Basel Committee
on Banking Supervision

# Regulatory Consistency Assessment Programme (RCAP)

# Assessment of Basel NSFR regulations – Indonesia

March 2020

BANK FOR INTERNATIONAL SETTLEMENTS

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## Contents

# Glossary

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| BIS | Bank for International Settlements |
| BCBS | Basel Committee on Banking Supervision |
| C | Compliant (grade) |
| D-SIBs | Domestic systemically important banks |
| G-SIB | Global systemically important bank |
| IDR | Indonesian rupiah |
| LC | Largely compliant (grade) |
| MNC | Materially non-compliant (grade) |
| NC | Non-compliant (grade) |
| NSFR | Net Stable Funding Ratio |
| OJK | Otoritas Jasa Keuangan |
| PSEs | Public sector entities |
| RCAP | Regulatory Consistency Assessment Programme |
| SIG | Supervision and Implementation Group |

# Preface

The Basel Committee on Banking Supervision (Basel Committee) places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented fully, consistently and in a timely manner by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report presents the findings of an RCAP Assessment Team on the domestic adoption of the Basel Net Stable Funding Ratio (NSFR) standard in Indonesia. The assessment focused on the completeness and consistency of the domestic regulations in force on 31 December 2019 with the NSFR standard, as applied to all conventional[1] commercial banks classified as BUKU 3 and BUKU 4,[2] and to foreign banks in Indonesia. Issues related to prudential outcomes, the resilience of the banking system or the supervisory effectiveness of the Indonesian authorities' were not in the scope of this assessment. The assessment relied on translated regulations and other information and explanations provided by the Indonesian authorities and ultimately reflects the view of the Basel Committee.

The RCAP Assessment Team was led by Simon Hall, Head of Banking Policy Division, Bank of England. It comprised four technical experts from the Basel Committee Secretariat, Canada, Malaysia and Spain (see Annex 1). The main counterparty for the assessment was Otoritas Jasa Keuangan (OJK), Indonesia. The work was coordinated by the Basel Committee Secretariat with support from staff of the Bank of England.

The assessment began in mid-2019 and comprised (i) a self-assessment by the OJK; (ii) an assessment phase (August 2019 to December 2019), including an on-site assessment involving discussions with the Indonesian authorities and Indonesian banks; and (iii) a review phase (January 2020 to February 2020), including a technical review of the Assessment Team's findings by a separate RCAP Review Team, and consideration by the Basel Committee's Supervision and Implementation Group, the RCAP Peer Review Board and the Basel Committee. More information on the RCAP assessment process is available on the Basel Committee's website.[3]

The Assessment Team sincerely thanks the staff of the OJK for playing an instrumental role in coordinating the RCAP exercise and for the cooperation extended during the assessment process.

[1] Commercial banks comprise conventional commercial banks and sharia banks. Further details regarding the structure of the banking sector in Indonesia are provided in Section

[2] BUKU is the Indonesian acronym for **B**ank **U**mum berdasarkan **K**egiatan **U**saha, which translates as "Commercial Banks based on Business Activities". The BUKU 3 category includes banks with core capital of IDR 5–30 trillion, while the BUKU 4 category includes banks with core capital of at least IDR 30 trillion.

[3] See www.bis.org/bcbs/implementation.htm.

# Executive summary

In Indonesia, the NSFR framework was adopted through regulation POJK No 50/POJK.03/2017, published on 17 July 2017, which applies to all conventional commercial banks categorised under BUKU 4 or BUKU 3 and to foreign banks in Indonesia on a sole and consolidated basis, but does not include holding companies in its scope of application. Liquidity risk management practices are covered by complementary regulations, ie POJK No 18/POJK 03/2016 and POJK No 38 POJK 03/2017. The framework has been in force from 1 January 2018.

Overall, as of 31 December 2019, the NSFR regulations in Indonesia are assessed as compliant with the Basel NSFR standards. This is the highest possible grade. The Assessment Team recognises the efforts made by the OJK to align its NSFR rules with the Basel NSFR framework.

## Response from Otoritas Jasa Keuangan

The Indonesia Financial Services Authority (OJK) acknowledges its gratitude to Mr Simon Hall and all the RCAP-NSFR Assessment Team members and the Secretariat for the productive discussions and insightful comments on the implementation of the Net Stable Funding Ratio framework in Indonesia.

Throughout a comprehensive and thorough assessment of the implementation of the Basel Net Stable Funding Ratio standard in Indonesia, OJK welcomes that the Indonesian NSFR Regulation was assessed as compliant with the Basel NSFR standard. Together with the LCR, the implementation of the NSFR has improved liquidity risk management in Indonesia.

OJK considers the RCAP process a very useful exercise, and is supportive of the Basel Committee's objectives to promote consistency of the implementation of rules among member countries. We remain committed to cooperating with and participating in future RCAP assessments.

# 1 Assessment context

## 1.1 Status of NSFR implementation

The OJK implemented the NSFR framework on 1 January 2018 for all conventional commercial banks categorised under BUKU 4 or BUKU 3 and foreign banks operating in Indonesia. The foreign bank category refers to:

- branch offices of banks domiciled overseas;
- commercial banks in the form of an Indonesian legal entity with more than 50% of their shares owned by foreign citizens and/or foreign legal entities, both individually or jointly; and
- banks that are less than 50% owned, either individually or jointly, by foreign citizens and/or foreign legal entities but with control by these foreign citizens and/or foreign legal entities.

The NSFR regulation is published in *Bahasa* Indonesia. For the purpose of the RCAP assessment, the regulations were translated into English.

## 1.2 Regulatory system

The OJK is the main regulatory and supervisory authority for banks in Indonesia. It was established in 2011 by Law No 21/2011 and assumed regulatory and supervisory responsibilities for capital markets and non-bank financial institutions on 31 December 2012. On 1 January 2014, the OJK took over banking supervision from Bank Indonesia (BI), the Indonesian central bank.

The OJK is an independent state institution. Its main decision-making body is the Board of Commissioners, which comprises nine members with equal voting rights. The Commissioners are appointed by the parliament from candidates proposed by the president based on the recommendation of a selection committee. The Board also includes two ex-officio members, one from the Ministry of Finance and one from BI. The Board is responsible for determining the OJK's regulations, operational procedures, work plans and budget (the latter subject to parliamentary approval).

On 13 July 2017, OJK issued Regulation on the NSFR (POJK No 50/POJK.03/2017). It applies to all conventional commercial banks classified as BUKU 3 and BUKU 4, and to foreign banks. As of September 2019, these banks account for over 88.21 % of Indonesian banking assets. The Basel framework does not apply to sharia or rural banks.[4] In evaluating the materiality of its findings, the Assessment Team focused on eight large Indonesian banks, including the four largest commercial banks.

The OJK issues prudential regulations under the powers delegated to it by Law No 21/2011.[5] These regulations are legally binding. The structure of Indonesian regulations is: (i) Law No 23/1999 and Law No 21/2011 establishing the OJK as supervisor; (ii) OJK and BI Regulations; and (iii) OJK and BI Circular Letters. More information is provided in Annex 2.

[4] The regulatory regime followed by sharia banks is similar to the Basel framework. Where there are differences, due to the unique characteristics of sharia banks (eg profit-sharing investment accounts), the OJK follows the standards set by the Islamic Financial Services Board. Rural banks are restricted in their operations, as described in Section 1.3.

[5] According to Article 85 of Law No 12/2011 (which concerns the establishment of legislation), the Ministry of Justice and Human Rights formally enacts the regulations by including them in the Official Gazette of the Republic of Indonesia.

## 1.3 Structure of the banking sector

The banking system in Indonesia consists of 110 commercial banks and 1,578 rural banks (as of September 2019). Total commercial banking assets are around 70.4% of Indonesia's gross domestic product. Commercial banks comprise 96 conventional commercial banks, to which the Basel framework is applied, and 14 sharia banks. The banking system is dominated by state-owned banks and government-owned regional development banks. Rural banks, while numerous, account for less than 2% of banking sector assets. These banks are not connected to the payment and clearing system and are restricted in the scope of their operations. There are no global systemically important banks (G-SIBs) based in Indonesia, although a number of G-SIBs have Indonesian branches. There are 13 designated domestic systemically important banks (D-SIBs) in Indonesia, with 68.58% of assets in the banking system. The commercial banks in Indonesia have limited overseas activities, with no bank holding more than 12% of its assets as foreign assets.

Bank capital comprises mainly equity. Based on the Basel III standard, the weighted average total capital ratio of the eight sample banks was 21.64% as of September 2019. The Common Equity Tier 1 (CET1) ratio was 20.40% as of September 2019.

There are 14 commercial sharia banks and 165 rural sharia banks in Indonesia. These banks account for around 4% of Indonesian banking assets. They are not subject to Basel capital requirements.

## 1.4 Scope of the assessment

The Assessment Team considered the NSFR rules applicable to the banks in Indonesia as of 31 December 2019. The assessment had two dimensions:

- a comparison of domestic regulations with the Basel NSFR standards to ascertain that all the required provisions have been adopted (*completeness* of the regulations); and
- whether there are any differences in substance between the domestic regulations and the Basel NSFR standards and, if so, their significance (*consistency* of the regulations).

In its assessment, the RCAP Assessment Team considered all binding documents that effectively implement the Basel NSFR standards in Indonesia. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the adequacy of the liquidity or the resilience of the banking system in Indonesia or the supervisory effectiveness of the OJK.

Annex 3 lists the key liquidity indicators of the Indonesian banking system and the sample of banks.

The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the four key components of the Basel NSFR standards and the overall assessment of compliance. The four grades are: compliant, largely compliant, materially non-compliant and non-compliant.

# 2 Assessment findings

## 2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the NSFR in Indonesia to be compliant with the Basel standards.

| Assessment grades | Table 1 |
|---|---|
| Component of the Basel NSFR framework | Grade |
| Overall grade | C |
| Scope, minimum requirement and application issues | C |
| Available stable funding (numerator) | C |
| Required stable funding (denominator) | C |
| NSFR disclosure requirements | C |

Assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

### 2.1.1 Scope, minimum requirement and application issues

The OJK scope, minimum requirement and application issues are compliant with the Basel NSFR standard.

### 2.1.2 Available stable funding

The OJK definition of available stable funding is compliant with the Basel NSFR standard.

### 2.1.3 Required stable funding

The OJK definition of required stable funding is compliant with the Basel NSFR standard.

### 2.1.4 Disclosure requirements

The OJK disclosure requirements are compliant with the Basel standard.

## 2.2 Detailed assessment findings

All components were assessed to be compliant with the Basel framework. No findings were identified.

## 2.3 Observations on the NSFR implementation in Indonesia

The following observations highlight certain special features of the regulatory implementation of the Basel NSFR standards in Indonesia. These are presented to provide additional context and information. These observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

### 2.3.1 Scope, minimum requirement and application issues

| Basel paragraph number | 10: National discretion |
|---|---|
| Reference in the domestic regulation | No reference |
| Observation | The provision states that elements subject to national discretion should be explicit and clearly outlined in the domestic regulations. Although the provision itself is not included, elements of national discretion (eg off-balance sheet items) are explicitly and clearly addressed in the regulations. |
| Basel paragraph number | 50: Scope of application |
| Reference in the domestic regulation | No reference |
| Observation | The Basel NSFR standard paragraph 50 requires that the application of the NSFR requirement follows the scope of application set out in Part I (Scope of Application) of the Basel II framework. Accordingly, the scope of application of the standard will |

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|---|---|
| | include, on a fully consolidated basis, any holding company that is the parent entity within a banking group to ensure that it captures the risk of the whole banking group.<br>The Assessment Team observes that the OJK NSFR Regulation does not apply at every tier within a banking group to the extent that companies that held ownership of a bank or the bank holding companies were not included in the scope of application.<br>The Assessment Team also notes that currently, Indonesia does not have a bank holding company structure. |
| Basel paragraph number | 51: Scope of application |
| Reference in the domestic regulation | Annex 1, part VII |
| Observation | The Basel NSFR standard paragraph 51 requires banks to actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory and operational limitations to the transferability of liquidity.<br>The OJK NSFR Regulation Annex 1, part VII establishes the minimum quantitative standard that Indonesian banks must comply with to monitor the condition and adequacy of liquidity by using certain liquidity indicators.<br>In the OJK NSFR Regulation, there is no mention of the level of consolidation for this additional monitoring and control of liquidity risk and funding needs and the reference to legal, regulatory and operational limitations to the transferability of liquidity is missing. However, in Regulations POJK No 18/POJK 03/2016 and POJK No 38 POJK 03/2017 that cover risk management practices, it is stipulated that banks must monitor and control liquidity risk both on an individual and a consolidated basis, taking into account legal, regulatory and operational limitations to the transferability of liquidity.[6] |

### 2.3.2 Available stable funding

| Basel paragraph number | 24: Liabilities receiving a 50% ASF factor |
|---|---|
| Reference in the domestic regulation | Annex 1, part III, paragraph D4 |
| Observation | Funding received from National Development Banks is not included separately in the OJK's regulations. Indonesia classifies banks as either commercial or rural so that an NDB would be captured as an "other" funding provider and subject to the same treatment set out in the Basel standard. |

### 2.3.3 Required stable funding

| Basel paragraph number | 29: Residual maturity |
|---|---|
| Reference in the domestic regulation | Annex 1, part IV, paragraphs C.1, 2a 3, E |
| Observation | Amortising loans with a portion that comes due within one year are not explicitly mentioned in the regulations. In the absence of this specific language, the portion that comes due within one year is treated as having a residual maturity of more than one year. This outcome is more conservative than the Basel provision and, hence, it has no impact on the assessment.<br>With regard to the determination of the maturity of an asset, Basel FAQ 21 relating to paragraph 29 of the Basel framework states that supervisors may allow, on a case-by-case basis, the use of the next review date as the residual maturity date where a non-maturity loan is subject to a review date contractual provision. The OJK regulation states that "If there is a contractual agreement that includes a review date, the Bank can use the next review date as the maturity date" and so provides an automatic use of the review date since banks do not need to consult with their supervisor prior to using this |

[6] For details of Indonesia's implementation of the liquidity monitoring tools, see www.bis.org/bcbs/publ/d393.pdf.

| | |
|---|---|
| | assumption. However, the Assessment Team noted that OJK can use their supervisory powers to overrule this assumption in the light of banks' potential reputational concerns so that, in substance, the outcomes of the Basel text and OJK regulation would be the same. |
| Basel paragraph number | 43: Assets assigned a 100% RSF factor |
| Reference in the domestic regulation | Annex 1, part IV, paragraph E8 |
| Observation | Insurance assets are not explicitly mentioned in the regulation. However, assets not explicitly listed in other categories default to the 100% RSF factor category and, hence, this omission has no bearing on the outcome of the assessment. |

# Annexes

## Annex 1: RCAP Assessment Team and Review Team

### Assessment Team Leader

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|---|---|
| Mr Simon Hall | Head of Banking Policy Division, Bank of England |

### Assessment Team members

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|---|---|
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### Supporting members

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| Mr Natan Misak | Bank of England |
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| Mr Olivier Prato | Basel Committee Secretariat |

### Review Team members

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| Mr Alberto Rios | Bank of Spain |
| Mr Bob Muller | Commission de Surveillance du Secteur Financier, Luxembourg |
| Ms Mo Du | China Banking and Insurance Regulatory Commission |
| Mr Neil Esho | Basel Committee on Banking Supervision |

## Annex 2: List of Basel standards and implementing regulations issued by Indonesian authorities

The following Basel standards were used as the basis of this RCAP assessment:

- *Basel III: the Net Stable Funding Ratio*, October 2014
- *Pillar 3 disclosure requirements – consolidated and enhanced framework*, March 2017
- *Implementation of Net Stable Funding Ratio and treatment of derivative liabilities*, October 2017
- *Basel III: The Net Stable Funding Ratio – Frequently Asked Questions, February 2017*

Table A.1 lists the regulations issued by the OJK to implement the NSFR in Indonesia. Previous RCAP assessments of Indonesian implementation of the Basel standards considered the binding nature of regulatory documents in Indonesia.[7] This RCAP Assessment Team did not repeat that assessment, but instead relied on the findings of the previous assessments. Those assessments concluded that the types of instrument described in Table A.1 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

Overview of relevant Indonesian NSFR regulations — Table A.1

| Domestic regulations | Type, version and date |
|---|---|
| OJK Regulation | POJK No 50/POJK.03/2017 concerning the Net Stable Funding Ratio Requirement for Commercial Banks issued in July 2017. |

Source: OJK.

[7] Annex 6 of the BCBS RCAP-LCR report on Indonesia, www.bis.org/bcbs/publ/d393.pdf

# Annex 3: Key liquidity indicators of the Indonesian banking system

Overview of Indonesia banking sector liquidity as of 30 September 2019 — Table A.2

| Size of banking sector (IDR millions) | | |
|---|---|---|
| Total exposures of all banks operating in Indonesia (including off-balance sheet exposures) | 10,046,051,088 | |
| Total assets of all locally incorporated internationally active banks | 0 | |
| Total assets of locally incorporated banks to which liquidity standards under the Basel framework are applied | 9,350,753,716 | |
| **Number of banks** | | |
| Number of banks operating in Indonesia (excluding local representative offices | 96 | |
| Number of global systemically important banks (G-SIBs) | 0 | |
| Number of D-SIBs | 13 | |
| Number of banks which are internationally active | 0 | |
| Number of banks required to implement Basel III liquidity standards | 48 | |
| Number of banks required to implement domestic liquidity standards | 96 | |
| **Breakdown of NSFR for eight RCAP sample banks (IDR millions; as of 30 September 2019)** | **Unweighted** | **Weighted** |
| Capital | 847,230,244 | 847,130,244 |
| Stable deposits from retail and small business customers | 1,630,043,581 | 1,549,202,221 |
| Less stable deposits from retail and small business customers | 732,284,989 | 660,130,448 |
| Unsecured funding from non-financial corporates | 972,005,434 | 458,936,941 |
| Unsecured funding from central banks, sovereigns, PSEs, MDBs and NDBs | 227,239,440 | 110,167,128 |
| Unsecured funding from financials (other legal entities) | 305,229,882 | 158,161,715 |
| Secured funding (all counterparties) | 169,151,720 | 87,109,010 |
| Other liabilities | 233,120,686 | 48,903,465 |
| Total available stable funding | **5,116,305,976** | **3,919,741,171** |
| Cash and central bank reserves | 609,736,759 | 0 |
| Loans to financial institutions | 238,545,745 | 118,468,452 |
| Securities eligible as Level 1 HQLA | 370,918,324 | 48,498,142 |
| Securities eligible as Level 2A HQLA | 17,532,139 | 2,733,755 |
| Securities eligible as Level 2B HQLA | 4,271,152 | 2,135,576 |
| All residential mortgages | 402,385,281 | 263,569,376 |
| Loans, <1 year | 814,898,545 | 362,823,586 |
| Other loans, >1 year, risk weight<=35% | 547,247,529 | 239,496,922 |
| Loans, risk weight>35% | 1,829,001,947 | 1,445,814,018 |
| Derivatives | 5,992,767 | 5,992,240 |
| All other assets | 500,833,006 | 451,082,404 |
| Off-balance sheet | 1,040,197,052 | 34,697,237 |
| Total required stable funding | **6,381,560,246** | **2,975,311,708** |
| NSFR | | **130.68%** |

Source: OJK.

| RCAP sample banks | Table A.3 |
|---|---|
| Banking group | Share of banks' assets in the total assets of the Indonesia banking system (per cent) |
| Bank Rakyat Indonesia | 15.50 |
| Bank Mandiri | 13.78 |
| Bank Central Asia | 11.01 |
| Bank Negara Indonesia | 9.47 |
| Bank Tabungan Negara | 3.96 |
| Bank CIMB Niaga | 3.28 |
| Pan Indonesia Bank | 2.41 |
| Bank Ocbc Nisp | 2.19 |
| | |
| Total | 61.60 |

Source: OJK. For this purpose, banking assets are based on the measure of total exposures used in the leverage ratio, which includes both on- and off-balance sheet exposures.

# Annex 4: Areas where the Indonesian rules are stricter than the Basel standards

In two areas, the Indonesian authorities have adopted a stricter approach than the minimum standards prescribed by the Basel Committee. These are listed below for information. The stricter rules have not been taken into account as mitigants for the overall or component-level assessment of compliance.

While the Basel NSFR standard applies to all internationally active banks, the OJK regulation applies to all conventional commercial banks in Indonesia categorised as BUKU 3 or BUKU 4, and to foreign banks.

Based on the BCBS NSFR standard related to amortising loans, the portion that comes due within the one-year horizon can be treated in the less-than-one-year residual maturity category. However, in the POJK NSFR, the RSF factor for amortising loans is determined based on the contractual period. Therefore, the value of RSF will be greater than a less-than-one-year residual maturity category (more conservative).

# Annex 5: Elements of the NSFR subject to national discretion

Implementation of national discretions by the OJK

Table A. 4

| Basel paragraph | Description | National implementation |
|---|---|---|
| 25(a) | Treatment of deposits between banks within the same cooperative network | No. |
| 31 | Treatment of excess collateral in a covered bond collateral pool allowing for multiple issuance | No. |
| 31, 36 | Treatment of central bank operations | Yes.<br>The implementation of a lower RSF factor for a bank's assets pledged as collateral in a repo transaction with Bank Indonesia (central bank) for the bank's exclusive liquidity operations is carried out with the approval of the OJK, in coordination with Bank Indonesia. |
| 43 | RSF factor for derivative liabilities | No. |
| 45 | Treatment of interdependent assets and liabilities | Yes.<br>When exercising the discretion of interdependent items, supervisors consider whether perverse incentives or unintended consequences are being created.<br>There was one case where OJK refused the request of a bank looking to apply the interdependency treatment, whereby both the asset and liability would have been assigned a 0% weighting in both ASF and RSF. |
| 47 | RSF factors for other contingent funding obligations | Yes.<br>Other contingent funding obligations which received:<br>1) RSF factor of 5% are contingent liabilities from other funding, including:<br>a) obligations derived from letters of credit (L/C) and guarantees that are not related to trade finance obligations;<br>b) obligations arising from potential requests to repurchase the bank's debt or related to conduits, securities investment vehicles, and other financing facilities;<br>c) obligations derived from structured products that are anticipated by customers through ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs); and<br>d) obligations derived from managed funds that are sold with the aim of maintaining value stability.<br>2) RSF factor of 3% are obligations arising from trade finance instruments, including bank guarantees and letters of credit (loan commitments such as direct import and export financing for non-financial companies are exempted from the calculation).<br>3) RSF factor of 0% (zero percent) are obligations originating from credit facilities and liquidity facilities that are unconditionally revocable and uncommitted. |
| 50 | Scope of application of NSFR and scope of consolidation of entities within a banking group | Yes.<br>The NSFR requirement applies to:<br>a. Banks included in the BUKU 4 category;<br>b. Banks included in the BUKU 3 category; and<br>c. Foreign banks. |

| | | |
|---|---|---|
| | | The NSFR requirement for banks which own and/or have control over subsidiaries applies on an individual and consolidated basis. |

Source: OJK.