 April 2021

The UK authorities have implemented financial sector compensation reforms that are consistent with the FSB Principles and Implementation Standards.

The peer review examines implementation of financial sector compensation reforms and focuses on the steps taken by the authorities to implement the FSB's Principles and Implementation Standards (P&S).

The Review finds that the Prudential Regulation Authority and the Financial Conduct Authority (the Authorities) have implemented financial sector compensation reforms that are consistent with the P&S. Moreover, some of their approaches can serve as examples of good practice for other jurisdictions to consider. While the initial focus was on the banking sector, over time the Authorities have increasingly implemented the P&S in the insurance and asset management sectors. In combination with the Senior Managers and Certification Regime (SM&CR), the remuneration regime has helped firms become more disciplined in mapping responsibilities and has resulted in greater consistency and transparency on acceptable remuneration practices. With implementation well-advanced, the Authorities are increasingly focused on evaluating the regime's effectiveness.

Notwithstanding this progress, the review concludes that steps can be taken to further strengthen the financial sector compensation framework in a few areas by:

- reviewing the interaction between the UK's remuneration regimes and the SM&CR;
- streamlining data collection for level one banks and investments firms and collecting remuneration data from a broader range of firms;

- considering other supervisory approaches for assessing the effectiveness of the remuneration regime; and
- providing additional guidance on remuneration for the insurance sector to promote clarify and consistency of outcomes.

The peer review report includes recommendations to the UK Authorities on these issues.

**Source.** FSB Website

https://www.fsb.org/2021/04/peer-review-of-the-united-kingdom/

# Global Securities Financing Data Collection and Aggregation: Frequently Asked Questions

12 April 2021

Securities financing transactions (SFTs) such as securities lending and repurchase agreements (repos) play a crucial role in supporting price discovery and secondary market liquidity for a wide variety of securities. However, such transactions can also be used to take on leverage and can lead to maturity and liquidity mismatched exposures. They therefore can pose risks to financial stability.

The FSB published policy recommendations to address financial stability risks in SFTs in August 2013. In November 2015, the FSB developed standards and processes for collecting and aggregating global data on SFTs (SFT Data Standards). To facilitate national implementation of the SFT Data Standards, the FSB has developed reporting guidelines.

Drawing on practical experience, the FSB is providing these Frequently Asked Questions (FAQs) to promote a common approach and to further help national implementation of the SFT Data Standards. The FAQs will continue to be updated as market practices evolve.

**Source.** FSB Website

https://www.fsb.org/2021/04/global-securities-financing-data-collection-and-aggregation-frequently-asked-questions/

# COVID-19 support measures: Extending, amending and ending

6 April 2021

A speedy, sizeable and sweeping policy response has been key to limiting the economic fallout of the COVID-19 shock.

In April 2020, the G20 finance ministers and central bank governors committed to follow the five principles set out in the FSB's report on COVID-19. They reiterated their commitment to share information on a timely basis to assess and address financial stability risks from COVID-19, and to coordinate on the unwinding of the temporary measures. Against this background, the Presidency of the G20 asked the FSB to report to the G20 finance ministers and governors in April 2021 on policy considerations relating to the unwinding of support measures.

In view of the current situation, most of the COVID-19 policy support measures remain in place, and their withdrawal is typically not imminent. Nevertheless, policymakers need to form their views on whether, when and how to extend, amend or unwind their support measures. The report discusses the extent to which measures have been unwound so far and the matters to which policymakers should have regard when considering whether to extend, amend or end their economic and financial support measures. Its purpose is to assist G20 members and other policymakers by providing a benchmark and drawing attention to practices in FSB member jurisdictions.

The report notes that withdrawal of support measures before the macroeconomic outlook has stabilized could be associated with significant immediate risks to financial stability. At the same time, financial stability risks may gradually build if support measures remain in place for too long. On balance, most authorities believe that premature withdrawal of support could inflict more damage to the economy than maintaining support for too long.

Authorities have a number of options for managing these trade-offs and may follow a flexible, state-contingent approach, adjusting and withdrawing gradually, by:

- Ensuring that measures are targeted to those most affected.
- Requiring beneficiaries to opt in to receive support rather than automatically.
- Making the terms on which support is provided progressively less generous.
- Sequencing the withdrawal of support measures rather than withdrawing all at once.

Clear, consistent and timely communication about policy intentions can help reduce the costs associated with withdrawal of support, not least by reducing the risk of surprises and abrupt adjustments in financial markets.

The report also notes the importance of a resilient and well-functioning financial system as a precondition for smooth adjustment as public support is phased out. In addition, further work is needed to understand the risk of harmful cross-border and cross-sector spillovers, including possible feedback loops, and options to mitigate the risk.

FSB members have committed to sharing information and returning to full alignment with global standards in order to minimize the risk of harmful market fragmentation. The FSB will continue to support international coordination on the unwinding of COVID-19 support measures.

**Source.** FSB Website

https://www.fsb.org/2021/04/covid-19-support-measures-extending-amending-and-ending/

ISLAMIC FINANCIAL
SERVICES BOARD

# IFSB Updates

## Second Quarter 2021

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### Content

# The IFSB Disseminates PSIFIs Data for 2020Q4 with Detailed Financial Statements (DFS) for Islamic Banking Systems in Member Countries

30 June 2021

The Islamic Financial Services Board (IFSB) is pleased to announce the dissemination of country-level Prudential and Structural Islamic Financial Indicators (PSIFIs) data including the detailed financial statements (DFS) on the Islamic banking sector for Q4 of 2020 from IFSB member jurisdictions. This 19th dissemination of PSIFIs data along with 2nd dissemination of DFS makes available, quarterly data from 2013Q4 to 2020Q4.

This PSIFIs project currently compiles data on the Islamic banking sector from 25 jurisdictions namely Afghanistan, Bahrain, Bangladesh, Brunei, Egypt, Indonesia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, 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 "The PSIFIs project now includes a set of detailed financial statements, which is intended not only to provide a more granular view at the structure of Islamic finance activities, but also to facilitate the validation of the country-level data, reflecting our strong commitment towards ensuring accuracy and quality of data." In this regard, he acknowledged and appreciated the continuous support and commitment of the Task Force members towards the project since its inception. He also stated, "Shocks like COVID-19 pandemic have showed how the interconnectedness among the different sectors of the economy has the potential to affect each other adversely and analysis of such propagation of risks among sectors warrants comprehensive cross-sectoral database.

IFSB's current Medium-Term Plan 2020-2022 under Phase V of the PSIFIs project has taken cognizance of this crucial aspect and has expanded coverage of the project, incorporating Takaful and Islamic Capital Market sectors under the umbrella as well. I believe these initiatives are expected to pave the way for a sustainable and comprehensive database for the Islamic financial services industry."

The sectoral country-level data provides a number of prudential indicators covering full-fledged Islamic banks and Islamic windows of conventional banks, including capital adequacy, asset quality, earnings, leverage, liquidity, as well as sensitivity to risks. It also provides some additional prudential indicators that facilitate analysis of the concentration of banks' exposures, as well as a set of structural indicators that captures the overall size and structure of the Islamic banking sector. Besides, the newly introduced detailed financial statements (DFS) are intended to provide more granularity to the country-level data while assisting the review and validation process towards the accuracy and quality of the PSIFIs.

The IFSB Task Force on PSIFIs – comprising representatives from 25 participating jurisdictions - has importantly committed in facilitating the collection of Islamic banking data. Moreover, a total of seven regulatory and supervisory authorities (RSAs) from the takāful sector and four RSAs from the Islamic capital market sector have joined the project to compile PSIFIs database for their respective sectors. The first dissemination of data on the takāful sector was completed in September 2020. The IFSB Secretariat has been regularly conducting capacity building workshops/meetings with the country representatives of the Task Force, focusing on enhancing clarity and consistency of compilation and reporting of indicators across jurisdictions. As such, it intends to enhance the quality, quantity and reliability of the data and information available through the PSIFIs database.

**Source.** IFSB Website

https://www.ifsb.org/preess_full.php?id=562&submit=more

# The IFSB Council Appoints New Technical Committee of the IFSB

9 June 2021

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The Council of the Islamic Financial Services Board (IFSB) today at its 38th meeting resolved to approve the appointment of a new Technical Committee of the IFSB for a three-year term June 2021 – May 2024. The IFSB Technical Committee is the body responsible for advising and making recommendations to the Council on technical issues, including presenting draft prudential and supervisory standards and guidance, reviewing the findings and progress of the IFSB working groups and standards implementation initiatives as well as approving IFSB research papers. As per IFSB Articles of Agreement, the Technical Committee shall consist of up to thirty persons representing the Full Members of the IFSB. The new appointments of the IFSB Technical Committee take effect on 9 June 2021.

H.E. Dr. Fahad Alshathri, Deputy Governor, Saudi Central Bank was appointed as the Chairman of the Technical Committee and Mr. Saud Al Busaidi, Manager, Islamic Banking Department, Central Bank of Oman has been appointed as Deputy Chairman of the Technical Committee.

The list of Technical Committee members is as follows:

1. Islamic Development Bank: Dr. Gaffar A. Khalid, Manager
2. Central Bank of Bahrain: Mrs. Shireen Al Sayed, Head, Regulatory Policy Unit
3. Bangladesh Bank: Mr. Md. Nazrul Islam, General Manager
4. Autoriti Monetari Brunei Darussalam: Haji Muhammad Shukri bin Haji Ahmad, Principal Syariah Adviser
5. Bank Indonesia: Dr. Jardine A. Husman, Deputy Director
6. Indonesia Financial Services Authority (Otoritas Jasa Keuangan): Deden Firman Hendarsyah, Director of Islamic Banking Regulation and Licensing

7. Securities and Exchange Organization, Iran: Dr. Jafar Jamali, Board Member and Deputy for Legal Affairs
8. Central Bank of Iraq: Ahmed Yousif Kadhim, Assistant Manager, Islamic Finance Division
9. Central Bank of Jordan: Mr. Adnan Y. Naji, Consultant of the Banks Supervision Dept.
10. Astana Financial Services Authority: Mr. Anuar Kaliyev, Director, Prudential Division
11. Central Bank of Libya: Assist. Prof. Dr. Haj, Ali Abusalah Elmabrok Amreeghah, Head, International Economics Division
12. Bank Negara Malaysia: Mrs. Madelena Mohamed, Director, Islamic Banking & Takaful Dept.,
13. Securities Commission Malaysia: Mrs. Sharifatul Hanizah Said Ali, Executive Director
14. Central Bank of Nigeria: Mr. Ibrahim Sani Tukur, Deputy Director and Head Non-Interest Banking Unit/FRACE
15. Nigeria Deposit Insurance Corporation: Dr. Mohammed Waziri Galadima, Analyst, Insurance and Surveillance Department
16. Central Bank of Oman: Mr. Saud Al Busaidi, Manager (Director equivalent), Islamic Banking Department
17. Qatar Central Bank: Mr. Hisham Saleh Al-Mannai, Executive Director, Supervision & Control of Financial Institutions Sector
18. Saudi Arabian Monetary Authority: Dr. Fahad Alshathri, Deputy Governor
19. Capital Market Authority, Saudi Arabia: Mr. Abdulrahman Al-Hussayen, Head, Debt Public Offering Unit
20. Banking Regulation and Supervision Agency, Republic of Turkey: Mr. Ömer Çekin, Head, Participation Banking Department
21. Central Bank of the Republic of Turkey: Dr. Yusuf Bora Enhoş, Executive Director, Banking and Financial Institutions Department
22. Central Bank of the United Arab Emirates: Mr. Abdulaziz Saoud Al-Mualla, Manager, Higher Sharia Authority

The 38th meeting of the IFSB Council, hosted by the Central Bank of the United Arab Emirates was held on 9 June 2021 via online as part of the 2021 Annual meetings of the IFSB. The meeting was chaired by H.E. Khaled Mohamed Balama, Governor of the Central Bank of the United Arab Emirates, and Chairman of the IFSB Council 2021, The meeting was 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 18 countries and Islamic Development Bank.

**Source.** IFSB Website

https://www.ifsb.org/preess_full.php?id=559&submit=more

# The IFSB Publishes the French Version of Five of its Standards

20 April 2021

The Islamic Financial Services Board (IFSB) is pleased to announce the release of the French version of Five IFSB Standards: IFSB-3 Guiding Principles on Corporate Governance for Institutions offering only Islamic Financial Services (Excluding Islamic Insurance (Takâful) Institutions and Islamic Mutual Funds), IFSB-13 Guiding Principles on Stress Testing for Institutions offering Islamic Financial Services, IFSB-14 Standard On Risk Management for Takāful (Islamic Insurance) Undertakings, IFSB-15 Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services Excluding Islamic Insurance (Takāful) Institutions and Islamic Collective Investment Schemes] and IFSB-21 Core Principles for Islamic Finance Regulation [Islamic Capital Market Segment].

Secretary-General of the IFSB, Dr. Bello Lawal Danbatta said, “The issuance of the French version of IFSB standards is a result of the continuous support extended by Islamic Development Bank (IsDB) and the valuable collaboration with Union des Banques Maghrébines (UBM). The issuance of the French version of these five standards also reflects the IFSB’s strong commitment to cater to the increasing interest and recognition of Islamic finance among the French-speaking jurisdictions around the world. The five newly translated Standards are other milestones on the path towards improving the implementation rates of the IFSB Standards in the member countries.” He added that, “the translation of these five documents reflect the continued commitment of the IFSB to increase the implementation of the standards among its members, and is part of the IFSB’s Strategic Performance Plan (SPP) 2019-2021”.

All IFSB Standards, Guidance and Technical Notes have been issued in both English and Arabic languages. The IFSB is then progressively translating the Standards, Guidance and Technical Notes into French language, with a further three standards planned to be translated into Russian language in 2021.

This translation initiative complements the other implementation activities including the country and regional workshops, technical assistance, policy advice and discussions, round table discussions, webinars and the IFSB E-learning Portal.

Details of the newly translated documents are as follows:

**IFSB-3: Guiding Principles on Corporate Governance for Institutions offering only Islamic Financial Services (Excluding Islamic Insurance (Takâful) Institutions and Islamic Mutual Funds)**

This standard sets out seven guiding principles of prudential requirements in the area of corporate governance for institutions offering only Islamic financial services (IIFS) (excluding (a) Islamic insurance (takaful) institutions and (b) Islamic mutual funds). The Guiding Principles are divided into four parts:

i. general governance approach of IIFS;
ii. rights of investment account holders (IAH);
iii. compliance with Islamic Sharī`ah rules and principles; and
iv. transparency of financial reporting in respect of investment accounts.

**IFSB-13: Guiding Principles on Stress Testing for Institutions offering Islamic Financial Services**

These Guiding Principles are intended to complement the existing and future IFSB standards and guidelines in the banking segment of the IFSI. In attempting to address the specificities of institutions offering Islamic financial services (IIFS) in the banking segment with respect to stress testing, the IFSB intends that this document shall complement other existing internationally recognised frameworks that set out sound principles and best practices pertaining to stress testing for conventional counterparts.

**IFSB-14: Standard on Risk Management for Takāful (Islamic Insurance) Undertakings**

The standard is intended to establish minimum standards in the area of risk management, for the direction and guidance of Takāful Operators (TOs) as well as insurance/Takāful supervisors. The Standard discusses how management of risks inherent in the TU should be implemented.

**IFSB-15: Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services Excluding Islamic Insurance (Takāful) Institutions and Islamic Collective Investment Schemes]**

This Standard covers some additional areas not previously included in IFSB standards related to capital adequacy. It also endeavors to provide a more comprehensive guidance to supervisory authorities on the application of capital adequacy regulations for IIFS by combining and enhancing the contents of IFSB-2 and IFSB-7, thus providing a level playing field to IIFS vis-à-vis market players. Further, it provides the supervisors with necessary flexibility for its application across regions and on small to fairly large and sophisticated IIFS. The IFSB will continue to enhance the guidance provided in this standard in the nearest future.

**IFSB-21: Core Principles for Islamic Finance Regulation [Islamic Capital Market Segment]**

The main objective of this Standard is to provide a set of core principles for the regulation and supervision of the ICM, taking into consideration the specificities of Islamic finance, while complementing the existing international standards, principally IOSCO's "Objectives and Principles of Securities Regulation and its Methodology".

The translation of IFSB-3, 13 and 15 was in collaboration with UBM and financed by IsDB under the MOU signed between IFSB and UBM in July 2018 and the grant provided by IsDB to UBM in February 2019. IFSB-14 and 21 were, however, translated solely by IFSB resources.

**Source.** IFSB Website

https://www.ifsb.org/preess_full.php?id=556&submit=more

# The IFSB Disseminates Data for 2020Q3 for Islamic Banking Systems in Member Countries

20 April 2021

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 Q3 of 2020 from IFSB member jurisdictions. This 18th dissemination makes available, quarterly data from 2013Q4 to 2020Q3.

This PSIFIs project currently compiles data from 24 reporting countries namely Afghanistan, Bahrain, Bangladesh, Brunei, Egypt, Indonesia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, 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, “The PSIFIs database project, which is now covering more than 95 percent of the global Islamic banking activities has expanded its coverage further in line with the current Medium-Term Plan 2020-2022 under Phase V by incorporating Takaful and Islamic Capital Market sectors in the project as well. These new initiatives are expected to pave the way for a sustainable and comprehensive database of the Islamic financial sector.” In this regard, he appreciated the continuous support and commitment of the Task Force members towards the project, even during these difficult times of the COVID-19 pandemic. Pertinently, he added, “The COVID-19 pandemic has brought about new essence to this project as the PSIFIs database could be instrumental in assessing the impacts of the policy responses to contain the pandemic effects on the stability and growth of the Islamic financial sector, and providing way forward for developing more sustainable and inclusive policies during subsequent recovery stages”.

The IFSB Task Force on PSIFIs – comprising representatives from 24 participating jurisdictions - has importantly committed in facilitating the collection of Islamic banking data. Moreover, a total of seven 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 first dissemination of data on the takāful sector was completed 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) which are also members of the IFSB, focus on enhancing clarity and consistency of reporting indicators across jurisdictions.

**Source.** IFSB Website

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