

## Frequently Asked Questions

**Bank Indonesia Regulation Number 14/18/PBI/2012, dated 28<sup>th</sup> November 2012, regarding the Minimum Capital Adequacy Requirement for Commercial Banks (State Gazette of the Republic of Indonesia 2012 Number 261; Supplement to State Gazette of the Republic of Indonesia Number 5369).**

**1. What is the background behind the promulgation of this Bank Indonesia Regulation?**

The background behind the promulgation of this Bank Indonesia Regulation is the application of prevailing international standards, particularly in relation to the implementation of Basel II. In addition, the move is in line with increasing business complexity that escalates bank risk, which is not only limited to credit risk, market risk and operational risk but also credit concentration risk, market risk on the banking book, liquidity risk, strategic risk, legal risk, compliance risk and reputational risk, all of which must be mitigated through adequate bank capital. On the other hand, Bank Indonesia, as host supervisor, is also required to anticipate the impact of global economic developments that might disrupt financial system stability and the banking sector through the implementation of Capital Equivalency Maintained Assets (CEMA) for foreign bank branch offices.

**2. What are the specifics of this Bank Indonesia Regulation?**

a. Banks shall be required to provide a minimum level of capital according to their risk profile as follows:

- 1) 8% of risk-weighted assets (ATMR) for banks with a risk profile rating of 1;

- 2) 9% to less than 10% of risk-weighted assets (ATMR) for banks with a risk profile rating of 2;
  - 3) 10% to less than 11% of risk-weighted assets (ATMR) for banks with a risk profile rating of 3; and
  - 4) 11% to 14% of risk-weighted assets (ATMR) for banks with a risk profile rating of 4 or 5.
- b. Bank Indonesia shall be authorised to set a higher level of minimum capital beyond the aforementioned range if Bank Indonesia considers the prevailing level of minimum capital insufficient to cover the anticipated risks faced.
  - c. In the event that a Bank has control over a subsidiary company, the minimum capital adequacy ratio is applicable to the Bank individually as well as consolidated with its subsidiaries.
  - d. In fulfilling the capital adequacy requirement, Banks shall be required to apply an Internal Capital Adequacy Assessment Process (ICAAP) according to the size, characteristics and business complexity of the Bank.
  - e. Bank Indonesia shall review and assess the implementation of ICAAP, otherwise known as the Supervisory Review and Evaluation Process (SREP).
  - f. Banks shall be required to report their capital adequacy evaluation to Bank Indonesia together with a self-assessment of the Bank's soundness level, which will commence using the risk profile rating for the position in December 2012.
  - g. Foreign bank branches shall be required to meet a minimum level of Capital Equivalency Maintained Assets (CEMA). CEMA is an amount of capital allocated by a foreign bank branch office, consisting of business funds, mandatorily placed in financial instruments that meet certain requirements.

- h. Minimum CEMA is set at 8% of total bank liabilities each month and shall total no less than Rp1 trillion.
- i. CEMA is calculated on a monthly basis. Financial assets set aside to meet minimum CEMA shall not be exchanged until the subsequent CEMA period.
- j. Foreign bank branch offices shall be required to submit a CEMA fulfilment report each month.

**3. Which components shall be required according to ICAAP?**

At a minimum, ICAAP contains four main pillars that must be met as follows:

- a. Active supervision of the Board of Commissioners and Board of Directors;
- b. Capital Adequacy Assessment;
- c. Monitoring and Reporting; and
- d. Internal Control.

**4. What is the relationship between ICAAP and SREP?**

If there is a discrepancy in the amount of additional capital required according to the risk profile between the self-assessment and the results of SREP, the calculation of capital shall be based on the results of SREP.

**5. What shall the authority of Bank Indonesia be if a bank experiences a continuous decline in capital with the potential to bring the level of capital to below the minimum requirement?**

Bank Indonesia shall be authorised to require the affected Bank to implement a number of measures, among others:

- a. Restrict certain business activities;
- b. Restrict office opening; and/or
- c. Restrict capital distribution.

**6. Which financial assets can be used to meet CEMA requirements?**

a. Government Securities

Securities issued by the Government of the Republic of Indonesia and held to maturity.

b. Securities of other Banks

1) issued by a bank incorporated in Indonesia;

2) non-equity;

3) of investment grade; and

4) not for trading purposes.

c. Corporate Securities

1) issued by a corporation incorporated in Indonesia;

2) non-equity;

3) of at least an A+ rating or equivalent;

4) not for trading purposes; and

5) the portion of corporate securities shall not exceed 20% (twenty percent) of total minimum CEMA.

**7. Can other parties repurchase financial assets allocated to CEMA?**

No. Financial assets used as CEMA must be free of any party claims, including repurchase agreements.

**8. When shall banks be required to meet CEMA requirements?**

Foreign bank branch offices shall be required to meet CEMA requirements no later than the sixth calendar day of the subsequent month.

**9. What is the reporting mechanism for the capital adequacy requirement based on risk profile and CEMA fulfilment?**

a. The Report of the Capital Adequacy Requirement based on Risk Profile

The capital adequacy report shall be submitted twice per annum together with the RBBR report for the position in June and December.

b. The Report of CEMA Fulfilment

The CEMA fulfilment report shall be submitted monthly no later than the eighth calendar day of the following month.

**10. When will the Capital Adequacy Requirement based on risk profile and minimum CEMA requirement become effective?**

a. Calculating minimum capital according to the risk profile will commence using the risk profile rating for the position in December 2012.

b. The minimum capital adequacy requirement according to risk profile is stipulated as follows:

1) The fulfilment of minimum capital at the position from March to August shall be based on the risk profile rating at the position in the previous December;

2) The fulfilment of minimum capital at the position from September to February in the following year shall be based on the risk profile rating at the position in June;

3) In the event of a change in the risk profile in-between periods of risk profile assessment, the fulfilment of minimum capital shall be based on the last position of the risk profile rating.

c. Foreign bank branch offices shall be required to meet a minimum CEMA of 8% of total bank liabilities no later than June 2013.

d. In the event that minimum CEMA is less than Rp1 trillion, the foreign bank branch office shall be required to fulfil a minimum CEMA of Rp1 trillion no later than December 2017.