LEMBAGA PENJAMIN SIMPANAN

Indonesia Deposit Insurance Corporation

INDONESIA DEPOSIT INSURANCE CORPORATION (IDIC)

GLOBAL UPDATES

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IADI UPDATES

IADI and IFSB partner to jointly develop and implement Core Principles for Effective Islamic Deposit Insurance Systems . The MOU is aimed at strengthening the collaboration between the two institutions to jointly develop and promote technical standards for the implementation of the Core Principles and other relevant area of both standard setting bodies.

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IADI International Association of Deposit Insurers

BCBS UPDATES

BCBS issued various publications in Third Quarter 2018, such as: Pillar 3 disclosure requirements - regulatory treatment of accounting provisions; and Global systemically important banks: revised assessment methodology and the higher loss absorbency requirement.

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BCBS

FSB UPDATES

A number of initiatives by the FSB in Third Quarter 2018, such as thematic peer review on implementation of the Legal Entity Identifier and feedback received from stakeholders, consultation on the effects of reforms on infrastructure finance, and issuance of statement on reforms to interest rate benchmarks

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FSB FINANCIAL STABILITY BOARD

IDIC UPDATES AND ACTIVITIES

IDIC received technical assistance from the World Bank, which focused on strengthening its resolution capacity in September 2018. IDIC participated in IMF-WB Annual Meeting in Baliand provided technical assistance to Deposit Protection Fund of Laos in October 2018.

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LPS LEMBAGA PENJAMIN SIMPANAN

IADI UPDATES – Third Quarter 2018

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

06 August 2018

The International Association of Deposit Insurers (IADI), represented by Mr. David Walker, Secretary General, and the Islamic Financial Services Board (IFSB), represented by Dr. Bello Lawal Danbatta, Secretary-General, signed a Memorandum of Understanding (MoU) this morning. The MOU is aimed at strengthening the collaboration between the two institutions to jointly develop, and promote, technical standards for the implementation of effective Islamic deposit insurance systems.
Under this agreement, areas of cooperation between the IFSB and IADI include:

- Development of core principles and guidance for Islamic deposit insurance systems: IADI and IFSB will collaborate to jointly develop the IADI-IFSB Core Principles for Islamic Effective Islamic Deposit Insurance Systems, with the aim of providing guidance on the matter specifically to the members of both organisations, and the deposit insurance sector in general.
- Promotion for the implementation of core principles and other standards that are relevant for both instutios. Collaboration under this area can include organizing joint workshops and programmes, and providing expertise for joint technical assistance missions. In addition, facilitating coordinated policy dialogues to regulatory and supervisory authorities in the member jurisdictions of the two organisations.
- Awareness raising through knowledge sharing and organisation of executive programmes, workshops, seminars, etc. To promote the exchange of information and knowledge-sharing to benefit from each organisation's experiences and expertise, to the greatest extent permissible. Also, to enhance outreach to member jurisdictions for building awareness through joint organizing and hosting of international conferences, seminars and forums on areas of mutual interest.

Dr. Bello Lawal Danbatta, Secretary-General, Islamic Financial Services Board (IFSB) and Mr. David Walker, Secretary-General, International Association of Deposit Insurers (IADI) signed a MoU today (6 August 2018). Dr. Ronald Rulindo, Chief Specialist, Indonesia Deposit Insurance Corporation (IDIC) as well as Mr. Rafiz Azuan Abdullah, Chief Executive Officer, Malaysia Deposit Insurance Corporation (PIDM) were also present to witness the signing ceremony.

BCBS UPDATES – Third Quarter 2018

BCBS issued various publications in Third Quarter 2018, range from Standard, Working Paper, and Consultative Document. List of publications during this period are as follows:

Table 1: BCBS Publication

Dates	Type of Publication	Titles
30 Aug 2018	Standards	Pillar 3 disclosure requirements - regulatory treatment of accounting provisions
07 Aug 2018	Consultative Documents	Incentives to centrally clear over-the-counter (OTC) derivatives - A post-implementation evaluation of the effects of the G20 financial regulatory reforms
19 Jul 2018	Working Papers	Survey on the interaction of regulatory instruments: results and analysis
05 Jul 2018	Standards	Global systemically important banks: revised assessment methodology and the higher loss absorbency requirement

Pillar 3 disclosure requirements - regulatory treatment of accounting provisions

30 August 2018

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

Incentives to centrally clear over-the-counter (OTC) derivatives - A post-implementation evaluation of the effects of the G20 financial regulatory reforms

07 August 2018

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

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

The report concludes that the reforms - particularly capital requirements, clearing mandates and central clearing, especially for the most systemic market participants. This is consistent with the goal of reducing complexity and improving transparency and standardization in the OTC derivatives markets. Beyond the systemic core of the derivatives network of CCPs, dealers/clearing service providers and larger, more active clients, the incentives are less strong.

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

Capital treatment for simple, transparent and comparable short-term securitizations

14 May 2018

The Basel Committee on Banking Supervision issued the Capital treatment for simple, transparent and comparable short-term securitizations. This standard supplements the Criteria for identifying simple, transparent and comparable short-term securitizations issued jointly with the International Organization of Securities Commissions (IOSCO).

The standard sets out additional guidance and requirements for the purpose of applying preferential regulatory capital treatment for banks acting as investors in or as sponsors of simple, transparent and comparable (STC) short-term securitizations, typically in asset-backed commercial paper (ABCP) structures. The additional guidance and requirements in this standard are consistent with those for STC term securitizations set out in the Committee's July 2016 revisions to the securitization framework. Provided that the expanded set of STC short-term criteria are met, STC short-term securitizations will receive the same modest reduction in capital requirements as other STC term securitizations.

The standard incorporates feedback collected during the public consultation conducted in July 2017. Changes made include setting the minimum performance history for non-retail and retail exposures at five years and three years, respectively, and clarifying that the provision of credit and liquidity support to the ABCP structure can be performed by more than one entity, subject to certain conditions.

The short-term STC framework takes effect immediately. Similar to the STC framework for term securitizations, implementation of the STC short-term framework is not mandatory. Jurisdictions which consider that implementation costs exceed potential benefits retain the option not to implement the STC framework.

Survey on the interaction of regulatory instruments: results and analysis

19 July 2018

This report aims to summarize and analyses the results of the second-wave of the survey conducted by the Basel Committee's Research Task Force on the role of multiple regulatory constraints in the Basel III framework. The results of the first wave (reporting date 30 June 2016) were published in February 2017 and invited additional survey questions as well as more in-depth interpretations of banks' answers.

Some aggregate results are broken down by bank groups and geography. To provide additional insights (and check data quality), banks' answers from this survey are merged to banks' information on the other topics collected through the Basel III monitoring exercise. We find that there is a great degree of consistency across topics and, also, between the two survey waves.

Global systemically important banks: revised assessment methodology and the higher loss absorbency requirement

05 July 2018

The Basel Committee on Banking Supervision published today the *Global systemically important banks: revised assessment methodology and the higher loss absorbency requirement.* The revised methodology is expected to be implemented in member jurisdictions by 2021. Building on member jurisdictions' experience and the feedback received during the public consultation concluded in June 2017, the Committee has reconfirmed the fundamental structure of the global systemically important bank (G-SIB) framework. There is general recognition that the framework is meeting its primary objective of requiring G-SIBs to hold higher capital buffers and providing incentives for such firms to reduce their systemic importance.

The decision to maintain the core elements of the G-SIB framework will further contribute to the stability of the regulatory environment after the recent finalization of the Basel IIII post-crisis reforms.

The Committee agreed to the following enhancements to the G-SIB framework:

- Amending the definition of cross-jurisdictional indicators consistent with the definition of BIS consolidated statistics;
- Introducing a trading volume indicator and modifying the weights in the substitutability category;
- Extending the scope of consolidation to insurance subsidiaries;
- Revising the disclosure requirements;
- Providing further guidance on bucket migration and associated higher loss absorbency (HLA) surcharge when a G-SIB moves to a lower bucket; and
- Adopting a transitional schedule for the implementation of these enhancements to the G-SIB framework.

When the G-SIB framework was first published, the Committee agreed to review the framework every three years to allow for the opportunity to enhance the framework, as needed. The Committee also reconfirmed the importance of the three-year review cycle. In particular, the Committee will pay attention to alternative methodologies for the substitutability category, so as to allow the cap to be removed at that time.

Sources: Bis website

FSB UPDATES – Third Quarter 2018

FSB launches thematic peer review on implementation of the Legal Entity Identifier and invites feedback from stakeholders

16 August 2018

The Financial Stability Board (FSB) is seeking feedback from stakeholders as part of its recently launched thematic peer review on implementation of the Legal Entity Identifier (LEI). The objective of the review is to evaluate the progress made by FSB members – both national authorities and international bodies – in response to the G20 Leaders' 2012 call for "global adoption of the LEI to support authorities and market participants in identifying and managing financial risks".

The peer review will: (1) take stock of the approaches and strategies used by FSB members to implement the LEI, including its adoption for regulatory requirements; (2) assess whether current levels and rates of LEI adoption are sufficient to support the ongoing and anticipated needs (particularly financial stability objectives) of FSB member authorities; and (3) identify the challenges in further advancing the implementation and use of the LEI, and make recommendations (as appropriate) to address common challenges.

The Summary Terms of Reference provide more details on the objectives, scope and process for this review. A questionnaire to collect information from national authorities has been distributed to FSB members. The responses will be analysed and discussed by the FSB later this year. The peer review report will be published in the first half of 2019.

As part of this peer review, the FSB invites feedback from financial institutions, industry and consumer associations plus other stakeholders on implementation of the LEI. This could include comments on:

- identifiers used by financial institutions for legal entities established in their jurisdiction or in foreign jurisdictions, and the extent to which they are mapped to the LEI;
- awareness and adoption of the LEI in their jurisdiction, especially the existence or prospect of any market-driven or voluntary adoption of the LEI by market participants;
- types of private sector uses of the LEI (e.g. to implement risk management frameworks, support financial integrity, reduce operational risks, or support higher quality and more accurate financial data) as well as the benefits measured or anticipated from such uses (including any quantification of the benefits, to the extent possible);
- challenges and costs faced in acquiring and maintaining LEIs;
- main obstacles faced by market participants to adoption and implementation of the LEI; and
- ways to promote further adoption of the LEI, including specific areas where increased LEI uses would be the most favourable from a cost-benefit perspective.

Study highlights continued central clearing interdependencies

09 August 2018

The Financial Stability Board (FSB), the Committee on Payments and Market Infrastructures (CPMI), the International Organization of Securities Commissions (IOSCO) and the Basel Committee on Banking Supervision (BCBS) today published the second report that maps interdependencies between central counterparties (CCPs) and their clearing members and other financial service providers. The international standard-setters published the first report on central clearing interdependencies in July 2017.

CCPs are an increasingly important part of the financial system, particularly following the post-crisis reforms that mandated central clearing of standardised over-the-counter (OTC) derivatives. CCPs should be subject to strong regulatory, supervisory and oversight requirements to fully realize the financial stability benefits they offer. Analysing the network of relationships is a useful starting point for understanding potential sources of systemic risk in central clearing.

To assess whether the findings of the July 2017 report (based on data as of September 2016) were stable over time, the international standard-setters conducted another more streamlined data collection (as of October 2017) from the same 26 CCPs. The results are broadly consistent with the previous analysis and show that:

- Prefunded financial resources are concentrated at a small number of CCPs. The two largest CCPs (as measured by prefunded financial resources) account for nearly 40% of total prefunded financial resources provided to all CCPs, compared with 32% in the July 2017 report.
- Exposures to CCPs are concentrated among a small number of entities. The largest 11 of the 306 clearing members (as measured by prefunded financial resources provided to the CCP) are connected to between 16 and 25 CCPs. Viewed from the perspective of CCPs, this indicates that the default of a CCP clearing member could result in defaults of the same entity or its affiliates in up to 24 other CCPs included in this analysis.
- The relationships mapped are characterised, to varying degrees, by a core of highly connected CCPs and entities and a periphery of less highly connected CCPs and entities. However, even the less highly connected CCPs often are linked to at least one highly connected entity that indirectly connects the CCP into the more interconnected part of the network structure.
- A small number of entities tend to dominate the provision of each of the critical services required by CCPs. This relationship between CCPs and other entities suggests that a failure at one of these central elements of a CCP network would likely have significant consequences for the rest of the network.
- Clearing members and clearing member affiliates are also important providers of other critical services required by CCPs and can maintain several types of relationships with multiple CCPs simultaneously. By way of example, many clearing members provide at least three other critical financial services and one member provides six services.

There are, however, some changes to highlight in the interdependencies in central clearing. For instance, the concentration of client clearing activity has decreased. Initial margins from clients are now concentrated in two CCPs, compared to only one with the previous report using data as of September 2016.

The analysis of interdependencies in central clearing is intended to provide useful inputs for designing supervisory stress tests and has informed the policy work as set out in the joint workplan to promote CCP resilience, recovery and resolvability. The standard-setters published a report on the implementation of the workplan in July 2017.

FSB and standard-setting bodies consult on effects of reforms on incentives to centrally clear over-the-counter derivatives

07 August 2018

The Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published today a consultative document on Incentives to centrally clear over-the-counter (OTC) derivatives.

Centrally clearing standardised OTC derivatives is a pillar of the G20 Leaders' commitment to reform OTC derivatives markets in response to the global financial crisis. A number of post-crisis reforms are, directly or indirectly, relevant to incentives to centrally clear. The consultative document evaluates how these reforms interact and how they could affect incentives.

The evaluation will inform relevant standard-setting bodies, and if warranted, could provide a basis for fine-tuning post-crisis reforms, bearing in mind the original objectives of the reforms. This does not imply a scaling back of those reforms or an undermining of members' commitment to implement them.

The evaluation, the second under the FSB framework for the post-implementation evaluation of the effects of G20 financial regulatory reforms, finds that:

- The changes observed in OTC derivatives markets are consistent with the G20 Leaders' objective of promoting central clearing as part of mitigating systemic risk and making derivatives markets safer.
- The relevant post-crisis reforms, in particular the capital, margin and clearing reforms, taken together, appear to create an overall incentive, at least for dealers and larger and more active clients, to centrally clear OTC derivatives.
- Non-regulatory factors, such as market liquidity, counterparty credit risk management and netting efficiencies, are also important and can interact with regulatory factors to affect incentives to centrally clear.
- Some categories of clients have less strong incentives to use central clearing, and may have a lower degree of access to central clearing.
- The provision of client clearing services is concentrated in a relatively small number of bank-affiliated clearing firms.
- Some aspects of regulatory reform may not incentivise provision of client clearing services. The analysis suggests that, overall, the reforms are achieving their goals of promoting central clearing, especially for the most systemic market participants. This is consistent with the goal of reducing complexity and improving transparency and standardisation in the OTC derivatives markets. Beyond the systemic core of the derivatives network of CCPs, dealers/clearing service providers and larger, more active clients, the incentives are less strong.
- Analysis of quantitative and qualitative survey data and market outreach suggest that the treatment of initial margin in the leverage ratio can be a disincentive for banks to offer or expand client clearing services. Bearing in mind the original objectives of the reform, additional analysis would be useful to further assess these effects.
- The final responsibility for deciding whether and how to amend a particular standard or policy remains with the body that is responsible for issuing that standard or policy.

FSB consults on the effects of reforms on infrastructure finance

18 July 2018

The Financial Stability Board (FSB) published today a consultation report on the Evaluation of the effects of financial regulatory reforms on infrastructure finance, and is seeking public feedback on the results of the evaluation to date.

The evaluation is the first under the FSB framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms, and forms part of a broader FSB examination of the effects of reforms on financial intermediation. It focuses on infrastructure finance that is provided in the form of corporate and project debt financing (loans and bonds), for which the financial regulatory reforms are of immediate relevance.

The report concludes that the effect of the G20 financial reforms on infrastructure finance is of a second order relative to other factors, such as the macro-financial environment, government policy and institutional factors. In particular, for the reforms that have been largely implemented and are most relevant for this evaluation – namely, the initial Basel III capital and liquidity requirements (agreed in 2010) and over-the-counter (OTC) derivatives reforms – the analysis thus far does not identify material negative effects on the provision and cost of infrastructure finance.

The evaluation further finds that:

- The overall amount of infrastructure finance has grown in recent years after a temporary drop during the financial crisis. Market-based finance – mainly project and (particularly) corporate bond issuance as well as non-bank financing – has accounted for most of the growth in advanced economies in recent years.
- Lending spreads for infrastructure finance have returned to lower levels in recent years following a spike during the crisis, but remain above pre-crisis levels.
- There are differences in the provision of infrastructure finance in emerging market and developing economies compared to advanced economies. Emerging market and developing economies tend to rely more on bank loans, have a higher proportion of cross-border financing, and use local currency less for financing purposes (although the proportion of local currency is increasing).
- The reforms have contributed to shorter average maturities of infrastructure loans by global systemically important banks. This effect is not necessarily unintended, given that reducing banks' maturity mismatch was one of the objectives of the reforms.
- While not analyzing the ex post effects of reforms on financial resilience, the evaluation has found no results to suggest that the wider benefits to the financial system from enhanced resilience – as estimated at an aggregate level in ex ante impact assessment studies – do not apply in the narrower context of infrastructure finance.
- The analysis points to some substitution in recent years of bank financing by market-based financing in advanced economies, and the G20 banking reforms may have been one of the drivers for this rebalancing.

FSB invites responses from prospective UPI service providers

16 July 2018

The Financial Stability Board (FSB) has today published a Self-assessment questionnaire for prospective UPI Service Providers and is seeking responses from entities that wish to be designated by the FSB as a Service Provider for the Unique Product Identifier (UPI). Responses are requested by Tuesday 4 September.

G20 Leaders agreed at the Pittsburgh Summit in 2009, as part of a package of reforms to the over-the-counter (OTC) derivatives markets, that all OTC derivatives transactions should be reported to trade repositories. A lack of transparency in these markets was one of the key problems identified by the financial crisis. Trade reporting, by providing authorities with data on trading activity, will help authorities to identify and address financial stability risks from these markets.

The primary purpose of the UPI is to identify the product that is the subject of an OTC derivatives transaction. The FSB has been working closely with the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) in the development of UPI arrangements. The CPMI and IOSCO published their finalized technical guidance on the UPI in September 2017. Under the technical guidance, a unique UPI code would be assigned to each distinct OTC derivative product and would map to reference data elements with specific values that together describe the product. To use the data from trade reporting effectively, it is important for authorities to be able to aggregate reporting not only to consider institution-specific risks but also to consider system-wide risks.

The FSB has issued two consultation documents on aspects of the governance arrangements for the UPI and intends to designate one or more UPI Service Provider(s) to assign UPIs and maintain a corresponding UPI reference data library to facilitate the unique assignment of a UPI code to each OTC derivatives product. In response to the FSB's consultations, several commenters have recommended that the UPI Governance Arrangements should entail a public-private partnership. The FSB agrees that private sector participation in the governance of the UPI System is desirable, but also that it is key that Authorities maintain their oversight function.

Each prospective UPI Service Provider (Respondent) is asked (by answering specific questions or selectively providing additional documents) to present a business and self-governance plan that explains how the Respondent would:
- meet the key governance criteria and provide for the relevant governance functions; and
- meet the Technical Guidance.

FSB report sets out framework to monitor crypto-asset markets
16 July 2018

The Financial Stability Board (FSB) today published a report delivered to the G20 Finance Ministers and Central Bank Governors on the work of the FSB and standard-setting bodies on crypto-assets.

For its part, the FSB has developed a framework, in collaboration with Committee on Payments and Market Infrastructures (CPMI), to monitor the financial stability implications of developments in crypto-asset markets. The report published today sets out the metrics that the FSB will use to monitor crypto-asset markets as part of its ongoing assessment of vulnerabilities in the financial system.

While the FSB believes that crypto-assets do not pose a material risk to global financial stability at this time, it recognises the need for vigilant monitoring in light of the speed of market developments. The monitoring framework focuses on the transmission channels from crypto-asset markets that may give rise to financial stability risks. Monitoring the size and growth of crypto-asset markets is critical to understanding the potential size of wealth effects, should valuations fall. The use of leverage, and financial institution exposures to crypto-asset markets are important metrics of transmission of crypto-asset risks to the broader financial system. The framework also includes metrics on trading volumes, pricing, clearing and margining for crypto-asset derivatives. Metrics on exposures will become part of the framework to the extent that they become available.

FSB Chair Mark Carney in his letter to G20 Finance Ministers and Central Bank Governors in March noted that crypto-assets raise a host of issues around consumer and investor protection, as well as their use to shield illicit activity and for money laundering and terrorist financing. At the same time, the technologies underlying them have the potential to improve the efficiency and inclusiveness of both the financial system and the economy.

Against this backdrop, the report published also describes the substantial work standard-setting bodies are undertaking in the areas of their respective mandates:

- CPMI has conducted significant work on applications of distributed ledger technology, and is conducting outreach, monitoring, and analysis of payment innovations.
- The International Organization of Securities Commissions (IOSCO) has established an initial coin offering (ICO) Consultation Network to discuss experiences and concerns regarding ICOs, and is developing a Support Framework to assist members in considering how to address domestic and cross-border issues stemming from ICOs that could impact investor protection. IOSCO is also discussing other issues around crypto-assets, including, for example, regulatory issues around crypto-assets platforms.
- The Basel Committee on Banking Supervision (BCBS) is assessing the materiality of banks' direct and indirect exposures to crypto-assets, clarifying the prudential treatment of such exposures, and monitoring developments related to crypto-assets for banks and supervisors.
- The Financial Action Task Force (FATF) will report separately to the G20 on its work concerning the money laundering and terrorist financing risks relating to crypto-assets.

FSB issues statement on reforms to interest rate benchmarks

12 July 2018

The Financial Stability Board (FSB) has today published a statement on reforms to interbank offered rates (IBORs) and the development of overnight risk-free, or nearly risk-free, rates (RFRs) and term rates. The statement is intended to provide market participants and other stakeholders with the FSB's views ahead of a forthcoming consultation by the International Swaps and Derivatives Association (ISDA) which contemplates fall backs for certain derivative contracts based on overnight RFRs.

Interest rate benchmarks play a key role in global financial markets. The FSB started its work on reforms to IBORs following enforcement action taken by FSB member authorities in response to the manipulation of these benchmarks. In 2014, the FSB set out recommendations to reform major interest rate benchmarks such as key IBORs and has been monitoring progress on implementation since then.

To ensure financial stability, benchmarks which are used extensively must be especially robust. The FSB welcomes the progress that has been made by public authorities and private sector working groups on the identification and development of overnight RFRs that are sufficiently robust for such extensive use.

These overnight RFRs are robust because they are anchored in active, liquid underlying markets. This contrasts with the scarcity of underlying transactions in the term interbank and wholesale unsecured funding markets from which some IBORs are constructed, a characteristic which could make them susceptible to manipulation. The FSB continues to encourage the development and adoption of these overnight RFRs where appropriate, for example in business where term properties are not needed, or where exposure to bank credit risk is not necessary or desirable. This will enhance financial stability.

In the markets which face the disappearance of IBORs, notably markets currently reliant on LIBOR, there needs to be a transition to new reference rates. In these markets, it will be important to have a full discussion and establish further clarity among affected end users on how this transition should take place. In some other markets, authorities and market participants continue to work on further reform or strengthening of IBORs, in tandem with their efforts to identify and facilitate the wider use of RFRs.

An overnight RFR may not, however, be the optimal rate in all the cases where term IBORs are currently used. The FSB recognises that in some cases there may be a role for term rates, including RFR-derived term rates, or term rates derived from other liquid markets.

FSB publicly consults on Cyber Lexicon

2 July 2018

The Financial Stability Board (FSB) today published a draft Cyber Lexicon for public consultation. The draft lexicon comprises a set of 50 core terms related to cyber security and cyber resilience in the financial sector.

The Cyber Lexicon is intended to support the work of the FSB, standard-setting bodies, authorities and private sector participants, e.g. financial institutions and international standards organisations. A lexicon could be useful to support work in the following areas:

- Cross-sector common understanding of relevant cyber security and cyber resilience terminology;
- Work to assess and monitor financial stability risks of cyber risk scenarios;
- Information sharing as appropriate; and
- Work by the FSB and/or standard-setting bodies to provide guidance related to cyber security and cyber resilience, including identifying effective practices.

The FSB developed the lexicon in response to a request from G20 Finance Ministers and Central Bank Governors at their October 2017 meeting. The FSB delivered a stocktake report to that meeting on existing publicly available regulations and supervisory practices with respect to cyber security in the financial sector. Ministers and Governors asked that the FSB continue its work to protect financial stability against the malicious use of Information and Communication Technologies, noting that this work could be supported by a common lexicon of terms that are important in the work.

After considering the responses to this consultation, the FSB will finalise the lexicon for delivery to the G20 Leaders' Summit in Buenos Aires in November of this year.

Sources: FSB website

IDIC UPDATES – Third Quarter 2018

A Banking Growth and Stability

Per end August 2018, Indonesia banking industry experienced positive growth in assets, credit, deposit (third party funds), as well as capital and profit, as compared to end August 2017. Nevertheless, there was a slight decrease in total assets for both conventional and Islamic banks in August 2018. Based on Table 1 below, total assets of conventional banks experienced a decline of 3.00% while total assets of Islamic banks decreased 0.2%, compared to total assets in July 2018.

Credit of conventional banks grew significantly by 12.31% as compared to the number in previous year. Islamic banks, however, did not enjoy significant growth in terms of financing as it only increased by 4.6% within a year. In contrast, Islamic banks experienced significant growth in Tier 1 capital by 28.9%, increased from 24.5% in August 2017 to 31.6% in August 2018. Profit of Islamic banks increased by 42.9% yoy and 18.5% mom. These indicators show good signals for Islamic banking industry after series of weak performance.

Table 1: Indicators of Banking Industry (USD Million)

Indicator	Aug-17	Jul-18	Aug-18	YoY	MtM
Asset	7,035.8	7,882.0	7,650.1	↑ 8.7%	↓ -2.9%
Conventional	6,767.8	7,589.8	7,358.6	↑ 8.7%	↓ -3.0%
Islamic	267.9	292.2	291.5	↑ 8.8%	↓ -0.2%
Credit	4,527.2	5,029.6	5,048.6	↑ 12.31%	↑ 1.1%
Conventional	4,342.2	4,837.9	4,891.1	↑ 12.6%	↑ 1.1%
Islamic	185.0	191.7	193.5	↑ 4.6%	↑ 1.0%
Third Parties Fund	5,059.8	5,379.6	5,400.1	↑ 6.73%	↑ 0.4%
Conventional	4,834.3	5,139.0	5,160.2	↑ 6.7%	↑ 0.4%
Islamic	225.4	240.6	239.9	↑ 6.4%	↓ -0.3%
Tier 1	1,065.3	1,139.8	1,151.8	↑ 8.1%	↑ 1.0%
Conventional	1,040.8	1,108.1	1,120.2	↑ 7.6%	↑ 1.1%
Islamic	24.5	31.7	31.6	↑ 28.9%	↓ -0.4%
Profit/Loss	86.8	82.8	94.9	↑ 9.3%	↑ 14.6%
Conventional	85.9	81.7	93.6	↑ 9.0%	↑ 14.5%
Islamic	0.9	1.0	1.2	↑ 42.9%	↑ 16.5%

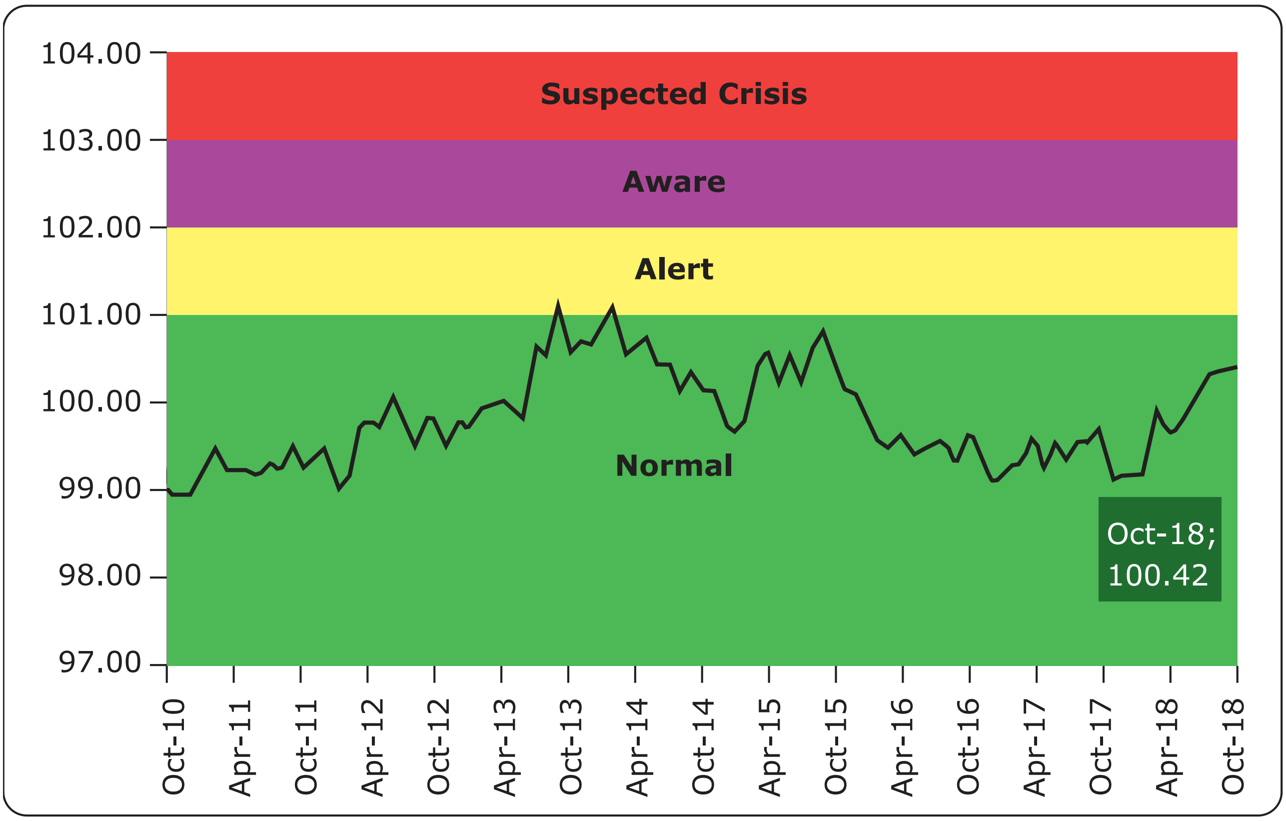
In terms of financial ratios, capital and asset quality of both conventional and Islamic banks are still manageable, with gross NPL and Net NPL improved significantly since August 2017. Conventional banks still outperformed Islamic banks in terms of financial performance, such as ROA, ROE, Operating Cost to Operating Revenue (OC/OR). Operating Cost of Islamic banks is significantly high as compared to that of conventional banks.

Table 2: Financial Ratio of Banking Industry

Ratio	Aug-17	Jul-18	Aug-18	YoY	MtM
CAR	22.71%	21.87%	21.99%	-72bps	12bps
Conventional	22.95%	21.92%	22.06%	-90bps	14bps
Islamic	16.50%	20.56%	20.34%	383bps	-22bps
Asset Quality	2.03%	1.91%	1.9%	14bps	1bps
Conventional	1.98%	1.87%	1.86%	12bps	2bps
Islamic	3.47%	2.84%	2.89%	58bps	-4bps
Gross NPL	3.06%	2.70%	2.71%	35bps	-1bps
Conventional	3.00%	2.66%	2.66%	33bps	-1bps
Islamic	4.47%	3.91%	3.94%	53bps	-3bps
NNPL	0.55%	0.45%	0.46%	8bps	-2bps
Conventional	0.50%	0.43%	0.44%	6bps	-2bps
Islamic	1.62%	0.93%	0.99%	64bps	-5bps
ROA	2.41%	2.42%	2.45%	4bps	3bps
Conventional	2.47%	2.45%	2.49%	2bps	4bps
Islamic	0.97%	1.41%	1.40%	43bps	-1bps
ROE	13.45%	13.58%	13.44%	-1bps	-14bps
Conventional	13.72%	13.78%	13.64%	-7bps	-13bps
Islamic	6.67%	8.52%	8.38%	170bps	-15bps
OC/OR	79.00%	78.55%	78.41%	59bps	14bps
Conventional	78.44%	78.10%	77.94%	50bps	16bps
Islamic	93.25%	90.14%	90.33%	292bps	-18bps
NIM	4.90%	4.62%	4.65%	-25bps	3bps
Conventional	4.81%	4.55%	4.58%	-23bps	3bps
Islamic	7.35%	6.46%	6.52%	-83bps	6bps
LDR	89.47%	93.50%	94.16%	-468bps	-66bps
Conventional	89.82%	94.14%	94.78%	-496bps	-64bps
Islamic	82.05%	79.67%	80.65%	140bps	-99bps
Interbank Liabilities	3.80%	3.46%	3.57%	-23bps	11bps
Conventional	3.88%	3.54%	3.66%	-22bps	12bps
Islamic	1.67%	1.47%	1.33%	-34bps	-14bps
CL/CA	20.92%	18.67%	18.39%	-253bps	-29bps
Conventional	21.08%	18.73%	18.46%	-261bps	-27bps
Islamic	16.87%	17.13%	16.5%	-37bps	-63bps

Indonesia banking industry was stable during Third Quarter of 2018 as shown in Banking Stability Index (BSI) in Figure 1 below. Although BSI experienced an increase of 18bps to 100,42 in October 2018 as compared to 100,24 in September 2018, it is still in Normal condition.

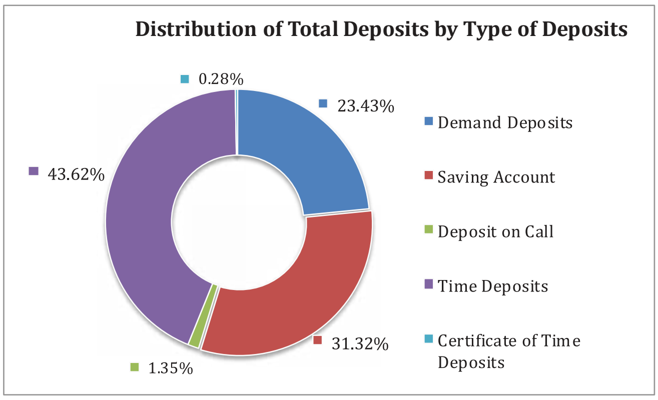
Figure 1: Banking Stability Index

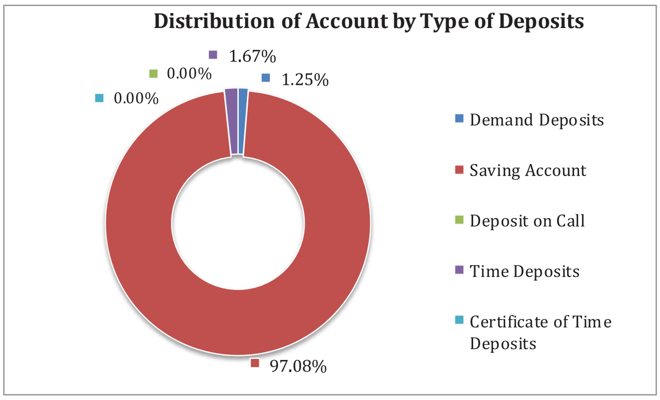


B Deposit Insurance Updates

Among five types of deposit insured by IDIC, Time Deposit and Saving Account dominate other types of deposit. There are 43.62% and 31.32% accounts in banking industry belong to these types of deposit respectively. Neverthe-less, based on nominal, 97.08% of money in banking industry is kept under Saving Account category.

Figure 2: Distribution of Deposits in Banking Industry





Most of the deposits belong to individual and corporation (non-banks). In August 2018, only 1.7% of total deposit in banking industry is placement of bank deposit in other bank while the rest are from third party funds. Moreover, 95.46% of deposits are kept in conventional banking industry. In August 2018, there are only 4.5% deposit kept in Islamic bank. This percentage is 0.01% higher as compared to that in July 2018.

Table 3: Distribution of Deposit Based on Type of Deposit

Total Deposits by Type of Deposits (Million USD)												
Type of Deposits	July 2018				August 2018				∆ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	∆ Account	%	∆ Nominal	%
Demand Deposits	3,253,674	1.20	88,785	23.89	3,272,293	1.25	87,347	23.43	18,619	0.57	(1,439)	-1.62
Saving Account	254,404,727	97.10	116,958	31.48	256,297,780	97.08	116,724	31.32	1,893,053	0.74	(0,234)	-0.20
Deposit on Call	5,085	0.00	4,173	1.27	5,352	0.00	5,038	1.35	267	5.25	0,325	6.89
Time Deposits	4,395,038	1.70	160,042	43.07	4,420,538	1.67	162,578	43.62	25,5	0.58	2,536	1.58
Certificate of Time Deposits	251	0.00	1,078	0.29	224	0.00	1,042	0.28	(27)	-10.76	(0,035)	-3.27
Total	262,058,775	100.00	371,576	100.00	263,996,187	100.00	372,729	100.00	1,937,412	0.74	1,153	0.31

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

Table 4: Distribution of Deposit Based on Ownership of Deposit

Total Deposits by Ownership of Deposits (Million USD)												
Ownership of Deposits	July 2018				August 2018				∆ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	∆ Account	%	∆ Nominal	%
Third Party-Fund	262,033,507	99.99	364,751	98.16	263,970,659	99.99	366,132	98.23	1,937,152	0.74	1,381	0.38
Funds From Other Bank	25,268	0.01	6,825	1.84	25,528	0.01	6,597	1.77	260	1.03	(0,228)	-3.34
Total	262,058,775	100.00	371,576	100.00	263,996,187	100.00	372,729	100.00	1,937,412	0.74	1,153	0.31

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

Table 5: Distribution of Deposit Based on Type of Bank

Total Deposits by Type of Business Banks (Million USD)												
Type of Business Banks	July 2018				August 2018				∆ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	∆ Account	%	∆ Nominal	%
Conventional	239,130,264	91.25	355,066	95.56	240,341,579	91.04	355,792	95.46	1,211,315	0.51	0,726	0.20
Sharia	22,928,511	8.75	16,510	4.44	23,654,608	8.96	16,936	4.54	726,097	3.17	0,427	2.58
Total	262,058,775	100.00	371,576	100.00	263,996,187	100.00	372,729	100.00	1,937,412	0.74	1,153	0.31

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

Almost all of deposit accounts in Indonesia's banking industry (98.16% in August 2018 as compared to 98.15% in July 2018) have nominal less than Rp. 100 million (USD 6,800). It is to be note that total amount of deposit under this category only cover 14.54% of total deposit in banking industry in August 2018.

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

Total Deposits by Tiering of Nominal (Million USD)												
Tiering of Nominal	July 2018				August 2018				∆ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	∆ Account	%	∆ Nominal	%
N ≤ 100 Mio	257,187,244	98.15	54,132	14.56	259,103,520	98.16	54,202	14.54	1,916,276	0.75	0,070	0.13
100 Mio < N ≤ 200 Mio	2,229,768	0.85	21,296	5.73	2,248,906	0.85	21,476	5.76	19,138	0.86	0,180	0.85
200 Mio < N ≤ 500 Mio	1,532,242	0.58	33,500	9.02	1,533,648	0.58	33,522	8.99	1,406	0.09	0,022	0.07
500 Mio < N ≤ 1 Bio	592,328	0.23	29,276	7.88	592,766	0.22	29,332	7.87	438	0.07	0,056	0.19
1 Bio < N ≤ 2 Bio	264,624	0.10	25,670	6.91	264,995	0.10	25,746	6.91	371	0.14	0,076	0.29
1 Bio < N ≤ 2 Bio	161,445	0.06	34,357	9.25	161,059	0.06	34,315	9.21	(386)	-0.24	(0,042)	-0.12
N > 5 Bio	91,124	0.03	173,344	46.65	91,293	0.03	174,136	46.72	169	0.19	0,792	0.46
Total	262,058,775	100.00	371,576	100.00	263,996,187	100.00	372,729	100.00	1,937,412	0.74	1,153	0.31

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

Following these facts, although insured deposit in banking industry (for account less than Rp. 2 billion) construct 99.9% total deposit accounts in Indonesia's banking industry, while only 0.1% deposit accounts that are partially insured (to be insured up to coverage limit), in terms of nominal amount, the 99.9% deposit accounts only owned 53.28% of total funds of total deposits in overall banking industry.

Table 7: Distribution of Insured Deposit Based on Accounts

Distribution of Account by Insured Account August 2018			
Item	**Nominal of Deposits**	**Amount of Account**	**%**
Account of Fully Guaranteed Deposits	≤ 2 Billion	263,743,835	99.90%
Account of Partially Guaranteed Deposits	> 2 Billion	252,352	0.10%
Total Account		**263,996,187**	**100%**

Table 8: Distribution of Deposit Based on Nominal

Distribution of Deposits by Insured Deposits Billion IDR August 2018			
Item	**Nominal of Deposits**	**Amount of Account**	**%**
Fully Guaranteed Deposits	≤ 2 Billion	2,416,693	44.08%
Partially Guaranteed Deposits	> 2 Billion	504,704	9.20%
Subtotal Guaranteed Deposits		**2,921,397**	**53.28%**
Unguaranteed Deposit	> 2 Billion	2,561,813	46.72%
Subtotal Unguaranteed Deposit		**2,561,813**	**100%**
Total Account		**5,483,210**	

C Technical Assistance Mission from The World Bank

From 4 to 12 September 2018, IDIC received technical assistance from the World Bank Group (World Bank) which focuses on strenghtening IDIC's resolution framework. It included a quasi hypothetical case study of a bank resolvability assessment and resolution planning, interview sessions with high level officials in IDIC, and from representatives of other financial safety net members in Indonesia.

By the end of the tecnical assistance, World Bank recommended IDIC:

- To initiate drafting of resolution plans
- To support broader institutional mandate of bank resolution and deposit insurance. Specifically, World Bank recommended IDIC:
    - To develop of a manual for resolution
    - To develop internal regulations on resolvability and resolution plan processes.
    - To agree on more stand-by commercial arrangements with selected key third party providers, among others with valuation firms.
    - To launch the single customer view initiative, by reviewing underlying legal and regulatory framework further and developing a SCV specification for improving payouts.
- To develop a legal drafting strategy upfront. The strategy should have three elements:
    - Identification of the weaknesses in the current legal framework in light of relevant standards, international best practices, and the relevant recommendations of the 2017 FSAP for Indonesia;
    - Agreement between the main stakeholders, including relevant committees of Parliament, on the main legal policies that will guide the drafting process; and
    - Drafting of the amendments of the relevant laws and regulations.
- To remove legal obstacles will inevitably be achieved on a longer timeframe. Among others legal amendments are required in the following areas:
    - IDIC staff should be given legal protection; the possible court interference in resolution measures should be limited.
    - IDIC should be given powers to order a bank to take certain actions to be resolved more easily,
    - A combination of qualitative and quantitative triggers for resolution should be included in the legal framework,
    - The need for independent valuation for systemic and medium banks prior to resolution should be laid down in the law,
    - The State should be able to provide guarantees for resolution measures, and fiscal resources should be foreseen to backstop the resolution fund.

D The IMF-WB Annual Meeting

The Annual Meetings of the Boards of Governors of the International Monetary Fund (IMF) and the World Bank Group (WBG) took place this year in Bali, Indonesia, from 8 to 14 October 2018. IDIC supported the cultural performance programme shown during this event, named Rediscovering Panji as IDIC hopes to be able to preserve the national culture heritage and introduce it to the wider public, in Indonesia and internationally.

IDIC Board of Commisioners spoke in some of the parallel events, such as CNBC Indonesia Grand Launching (IDIC Chairman, Dr. Halim Alamsyah), Advisory Finance Group Semi Annual Workshop (IDIC Chief Executive Officer, Mr. Fauzi Ichsan), and Asia Pacific Tax Forum: Tax System Design Challenges in Middle Income Countries (IDIC Board of Commisioners Member, Ms. Destry Damayanti).

During this event, IDIC arranged side meetings with some institutions, namely Oliver Wyman, Central Bank of Spain, Central Bank of Portugal, IFSB, and Central Bank of Cyprus. The purpose of the side meetings are to discuss the progress of IDIC, to learn about the recent bank resolution cases from various jurisdictions, and to explore future potential collaborations.

E Technical Assistance to Deposit Protection Fund of Laos

On 30-31 October 2018, IDIC provided technical assistance in the form of workshop to Deposit Protection Fund of Laos (DPF) at Lao Plaza Hotel, Vientiane, Laos. The topic of this workshop is Deposit Insurance Framework. Topics discussed are the overview of IDIC and its role in Indonesia's financial safety net, IDIC Deposit Insurance Program, Managing Insurance Funds, Reconcialiation and Verification Processes, Reimbursing Depositors' Claim, Liquidation Process, Recoveries and Asset Management, Legal Issues in Reimbursing Depositor's Claim and Liquidation.

IDIC Delegation comprised of: Mr. Ridwan Nasution (International Affairs Group Director), Mr. Farid Azhar Nasution (Treasury Group Director), Mr. Arie Budiman (Litigation Group Director), Mr. Aris Suseno (Claim Handling Group Director), Mr. Yanuar Ayub Falahhi (Division Head, Liquidation Group), and Ms. Steffanie Berlian Simatupang (Staff, International Affairs Group).

This workshop was attended by Mrs. Sengdaovy Vongkhamsao, DPF Director General, Mrs. Daomanivone Vilayvieng, DPF Deputy Director General, and officials from DPF. At the end of the workshop, IDIC and DPF conducted a Bilateral Meeting on Cooperative between the two institutions.

F Benchmarking on Resolution and Learning Center to Korea Deposit Insurance Corporation

By the enactment of Law No. 9 Year 2016 on Prevention and Resolution of Financial System Crisis (UU PPKSK) on April 16, 2016, IDIC was given new resolution tools i.e. purchase and assumption transaction and bridge bank to resolve the solvency problem of the banks, especially the systemic banks. Those two methods were added to the existing resolution methods such as open bank assistance (OBA) and bank liquidation (for non-systemic banks) as mandated by the IDIC Law.

In addition to that, as part of transformation program, IDIC is aiming to level up the capacity of its human resources. For the purpose, IDIC is currently in the process of establishing its learning center.

In relation to that, it is essentials for IDIC to know international best practices of the resolution and learning center system of other deposit insurers. Thus, on 17-19 September 2018, IDIC visited the Korea Deposit Insurance Corporation (KDIC) to learn the resolution and learning center system of the KDIC. Topics that were discussed during the visit are least cost test, bridge bank, purchase and assumption, asset management, fund investment and management, crisis management, and the establishment of the KDIC Global Academy.

The Chairman of IDIC, Mr. Halim Alamsyah, also had a meeting with the former KDIC Chairman, Mr. Bumgook Gwak, discussing the cooperation between the two institutions during his visit to KDIC.

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