FSB- G20 - MONITORING PROGRESS – Indonesia September 2011

#		G20/FSB RECOMMENDATIONS		DEADLINE	PROGRESS TO DATE	PLANNED NEXT STEPS
# in brackets are # from the 2010 template					*Explanatory notes:* *In addition to information on progress to date, specifying steps taken, please address the following questions:* *1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction?* *2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results?* *Also, please provide links to the relevant documents that are published.*	*Explanatory notes:* *Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)* *Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?* *What are the key challenges that your jurisdiction faces in implementing the recommendations?*
I. Improving bank capital and liquidity standards						
1	(Pitts)	Basel II Adoption	All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011.	By 2011	Indonesia is completing Basel II regime. Indonesia is not a major financial centre. Nevertheless, we have been moving forward into Basel II regime since the beginning of 2011. The recent progress is as the following: • Several regulations on Basel II have been issued by Bank Indonesia (BI) since 2007 i.e. minimum capital requirement (2008), market risk (standard model and internal model - 2007) and operational risk (basic indicator approach - 2009), and credit risk (standardised approach - 2011). • The implementation of Basel II will be taken gradually. All requirements of Pillar 1 will be fully implemented by January 2012 corresponding with the effective implementation of the standardised approach of credit risk. • Pillar 2 will be effective in 2012. • Regarding Pillar 3, BI issued consultative paper regarding transparency regulations under Pillar 3 in 2010. • Currently, BI is in the process to amend regulation concerning Transparency of Financial Condition. The amendment will take into account the convergences with the	

					accounting standard and the new public accountant law.	
2	(FSB 2009) (Tor)	Basel II trading book revision	Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at least doubling by end-2010. We welcomed the BCBS agreement on a coordinated start date not later than 31 December 2011 for all elements of the revised trading book rules.	By end-2011	In progress. BI regulation requires banks to implement the market risk standardised approach. Although BI has also issued regulation on the internal model for market risk, currently, there is no bank adopts the internal model for market risk capital charge. Thus, BI will focus to adopt the revisions to the Basel II market risk framework for standardised approach, such as due to the use of external rating assessment in the specific risk of the interest rate risk. Regarding the new requirements of Basel 2.5 on securitisation, BI considers this issue is not relevant yet to be implemented in the Indonesian context as securitisation exposures are very small and more on traditional forms. Only one bank has completed the securitisation transactions as the originator.	
3 (5, 6, 8)	(Seoul)	Adoption and implementation of international rules to improve bank capital and liquidity standards (Basel III); including leverage ratios (Note) Please explain developments in i) capital standards, ii) liquidity standards and iii) leverage ratios respectively.	We are committed to adopt and implement fully these standards (Basel III) within the agreed timeframe that is consistent with economic recovery financial stability. The new framework will be translated into our national laws and regulations, and will be implemented starting on January 1, 2013 and fully phased in by January 1, 2019.	January 1, 2013 and fully phased in by January 1, 2019.	In progress. As stated in the previous report, BI will adopt Basel III standards over time frame consistent with Indonesian banking sector conditions. BI will evaluate the best form and will consider necessary adjustment to adopt Basel III framework into national laws or regulations by considering domestic circumstances and impact to financial sector and real economy. Currently, BI is conducting Quantitative Impact Study (QIS) of Basel III involving some key banking institutions. The results are promising, as the vast majority of banks will predictably meet Basel III capital regime. This is attributable to the fact that the vast majority of Indonesian banks are well-capitalized. For capital requirement, BI will revisit BI Regulation concerning Minimum Capital Requirement to be aligned with Basel III framework. Specifically for countercyclical capital buffer requirement, BI will consider additional indicators/parameters, or possibly	Conducting quantitative impact study (QIS) based on BCBS guidelines for June and December 2011 data respectively. Based on the QIS result, BI plans to issue policy recommendations on the adoption of Basel III framework in Indonesia

					alternative approach, since BI is of the view that the proposed credit to GDP guide could not be directly adopted as the only guidance for buffer decision in Indonesia. Bank Indonesia is also currently observing Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) on regular basis. In addition, for liquidity monitoring purpose, banks operating cross-border are now also subject to more rigorous supervision. On leverage ratio, the newly enhanced risk based bank rating (RBBR) system that will be implemented in Indonesia by January 2012 incorporates concept of leverage ratio. The RBBR introduced the need to monitor and prevent overleveraging process of banking industry that triggers crises. In line with BI plans to adopt Basel III framework, BI will review the consistency of the RBBR's concept of leverage ratio with the Basel III requirements. In this regard, BI will consider necessary adjustment, to ensure that the adoption of the leverage ratio based on the Basel III framework will not hinder the banks' ability to play a key role as credit intermediary.	
4 (4, 7, 9, 48)	(WAP) (FSF 2009)	Strengthening supervision and guidelines on banks' risk management practices	Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management. 1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review	Ongoing	Completed yet it will continue to be improved on regular basis. BI has enhanced regulation on risk management as guidance for banks to strengthen their risk management practices. Assessment result of banks' risk management practices is considered by supervisors as one of factors to determine the banks' soundness level. The enhancement of guidance to strengthen banks' risk management practices is also corresponding with the issuance of the new risk based supervision approach and will be effectively implemented by January 2012. Several BI regulations/circular letters require banks to conduct stress testing such as regulation on risk management. In addition, BI has regularly conducted	

			process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement.		bottom up and top down stress tests since 2003. The stress testing results are used by supervisors to determine that individual bank's capital adequacy is commensurate with its risk profile.	
	(FSF 2008)		II.10 National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices.		Bank Indonesia adopted the 2008 Principles for Sound Liquidity Risk Management and Supervision since July 2009 to better align BI's regulatory expectations with the Sound Principles. Since then, Bank Indonesia on regular basis examines banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. Regarding supervision of banks' operation in foreign funding markets, BI supervisors refer to regulation concerning Net Open Position. The Net Open Position of individual bank is used as part of market risk capital charge assessment.	
	(FSB 2009)		Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.			
II. Addressing systemically important financial institutions (SIFIs)						
5 (19)	(Pitts)	Consistent, consolidated supervision and regulation of SIFIs	All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.	Ongoing	In progress. For large banks in Indonesia, BI applies intensified supervisory frameworks. Bank Indonesia has more intensive supervision toward large banks in Indonesia. These banks have been the subject of our consolidated supervision and higher standards of risk-based supervision. Currently, all banks in Indonesia that are considered as systemically important are subject to more intensive supervision frameworks including daily monitoring of liquidity positions and projections. In addition, BI regulation concerning Subsequent	

					Supervisory Actions and Designation of Banks provide tools and measures for supervisors to deal with possible banks' failure (systemic and non-systemic). According to BI regulations, the banks will only have limited time to resolve their problem, i.e. the banks that are designated under intensive supervision will only have a maximum of one year to resolve the bank's problem by conducting mandatory supervisory actions and discretionary remedial actions which BI considers appropriate. An extension of one year can only be given for specific circumstances and can only be given once. Furthermore, a shorter limited time to resolve problems, i.e. a maximum of three months, is applied for banks that are designated under special surveillance.	
6 (43, 44)	(Pitts) (Seoul)	Mandatory international recovery and resolution planning for G-SIFIs	Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress. We agreed that G-SIFIs should be subject to a sustained process of mandatory international recovery and resolution planning. We agreed to conduct rigorous risk assessment on G-SIFIs through international supervisory colleges and	End-2010 (for setting up crisis management groups) Ongoing	Not applicable to Indonesia. Indonesia is not member of CMG. However, formal supervisory cooperation and information sharing arrangements have been exercised with jurisdictions whose banks have significant presence in Indonesia (please also refer to our answer in the point 8 and 9 page 11 and 12)	Indonesia, especially for banking sector, will enhance effectiveness of information sharing both with domestic and foreign authorities. Indonesia will continue establishing cross-border supervisory MoUs with other relevant authorities, especially with home supervisors of systemically relevant foreign financial institutions considering foreign banks have a large and growing share of the Indonesian market. In the pipeline, the MoUs will be arranged with Korean, Australian, and Cayman Island authorities.

	(Lon)		negotiate institution-specific crisis cooperation agreements within crisis management groups. To implement the FSF principles for cross-border crisis management immediately. Home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.			
7 (45)	(Seoul) (Tor) (WAP)	Implementation of BCBS recommendations on the cross-border bank resolution	We reaffirmed our Toronto commitment to national-level implementation of the BCBS's cross-border resolution recommendations. We endorsed and have committed to implement our domestic resolution powers and tools in a manner that preserves financial stability and are committed to implement the ten key recommendations on cross-border bank resolution issued by the BCBS in March 2010. National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit	Ongoing	In progress. • Indonesia has completed the draft of financial sector safety net law. This law provide legal basis for authorities (Bank Indonesia, Ministry of Finance, and Deposit Insurance Corporation) to exercise prompt measures to prevent systemic risk including exercising resolutions of failing financial institutions (bank and non-bank). The law has been actually in the pipeline since 2008. • The law will strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks as well as preventing systemic crisis. • Indonesia is currently evaluating the best form to incorporate key recommendation on cross-border bank resolution to the crisis management protocol framework and also other existing laws.	The FSN law is now being discussed in the Indonesian Parliament.

	(FSF 2008)		an orderly wind-down of large complex cross-border financial institutions. VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks.			
8 (41)	(Lon) (Seoul)	Supervisory colleges	To establish the remaining supervisory colleges for significant cross-border firms by June 2009. We agreed to conduct rigorous risk assessment on these firms through international supervisory colleges …	June 2009 (for establishing supervisory colleges) Ongoing	Completed. • Indonesia has been a member in three supervisory colleges established by European-based home supervisors. Annual regular meetings have been scheduled in those supervisory colleges. • Indonesia is also a key member (with Thailand, Malaysia and Singapore) of a working committee establishing regional supervisory colleges in SEACEN region. • Intensive cross-border supervisory cooperation has been regularly conducted with Monetary Authority of Singapore, Bank of Thailand, Bank Negara Malaysia, Bangko Sentral Ng Pilipinas, and China Banking Regulatory Commission.	• Continue to actively participate in the supervisory colleges. • Propose to be invited in the supervisory colleges of all branches of foreign banks, as these banks are increasingly large and may pose systemic risks should they fail.
9 (42)	(FSF 2008)	Supervisory exchange of information and coordination	V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at	Ongoing	Progress has been made particularly in regional level. At national level, Bapepam-LK (Indonesian Capital Market and Non-Bank Financial Institutions Supervisory Agency) and Bank Indonesia have signed a memorandum of understanding in 2010 for cooperation and coordination of supervision of financial institutions, micro and macro surveillance, and capacity building of human resources. At international level, in the banking sector, Bank Indonesia has regularly exercised cross-border	Indonesia will establish cross-border supervisory MoUs with other relevant authorities, especially with home supervisors of systemically relevant foreign financial institutions considering foreign banks have a large and growing share of the Indonesian market. In the pipeline are with Korean, Australian, and Cayman Island authorities.

			both national and international levels.		supervisory meetings. In addition, formal supervisory cooperation and information sharing arrangements have been exercised with jurisdictions whose banks have significant presence in Indonesia such as China, Malaysia, Thailand, and Singapore. In addition to aforementioned MoUs, an agreement to enter into a formal MoU with the Financial Services Commission Republic of Korea, Cayman Islands Monetary Authority, and Australian Prudential Regulation Authority (APRA) are in progress. For capital market and non-bank financial institutions, Bapepem-LK have signed memorandum of understanding with regulators in several countries, such as US SEC, Malaysia SC, Hong Kong SFC, Australia ASIC, Sri Lanka SEC, Philippines SEC, Thailand SEC, China CSRC, New Zealand SC, India SEBI, and Iran SEO.	
10 (New)	(Seoul)	More effective oversight and supervision	We agreed that supervisors should have strong and unambiguous mandates, sufficient independence to act, appropriate resources, and a full suite of tools and powers to proactively identify and address risks, including regular stress testing and early intervention.	Ongoing	Completed. It has been stipulated in the existing legislations. In the current central bank law, Bank Indonesia has the powers to regulate, supervise, license and impose sanction on banks. Bank Indonesia has clear supervisory and regulatory mandates, and is independent to act to enforce regulation to create sound banking system. In the current regulatory regime in Indonesia, Bank Indonesia has a full set of tools to proactively identify and address risks, including to conduct regular stress testing (on monthly basis) and exercise prompt corrective actions.	
III. Extending the regulatory perimeter to entities/activities that pose risks to the financial system						
11 (27)	(Lon)	Review of the boundaries of the regulatory framework	We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and	Ongoing	In progress. Bank Indonesia is now harmonizing banks and non-banks regulations in cooperation with Bapepam-LK. Boundary of regulatory framework is now being observed to eliminate all impediments in regulatory	

			promote good practices and consistent approaches at an international level.		and supervisory frameworks between bank and non-bank financial institutions in Indonesia.	
12 (30)	(FSF 2008)	Supervisory resources and expertise to oversee the risks of financial innovation	V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks.	Ongoing	In progress. The available supervisory frameworks also allow BI to evaluate the potential risks posed by banking activities even before the issuance of new banking products or activities in which the banks are engaged. BI will evaluate the banks' plan to issue new products or activities and BI may eventually prohibit the banks to issue the planned new products or activities if BI considers weaknesses exist in some aspects, such as, readiness of the banks to manage new products or activities, risk management, transparency, as well as customer protection. BI also has the power to require the banks to terminate the launched new products or activities, if BI indicates the launched new products or activities meet certain conditions, such as, deviating from the previous plan submitted to BI, potentially generating significant loss to the banks' financial condition, and/or conflicting with the prevailing regulations. The required written policy and procedure to manage risk embedded in the new products or activities will provide a basis for the supervisors to evaluate the adequacy of the banks' Standard Operating Procedures as well as the banks' authority in managing the new products or activities. Furthermore, the requirements will enable the supervisors to identify all embedded risks of the new products or activities, to assess the adequacy of methods to measure and monitor the risks of the new products or activities, the sufficiency of accounting information system, the legal risk embedded to the new products or activities, as well as the sufficiency of disclosure. Therefore, through the required procedures, BI supervisors will able to ensure that the banks have the capacity to understand and manage the risks.	

Hedge funds						
13 (33)	(Seoul) (Lon)	Regulation (including registration) of hedge funds	We also firmly recommitted to work in an internationally consistent and non-discriminatory manner to strengthen regulation and supervision on hedge funds, … Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management.	End-2009	There is no regulation about Hedge Funds	Bapepam-LK (Indonesian Capital Market and Non-Bank Financial Institutions Agency) has no plan to develop Hedge Funds regulation.
14 (34)	(Lon)	Effective oversight of cross-border funds	We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures	End-2009	Refer the answer for number 13	Refer the answer for number 13

			that implement these principles by the end of 2009.			
15 (35)	(Lon)	Effective management of counter-party risk associated with hedge funds	Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures.	Ongoing	Refer the answer for number 13	Refer the answer for number 13
16 (36)	(FSF 2008)	Guidance on the management of exposures to leveraged counterparties	II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties	Ongoing	Refer the answer for number 13	Refer the answer for number 13
Securitisation						
17 (50)	(FSB 2009)	Implementation of BCBS/IOSCO measures for securitisation	During 2010, supervisors and regulators will: - implement the measures decided by the Basel Committee to strengthen the capital requirement of securitisation and establish clear rules for banks' management and disclosure; - implement IOSCO's proposals to strengthen practices in securitisation markets.	During 2010	Based on Bapepam-LK rule V.G.5, number 1 (a) Investment Manager for Asset Backed Securities must have adjusted net working capital minimum IDR 25 billion For banking sector, with regard to the securitization exposures, BI has issued its prudential regulation on securitization practices in 2005 with the main element covering traditional securitisation. Synthetic securitisation is not recognised. This securitisation regulation mainly has adopted the Basel II framework including the treatment for clean sale and capital deduction. At present, securitization exposures are relatively immaterial. Standards set have been considered very conservative and discouraging banks to undertake securitisation program. If a bank fails to meet all the requirements, it must treat all the securitised assets as its own assets	Bapepam-LK has no plan to revise the regulation

					and all prudential regulations will apply.	
18 (51, 52)	(Lon) (Pitts)	Improvement in the risk management of securitisation, including retainment of a part of the risk of the underlying assets by securitisation sponsors or originators	The BCBS and authorities should take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements by 2010. Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently.	By 2010	BI has issued its prudential regulation on securitization practices in 2005 with the main element covering traditional securitisation. According to BI regulation, banks as originator may retain at maximum 10% of total value of securitized financial assets. The limit is applied to ensure that de-recognition of securitized financial assets from banks' balance sheet could meet clean sale/true sale requirements. Based on Bapepam-LK rule IX.K.1 number 4 of Bapepam-LK, maximum 10% of net asset value has to be retained by originator.	Bapepam-LK has no plan to revise the regulation
19 (10)	(FSF 2008)	Strengthening of regulatory and capital framework for monolines	II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.	Ongoing		
20 (54)	(FSF 2008)	Strengthening of supervisory requirements or best practices fir investment in structured products	II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.	Ongoing	Based on Bapepam-LK rule IX.K.1 number 6, structured product investor have to read and accept disclosure document of structure product, and sign statement related to it For banking sector: According to BI regulation, banks are only allowed to conduct transactions on derivatives with underlying foreign exchange and interest rate. Therefore, the requirement implies that the banks are only allowed to invest in structured products that meet the regulatory requirements concerning derivatives. In addition, before investing in certain products the banks are also required to consider requirements on assets quality regulation. According to BI regulation on asset quality, if banks	Bapepam-LK has no plan to set specific rule for investment process in structured product.

					invest in derivative products/structured products, banks should provide to regulator information regarding underlying of the products, rating, issuer, etc. Such information would assist BI supervisors to determine and categorize risk of the products. Furthermore, if banks plan to issue structured products, BI has also regulation regarding Prudential Principles in the Implementation of Structured Products Activities for Commercial Banks. Therefore, by meeting the required regulation on structured products, banks are expected to understand nature and risk of the products. Under the regulation, BI requires banks to: • draw up a Business Plan, • perform risk management in an effective manner, • determine the classification of customers, • disclose product information, • submit a report to Bank Indonesia. Moreover, if banks failed to meet the requirements, banks will be subject to the following sanctions: • administrative warning; • lowering bank rating; • prohibition against participating in clearing activities; • suspension and revocation of approval for certain business activities, both for a specific branch office and for the Bank as a whole; • termination of the Bank's management and subsequent appointment of a temporary management replacement; and/or • placing members of the bank's management, employees or, shareholders in blacklist.	
21 (14)	(FSF 2008)	Enhanced disclosure of securitised products	III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their	Ongoing	Bapepam-LK rule IX.C.10 regulates all information that have to be disclosed by investment manager of securitized products	Bapepam-LK has no plan to revise the regulation

			underlying assets.			
IV. Improving OTC derivatives markets						
22 (17, 18)	(Seoul) (Pitts) (Lon)	Reforming OTC derivative markets, including the standardisation of CDS markets (e.g. CCP); and trading of all standardized OTC derivatives on exchanges, clearing and trade repository reporting.	We endorsed the FSB's recommendations for implementing our previous commitments in an internationally consistent manner, recognizing the importance of a level playing field. All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements. We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by	By end-2012 at the latest	Derivative transactions particularly in Indonesia capital market has already been accommodated on exchange. But still only few Derivative transactions happened on exchange. Bapepam-LK together with Indonesian Stock Exchange and Indonesian CCP is in process of amendment rules concerning stock options contract and index futures. The amendment specifically focus on revitalized the specifications of stock options and index futures contract.	The release of stock options contract and index futures amendment rules by Bapepam-LK. The development of Stock exchange's system to accommodate the amendment on stock options and index futures contract by Bapepam-LK.

			autumn 2009.			
V. Developing macro-prudential frameworks and tools						
23 (25)	(Lon)	Amendment of regulatory systems to take account of macro-prudential risks	Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of systemic risk.	Ongoing	Bank Indonesia has conducted macro-prudential surveillance since 2003. This enables Bank Indonesia to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build-up of systemic risk. For further explanation, please also refer to no. 25. Regarding effort to identify and take account of macroprudential risks across the financial system including in the case of shadow banking activities, BI has conducted coordination with Bapepam-LK regarding supervision on non-bank financial institutions, especially to NBFIs that are owned by banks, for example supervision to multifinance institutions (shadow banking institution). In order to assess more accurately credit risks posed by the multifinance institutions, for consolidated supervision purposes, the multifinance institutions that are owned by banks are required to mirror loan practices of the banks. Therefore, BI supervisors would be able to more accurately assess credit risk raised by activities conducted by the banks and their subsidiaries in consolidated basis.	
24 (26)	(Lon)	Powers for gathering relevant information by national regulators	Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order	Ongoing	According to Acts and regulations, BI and Bapepam-LK have the authority to require all banks and non-bank financial institutions (including markets) to submit or report relevant information and data periodically. In addition, BI and Bapepam-LK also have the authority to require the banks and non-bank financial institutions to submit additional information and data that are deemed necessary in ad-hoc basis. All information and data are used by BI and Bapepam-LK to assess the potential failure or severe stress of financial institutions that will contribute to systemic risk.	According to Article 5 of Capital Market Law, since 1995, Bapepam-LK has the authority to collect and request information related to the financial condition of Providers of Financial Services (PFS), the market and existing instruments in the market.

			to achieve as much consistency as possible across jurisdictions.			
25 (28)	(FSF 2009)	Use of macro-prudential tools	3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macro-prudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macro-prudential (system-wide) level… Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions.	End-2009 and ongoing	Bank Indonesia has conducted macro-prudential surveillance since 2003. This enables Bank Indonesia to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build-up of systemic risk. Macroprudential measures adopted by BI among others are: • BI has issued regulation concerning Loan to Value Ratio that will be effectively implemented starting 2012. This regulation is intended to target/restrain housing loan growth. BI applies different risk weight for residential property loans for different LTV ratio. • BI applies reserve requirement ratio as a measure to balance bank's intermediation role and its liquidity state. According to this regulation, the bank will get disincentive of higher reserve requirement if its loan-to-deposit ratio (LDR) falls outside the range of required LDR. BI applies requirement concerning minimum holding of secondary reserve requirement and currency risk limits as measures to limit the build-up of system wide financial risks or to address specific financial risk. BI adopts loan limits to affiliated parties as a measure to reduce interconnectedness. Based on this regulation, banks are prohibited to extend loan for single affiliated party more than 10% of the capital. BI adopts measures to address capital flow volatility by requiring minimum holding period of BI certificate and lengthening maturity of BI certificate.	
26 (29)	(WAP)	Monitoring of asset price changes	Authorities should monitor substantial changes in asset prices and their implications for the macro	Ongoing	Bank Indonesia has monitored changes in asset prices and their implications for domestic financial system stability as part of our macro-prudential surveillance processes.	

			economy and the financial system.			
27 (32)	(FSF 2008)	Improved cooperation between supervisors and central banks	V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain.	Ongoing	Completed. Indonesia has effective gateways for information exchange with domestic and foreign supervisory authorities. In domestic scope, there are formal mechanisms for information sharing and cooperation. With international fellow financial sector authorities, we have regularly exercised cross-border supervisory meetings. Indonesian financial sector authorities (Bank Indonesia, Indonesian Capital Market and Non-Bank Financial Institution Supervisory Agency - Bapepam-LK, Indonesian Deposit Insurance Corporation - LPS, and Indonesian FIU - PPATK) have established a formal mechanism to share supervisory information and to harmonize regulatory frameworks. In the banking sector, formal supervisory cooperation and information sharing arrangements have been exercised with jurisdictions whose banks have significant presence in Indonesia. Cross-border Memorandum of Understanding has been established with People's Bank of China (PBOC), Bank Negara Malaysia (BNM), China Banking Regulatory Commission (CBRC) and Monetary Authority of Singapore (MAS).	Indonesia, especially for banking sector, will enhance effectiveness of information sharing both with domestic and foreign authorities. In addition, in the near future, Indonesia will strive to establish cross-border supervisory MoUs with other relevant authorities.
VI. Strengthening accounting standards						
28 (11)	(WAP)	Consistent application of high-quality accounting standards	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.	Ongoing	In progress. Over the past 10 years, Indonesia has made great effort to improve the quality of corporate financial reporting. Considerable progress has been made to strengthen the institutional framework of accounting and auditing and to move toward converging Indonesia national accounting and auditing standards with international benchmarks (i.e. International Financial Reporting	Board of IAI (Indonesian Accounting Standard Board - DSAK) has agreed on that Indonesia will fully converge to IFRS by 2012. Bapepam-LK and BI support the plan through the continuous discussion forums with DSAK and other authorities.

					Standards/IFRS and International Standards on Auditing/ISA). Further improvements are necessary in order to make sure that Indonesia emerges as a good-practice country on accountancy reform in the developing world. The Indonesian Institute of Accountants (IAI) is the professional body of accountants and a member of the International Federation of Accountants (IFAC). The Indonesian Institute of Public Accountants (IAPI) is the professional body for public accountants. The IAPI is an association member of IAI. The self-regulatory IAI and IAPI are also the standard setters, perhaps overly stretched with many responsibilities covered by the volunteer efforts of its members. The IAI develops and disseminates accounting standards, and IAPI develops and disseminates audit and ethics standards in line with international good practice. Indonesian Accounting Standard Board (DSAK-IAI) is responsible for issuing Indonesian Financial Accounting Standard (PSAK) and Interpretation of PSAK (ISAK). DSAK 2010 and 2011 working plans mentioned that DSAK will converge materially PSAKs to IFRSs/IASs as of January 1, 2009 in 2012. Bapepam-LK and BI support Indonesian Institute of Accounting (IAI) to converge Indonesian Accounting Standards (PSAKs) to IFRSs/IASs. IFRS Implementation Team has been set up under IAI with following tasks: • Increasing public understanding of IFRS and Indonesian GAAP; and • Conducting research and assessment to improve the quality of financial reporting within the framework of the IFRS convergence program. • Until September 2011, DSAK-IAI has issued 36 PSAKs and 14 ISAKs which comply with IFRSs/IASs. DSAK-IAI has also revoked 13 PSAKs and 4 ISAKs which is not comply with	

					IFRSs/IASs. Regarding implementation of IAS 39 (PSAK 55) and 32 (PSAK 50) that have been adopted and implemented since January 1, 2010, BI keeps monitoring the preparation of such and allows banks to use peer group historical loss data for collective provisioning. This is due to the complexity of those standards, particularly the need of comprehensive database for building provisions model. As to other accounting standards (e.g. IFRS 1, and others relating to banking industry), Bank Indonesia and the IFRS Implementation Team (under IAI) have worked together to disseminate and to educate the public regarding 14 new standards, through workshops aiming at building awareness. Furthermore, currently, Bank Indonesia is in the process of adjusting the banks financial statement disclosure format and other prudential regulation in order to comply with the Indonesian Accounting Standards which has converged with the IFRS.	
29 (New)	(Seoul)	Convergence of accounting standards	We re-emphasized the importance we place on achieving a single set of improved high quality global accounting standards and called on the International Accounting Standards Board and the Financial Accounting Standards Board to complete their convergence project.	End-2011	DSAK has planned that Indonesia will fully converge to IFRS (as of January 1, 2009) by 2012. Bapepam-LK and BI support the plan through the continuous discussion forums with DSAK and other authorities.	
30 (12)	(FSF 2009)	The use of valuation reserves or adjustments by accounting standard	3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair	End-2009	In progress. Bapepam-LK is in process of revising its rule concerning the determination of fair market value of securities, by referring to Indonesia Bond Pricing Agency (IBPA) when the last trading prices of securities on stock exchange (BEI) does not reflect the	Bapepam-LK has revised regulations related VIII.G.7 Guidelines for Presentation of Financial Statements which refer to the IFRS accounting standards and are processing for issuing Guidelines for Accounting for Securities Companies. In both

		setters and supervisors	valued financial instruments when data or modelling needed to support their valuation is weak.		fair market value. Such requirements also regulated in draft rule regarding accounting guidance for securities company For banking sector, following the adoption and implementation of IAS 39, especially the extensive use of fair valuation, Bank Indonesia has made comprehensive revision to the format and content of prudential reporting ("call reports") in 2008, including the addition of valuation reserves or adjustments accounts. In practice, such valuation reserves or adjustments accounts are mostly used in the FX derivatives transactions, whereby all instruments are valued using middle rate and are adjusted accordingly at reporting dates through the adjustment accounts. Besides, as prescribed in the Basel II framework, banks are also required to include the valuation reserves or adjustments (including non-accounting valuation adjustment, e.g. liquidity concerns) within the regulatory capital calculation.	guidelines, the valuation of assets based on fair market value in accordance with accounting standards.
31 (13)	(FSF 2009)	Dampening of dynamics associated with FVA.	3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories;	End-2009	IAS 39 (PSAK 55 – 2006) has been implemented since 1 January 2010. Bapepam-LK still reviews the implementation issues of PSAK 55 in its regulations.	

			(iii) Simplifying hedge accounting requirements.			
VII. Strengthening adherence to international supervisory and regulatory standards.						
32 (21, 22, 23)	(Lon) (WAP)	Adherence to international prudential regulatory and supervisory standards, as well as agreeing to undergo FSAP/ FSB periodic peer reviews (Note) Please try to prioritise any major initiatives conducted specifically in your jurisdiction.	We are committed to strengthened adherence to international prudential regulatory and supervisory standards. FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports. All G20 members commit to undertake a Financial Sector Assessment	Ongoing	In progress. Indonesia has conducted several measures associated with adherence to international standards: Some of the fulfilment of international standards is the following: • Following up on some of the reviews of the FSB-related compensation and remuneration through regulatory GCG • Adjust the existing frameworks within the principles of Basel • Enforcement of eligibility for capital, • Improved risk management review • Arrange Revisit Indonesian Banking Architecture that adapts to the ownership structure, capital and financial standards of other international. • Preparation of the Capital Market Master Plan • Following up on the diagnostic results of the FSAP financial system resilience To complete those agenda, the necessary factors needed so that the implementation goes according to plan include, among others: • Improve the rule of law • Strengthen political stability • Increase the use of financial services including capital markets, insurance and finance companies • Increasing the capacity of human resources in improving the quality of financial services • Harmonization of the provisions relating to the financial sector In addition: • Indonesia has participated in the FSB thematic	Bank Indonesia: • Drafting the amendment of GCG in 2011. • Finalise regulation of Pillar 2 and Pillar 3 of Basel II planned in 2011. • Any explanation of each pillar of IBA (Indonesian Banking Architecture) has been adapted to international financial standards. To further facilitate the implementation process, in the near future this will be prioritized first on strengthening the capital structure and ownership structure. • Strengthening the financial sector, which refers to the G20, FSB and BCBS is the basis of reform and development of financial sector policy. • Publish FSAP detailed reports. Indonesia will take part in the country peer review in 2013. • Bank Indonesia has prepared a set of action plans to address all the shortcomings stated in the FSAP. The near-term primary focus is to raise the level of compliance on the BCPs that are graded as non-compliant and materially non-compliant. Some of these action plans will be completed under priority initiatives in 2012. Bapepam-LK: Financial Sector under the supervision of the Minister of Finance and Bapepam-LK has been assessed in the FSAP program in 2009 that the results

			Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.		peer review process. • Indonesia has completed the FSAP. The formal scope of assessment in Indonesia is to assess our level of adherence to the BCBS Core Principles for Effective Banking Supervision and IOSCO Objectives and Principles of Securities Regulation. For the IAIS Insurance Core Principles (ICP) is informal assessment assessing the sector general compliance and was not conducted by assessing principle by principle basis. The results for ICP are not intended to be made public, rather it is intended for regulator to strengthen the supervisory and regulatory frameworks in the Indonesian insurance sector.	contained in the report by the World Bank and IMF.
Reforming compensation practices to support financial stability						
33 (15)	(Pitts)	Implementation of FSB/FSF compensation principles	We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures	End-2010	Bank Indonesia has implemented several FSB Principles and Standards on Compensation particularly the principles related to the Good Corporate Governance, and disclosure. Bank Indonesia is planning to amend the BI Regulation (BIR) concerning Good Corporate Governance in the near future and issue a draft regulation concerning Remuneration which adopts the FSB Principles and Standards of Compensation Particularly on effective alignment of compensation with prudent risk taking. BI also has participated in follow up Thematic Peer Review on Compensation in second quarter of 2011.	We will continue reviewing the draft BI Regulation regarding corporate governance which will be the umbrella framework for remuneration regulation.

	(Tor) (Seoul)		in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately. We encouraged all countries and financial institutions to fully implement the FSB principles and standards by year-end. We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of 2011. We reaffirmed the importance of fully implementing the FSB's standards for sound compensation.			
34 (16)	(Pitts)	Supervisory review of firms' compensation policies etc.	Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have	Ongoing	In progress. The draft regulation of compensation practices for banks in Indonesia will fundamentally strengthen the following aspects such as enhanced governance of compensation, alignment of compensation with prudent risk taking, supervisory oversight by Bank Indonesia and enhanced disclosure. The proposed regulation will be the legal basis for supervisors to conduct strengthened supervisory process on bank compensation practices. Bank Indonesia will conduct supervisory reviews on compensation process primarily through direct supervision	

			the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.			
VIII. Other issues						
Credit rating agencies						
35 (37)	(Lon)	Registration of CRAs etc.	All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals.	End-2009	Bapepam-LK has issued six regulations on CRAs include rules on registration in June 2009, consistent with the IOSCO Code of Conduct Fundamentals. In 2010, Bapepam-LK has conducted inspection on 2 domestic CRAs in Indonesia. For banking sector, BI issued regulation concerning recognition of Credit Rating Agency whose rating is used for prudential regulation purposes such as regarding asset quality, market risk, and credit risk assessment.	
36 (38)	(Lon)	CRA practices and procedures etc.	National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight framework	End-2009	Bapepam-LK regulates how to manage conflict of interest through its rule regarding Behaviour of CRAs. Bapepam-LK has conducted inspection on CRAs. The inspection is designed to ensure that CRAs, rating process and methodology have been applied in practice. However, up to now, the oversight framework has not been shared/discussed into any other authorities. For banking sector, on a regular basis BI will monitor CRA whose rating is used for prudential regulation purposes to ensure that the CRA meets eligibility criteria. Based on the monitoring result, BI will be able to determine whether the CRA is still qualified to entitle recognition as the eligible CRA for prudential purposes or not.	

			should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO.			
37 (39)	(FSB 2009)	Globally compatible solutions to conflicting compliance obligations for CRAs	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010.	As early as possible in 2010	In principle, Bapepam-LK supports all form of cooperation towards appropriate, globally compatible solutions (to conflicting compliance obligation for CRAs). Bapepam-LK participates in ACRAA's meeting and other international meetings to discuss the development of rating industry. In 2011, Bapepam-LK concentrates on the inspection of the domestic credit rating agency. However, during 2011, Bapepam-LK has not been yet initiate or propose any cooperation among regulators regarding global compatible solutions (to conflicting compliance obligation for CRAs).	
38 (40)	(Seoul) (FSF 2008)	Reducing the reliance on ratings	We also endorsed the FSB's principles on reducing reliance on external credit ratings. Standard setters, market participants, supervisors and central banks should not rely mechanistically on external credit ratings. IV. 8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their	Ongoing	Bapepam-LK's rule regarding Licensing for Credit Rating Agency states that credit rating is not a recommendation for investors to make their decision.	

			own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation.			
Risk management						
39 (48)	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	BI requires banks to conduct stress testing through several regulations such as regulation concerning risk management. In addition, Bank Indonesia has also regularly conducted bottom up and top down stress tests since 2003. The stress testing results are used by supervisors to determine the individual bank's capital adequacy that is commensurate with its risk profile.	Bank Indonesia will continue to conduct robust, transparent stress tests as regular macro-prudential surveillance tools.
40 (49)	(Pitts)	Efforts to deal with impaired assets and raise additional capital	Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.	Ongoing	Bank Indonesia has regulations over asset quality of banks which require banks to establish provisions for their impaired assets, as a charge to profit and loss. Therefore, banks shall provide adequate capital to cover this provision charges.	
41 (53)	(WAP)	Enhanced risk disclosures by financial institutions	Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate.	Ongoing	Under the current transparency and disclosure regulations, Bank Indonesia has required banks to disclose their key risks (predominantly credit, market, liquidity risks, and operational risk). Insurance supervisor requires insurers to submit "risk based capital" solvency statements quarterly in addition to annual financial statements.	BI is in the process to amend regulation concerning Transparency of Financial Condition. The amendment will incorporate the convergences with the accounting standard and the new public accountant law.
Others						
42 (46)	(FSF 2008)	Review of national deposit insurance arrangements	VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed.	Ongoing	Completed. • In 2011, IDIC has sent several of its staffs to attend the IADI core principles assessment training. • IDIC and Bank of Indonesia has already signed a Memorandum of Understanding regarding the data sharing between the two institutions to strengthen the effectiveness of Indonesia financial safety nets arrangement.	

					This is aligning with the Principle 6 of IADI Core Principles • IDIC plan to adjust the coverage level—as an exit policy from the potential threat of financial crisis—to the optimum level. This is aligning with the Principle 9 of IADI Core Principles. • At the end of 2011, IDIC is going to implement the new methodology to estimate their provision (deposit insurance fund) based on the probability of default of each member banks. This is aligning with the Principle 11 of IADI Core Principles. • IDIC has been researching possibility to implement the risk-adjusted differential premium systems. This is aligning with the Principle 11 of IADI Core Principles. • IDIC strengthen its resolution process, both in terms of methodology and coordination with the Bank of Indonesia. This is aligning with the Principle 15 and 16 of IADI Core Principles.	
43 (55)	(Pitts)	Development of cooperative and coordinated exit strategies	We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures.	Ongoing	In progress. • Indonesia has been to large extent relatively well-insulated from the crisis. Economy went well and maintained positive growth rates. No extraordinary fiscal, monetary and financial sector support in Indonesia during the recent crisis. • Nevertheless, Indonesia has completed the submission of the Framework of Strong, Sustainable and Balanced Growth (FSSBG) to the IMF. • Under the FSSBG, Indonesia explains the projections of macro economy conditions and growth as well as policies that will be pursued in monetary, fiscal, and financial sector.	Continue monitoring FSSBG.

<u>Origin of recommendations</u>:

Seoul: The Seoul Summit Document (11-12 November 2010)
Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)
Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)
Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)
WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)
FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)
FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)
FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)