Basel Committee
on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel large exposures regulations – Indonesia

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BANK FOR INTERNATIONAL SETTLEMENTS

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Contents

Glossary

BIS	Bank for International Settlements
BCBS	Basel Committee on Banking Supervision
C	Compliant (grade)
D-SIBs	Domestic systemically important banks
FAQs	Frequently asked questions
G-SIB	Global systemically important bank
LC	Largely compliant (grade)
LEX	Large exposures
LLL	Legal lending limits
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
OJK	Otoritas Jasa Keuangan
RCAP	Regulatory Consistency Assessment Programme
PSEs	Public sector entities
SOEs	State-owned enterprises
SIG	Supervision and Implementation Group
SMEs	Small and medium-sized enterprises

Preface

The Basel Committee on Banking Supervision (Basel Committee or BCBS) 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 Basel 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 large exposures (LEX) framework in Indonesia. The assessment focused on the completeness and consistency of the domestic regulations in force on 31 December 2019 with the Basel LEX framework, as applied to all conventional commercial banks[1] 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.[2]

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 1.3.

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

Executive summary

In Indonesia, the large exposures (LEX) framework applies to all conventional commercial banks including foreign banks on a sol and consolidated basis. The framework was published through regulation POJK No 32/POJK.03/2018 on 27 December 2018 and was in force from 1 June 2019.

Overall, as of 31 December 2019, the LEX regulations in Indonesia are assessed as compliant with the Basel LEX standards. This is the highest possible grade. Each component is also assessed as compliant.

The Assessment Team has identified one non-material finding in the scope and definition of the OJK LEX rules. This concerns the smallholder-nucleus scheme, in which a nucleus company guarantees loans to smallholders and is exempted from borrower grouping if certain requirements are met.

The Assessment Team noted that the OJK LEX framework is super-equivalent to the Basel LEX framework in several areas (see Annex 5). This includes the scope of application to all conventional commercial banks, the inclusion of intragroup exposures in the limit, a stricter requirement for state-owned enterprises (SOEs) that are PSEs, and assessing economic interdependence for all counterparties irrespective of exposure size. In accordance with the methodology and guidance provided in the RCAP Handbook for jurisdictional assessments, the stricter rules have not been taken into account as a mitigant for the overall or component-level assessment of compliance.

The Assessment Team recognises the efforts made by the OJK to improve the consistency of its LEX regulation throughout the assessment process. These amendments were included in the final guidance issued by the OJK on 19 December 2019 (see Annex 4 for a complete list of the amendments).

Response from Otoritas Jasa Keuangan

The Otoritas Jasa Keuangan (OJK) would like to express our gratitude to Mr Simon Hall and to all the members of the Assessment Team and the BCBS Secretariat for their professionalism and insightful comments during the review process. This RCAP has been a great opportunity for us to deepen our understanding of the Basel framework and enhance the effectiveness of our regulation.

The OJK welcomes the overall rating of compliant for the Indonesian LEX Regulation. In developing the LEX regulation, the OJK has tailored the Basel LEX framework to best fit Indonesian conditions where necessary while also incorporating feedback given by the RCAP Assessment Team.

The OJK considers the RCAP process a very useful exercise to promote consistency of the implementation of rules among member countries. We believe it provides everyone with the opportunity to implement the global standards in the manner intended by the Basel Committee. We remain committed to cooperating with and participating in future RCAP assessments.

1 Assessment context

1.1 Status of implementation of the large exposures framework

The OJK implemented the LEX framework on 1 June 2019 for all conventional commercial banks operating in Indonesia. The LEX 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 27 December 2018, the OJK issued a Regulation on the Large Exposures Framework (POJK No 32/POJK.03/2018). It applies to all conventional commercial banks including foreign banks. As of September 2019, these banks accounted for about 96.09% of Indonesian banking assets. The Basel framework does not apply to *sharia* or rural banks.[3] 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.[4] 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.

1.3 Structure of the banking sector

Indonesia's banking system consists of 110 commercial banks and 1,578 rural banks (as of September 2019). Total 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. 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, though a number of G-SIBs have Indonesian branches. There are 13 designated domestic systemically important banks (D-SIBs) in Indonesia. The commercial banks in Indonesia have limited overseas activities, with no bank holding more than 12% of its assets as foreign assets.

[3] 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.

[4] 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.

Bank capital comprises mainly Tier 1 Capital. 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 comprise 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 large exposure limits applicable to banks in Indonesia as of 31 December 2019. The assessment had two dimensions:

- a comparison of domestic regulations with the Basel LEX framework 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 LEX framework 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 LEX framework in Indonesia. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the resilience of the banking system in Indonesia or the supervisory effectiveness of the OJK.

As set out in the RCAP methodology, the Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel LEX framework and the local regulations. The quantification was limited to a sample of banks. In addition, the Assessment Team reviewed the non-quantifiable aspects of identified deviations and applied expert judgment as to whether the domestic regulations meet the Basel framework in letter and in spirit. The materiality analysis is summarised in Annex 3, which also lists the sample of banks.

The Assessment Team noted that, in some areas, Indonesian rules go beyond the minimum Basel standards. Although these elements (listed in Annex 5) provide for a more rigorous implementation than the Basel framework, they have not been taken into account for the assessment of compliance.

The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the three key components of the Basel LEX framework 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 LEX framework in Indonesia to be compliant with the Basel LEX standards. This grade is based on the materiality assessment (summarised in Annex 3) and takes into account the rectifications issued by the assessed authorities in 19 December 2019, as described in Annex 4.

Assessment grades	Table 1
Component of the Basel LEX framework	Grade
Overall grade	C
Scope and definitions	C
Minimum requirements and transitional arrangements	C
Value of exposures	C

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

2.1.1 Scope and definitions

The OJK's regulation on the scope and definition requirements is assessed to be compliant with the Basel LEX framework, with one non-material finding identified with regard to the smallholder-nucleus scheme, in which a nucleus company guarantees loans to smallholders and is exempted from the borrower group if certain requirements are met.

The following observations were noted:

- intragroup exposures, other than to related Prime Banks and the bank's pension funds, are included in the 10% limit for related-party exposures;
- bank holding companies were not included in the scope of application, given that there is currently no banking group with a holding company structure in Indonesia;
- exposures to state-owned enterprises (SOEs), which the central government is obligated to fully support, for the purpose of national development, are subject to a limit of 30% of the bank's capital (Tier 1 and Tier 2 capital);
- exposures to local government entities, which have the support of central government but have non-zero risk weight under the risk-based capital framework, are subject to LEX; and
- banks in Indonesia are expected to investigate possible connected counterparties on the basis of economic interdependencies in all cases, ie no threshold for size of exposures is applied in the assessment.

2.1.2 Minimum requirements and transitional arrangements

The OJK's regulation on minimum requirements and transitional arrangements is assessed to be compliant with the Basel standard. Following rectifications by the OJK, no findings were identified.

However, the Assessment Team observed that the OJK has not issued any rules for a G-SIB's exposure to another G-SIB. But the Assessment Team noted that there are currently no G-SIBs in Indonesia. The Assessment Team further observed that, while there are 13 D-SIBs in Indonesia, the OJK has not exercised its national discretion to set a tighter limit for the exposure of an Indonesian D-SIB to a foreign G-SIB or to another Indonesian D-SIB. In addition, the regulation concerning the LEX limit for the conventional commercial banks came into force on 1 June 2019.

2.1.3 Value of exposures

The OJK's regulation on the value of exposures is assessed to be compliant with the Basel standard. Following rectifications by the OJK, no findings were identified.

The Assessment Team observed that the OJK LEX regulation does not contain provisions about certain forms of collateral (only eligible under the IRB approach) that are not eligible to reduce exposure values for large exposure purposes. The Assessment Team noted that OJK does not allow banks in Indonesia to apply the IRB approach for credit risk.

2.2 Detailed assessment findings

2.2.1 Scope and definitions

This component is assessed to be compliant with the Basel LEX framework. One non-material finding was identified.

Section grade	compliant
Basel paragraph number	19–21: Definition of connected counterparties
Reference in the domestic regulation	Article 19 of Regulation No 32/POJK.03/2018
Finding	The Basel LEX framework requires banks to assess the relationships among counterparties in order to establish the existence of a group of connected counterparties. The Indonesian LEX regulation exempts grouping under the smallholder-nucleus scheme in which the nucleus company[5] guarantees loans to smallholders if certain requirements are met. According to the information provided by the OJK, this exemption is to support the government's programme for smallholders, which has been in existence since the 1970s. Based on the data provided by the OJK, the Assessment Team considers this finding not material: a) Exposures to individual smallholders (guaranteed by a nucleus company) are less than 1% of Tier 1 capital. Hence, this suggests a highly diversified portfolio; and b) Except for one nucleus scheme, total aggregate exposures to smallholder-nucleus scheme groups is less than 5% Tier 1 capital, ie there are no material concentrations to a particular smallholder-nucleus scheme group.
Materiality	Not material

2.3 Observations on the implementation of the large exposures framework in Indonesia

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

2.3.1 Scope and definitions

Basel paragraph number	9: Treatment of intragroup exposures
Reference in the domestic regulation	Article 5, Article 13, Article 24 paragraph 2.a and Article 46 paragraph 4.a of Regulation No 32/POJK.03/2018
Observation	Intragroup exposures have not been included in the scope of the Basel LEX framework.

[5] By referring to the elucidation of Article 19 para (1) of the POJK 32/POJK.03/2018, a nucleus company is a company which provides assistance to small-scale companies in the vicinity, operating as the lead company in a partnership system that is mutually beneficial, self-contained and sustainable.

	Under the Indonesia LEX regulation, total exposures to all related parties, other than the following exposures, are set at 10% of the bank's capital: a) entities controlled by the bank through the bank's pension fund; b) exposures to related Prime Banks[6] up to 90% of the bank's capital; and c) exposures guaranteed by related Prime Banks, insofar as the issued guarantee meets certain requirements, up to 90% of the bank's capital. Based on the discussion, the OJK confirmed that direct exposures to the entities controlled through the bank's pension fund are subject to the 25% LEX limit. In addition, banks are required to investigate the connectedness of these entities based on economic interdependence as stipulated under Article 17 paragraph 1 of Regulation No 32/POJK.03/2018.
Basel paragraph number	10–12: Scope and level of application
Reference in the domestic regulation	Article 2 paragraph 1 of Regulation No 32/POJK.03/2018
Observation	The Basel LEX framework is applicable to all internationally active banks and must be applied at the same level as the risk-based capital requirements, ie, at every tier within a banking group. In Indonesia, the LEX regulation applies to all conventional commercial banks at both sole and consolidated levels. According to the information provided by OJK, there is currently no banking group with a holding company structure and none of the Indonesian banks has been designated as internationally active banks. OJK also informed that, where sharia commercial banks are subsidiaries of conventional commercial banks, these banking groups are required to follow the Indonesian LEX framework applicable to conventional commercial banks on a consolidated basis. Based on the discussion, OJK explained that approval from OJK is required for the establishment of a holding company. In the event OJK approves the holding company structure, OJK will consider issuing new regulations to require the holding company to comply with the rules imposed on conventional commercial banks.
Basel paragraph number	13: Scope of counterparties and exemptions
Reference in the domestic regulation	Article 39 of Regulation No 32/POJK.03/2018
Observation	The Basel LEX framework exempts banks' exposures to sovereigns and their central banks. This exemption also applies to public sector entities treated as sovereigns according to the risk-based capital framework. Under the Indonesia LEX regulation, exposures to state-owned enterprises (SOEs) for the purpose of national development is limited to 30% of the bank's capital (Tier 1 and Tier 2 capital). According to the information provided by OJK, the SOE Law No19 Article 72 Elucidation states that the central government is obligated to fully support the SOEs whenever the SOEs experience any problem. Further, the SOE Law No 19 Article 2 states that the objective and purpose of establishment of an SOE shall be to establish public benefit through the supply of high-quality and affordable goods and/or services for the lives of the people, for example, in construction, electricity, transportation, water etc. Based on the discussion, OJK explained that SOEs established for national development purposes are deemed as PSEs and claims on these SOEs are treated as claims on sovereigns. However, instead of an exemption, OJK requires claims to SOEs to be subject to a 30% LEX limit for prudential reasons. OJK further explained that entities under the control of SOEs are not considered as PSEs and therefore are subject to the

[6] As defined by the Indonesian Regulation on the Large Exposures Framework (POJK No 32/POJK.03/2018), a Prime Bank is a bank that:

(a) holds an investment grade rating issued by a rating agency of at least:

1) BBB, based on assessment by Standard & Poors;

2) Baa3, based on assessment by Moody's;

3) BBB, based on assessment by Fitch; or

4) a rating equivalent to number 1), number 2), and/or number 3) based on assessment by a rating agency recognised by the Financial Services Authority, based on an assessment of the long-term outlook for the bank; and

(b) holds total assets placing it among the 200 largest banks in the world, based on information listed in the Banker's Almanac.

	25% LEX limit. In addition, OJK also clarified exposures to SOEs established not for national development purpose are subject to the 25% LEX limit.
Basel paragraph number	13: Scope of counterparties and exemptions
Reference in the domestic regulation	Article 1 no 24, Article 42 of Financial Services Authority Regulation No 32/POJK.03/2018
Observation	The Basel LEX framework exempts banks' exposures to sovereigns and central banks. This exemption also applies to public sector entities treated as sovereigns according to the risk-based capital framework. In addition to the Basel exemptions, OJK regulations exempt securities issued by local government, which are not accorded a 0% risk weight under Indonesia's risk-based capital framework. The Assessment Team pointed out the different treatment for exposures to local government, where only direct lending to local government is subject to the 25% large exposures limit while securities issued by local government are exempted. According to the information provided by OJK, Act No 33/2004 states that the central government supports local governments through general allocation funds and special allocation funds, which are sourced from the National Budget Act. OJK confirmed that while these exposures qualify to be treated as claims on sovereigns, they are accorded a 20% risk weight under the risk-based capital framework solely for prudential purposes. OJK advised that the exemption for securities issued by local governments is based on the premise that approval from the central government is required before local governments can issue securities. The Assessment Team considers this different treatment for different types of exposure to local governments to be non-material since: a) the support from the central government to local government is prescribed in law; and b) local governments have not issued any securities.
Basel paragraph number	28: Definition of connected counterparties – Assessment of economic interdependence
Reference in the domestic regulation	Article 17 paragraphs 1 and 2, and Appendix I Part C.3 of Regulation No 32/POJK.03/2018
Observation	The Basel LEX framework states that banks are expected to identify possible connected counterparties on the basis of economic interdependence in all cases where the sum of all exposures to one individual counterparty exceeds 5% of the eligible capital base. No such provision is mentioned in the Indonesian LEX regulation. OJK explained that the requirement to investigate the connectedness based on economic interdependence is stipulated under Article 17 paragraph 1. From the discussion, OJK further confirmed no threshold is applied and banks are required to investigate all cases for the possibility of economic interdependence to all their counterparties.

2.3.2 Minimum requirements and transitional arrangements

Basel paragraph number	90: Rules for G-SIBs
Reference in the domestic regulation	Nil
Observation	The Basel LEX standard sets a 15% limit on a G-SIB's exposure to another G-SIB. OJK has not issued any rules for the G-SIBs, as there are no Indonesian G-SIBs. In the event that an Indonesian bank were to be designated as a G-SIB, OJK will issue regulations covering the Basel LEX requirements for G-SIBs.
Basel paragraph number	91: Rules for D-SIBs
Reference in the domestic regulation	Nil
Observation	The Basel LEX standard encourages jurisdictions to consider applying stricter limits to exposures between D-SIBs.

	Thirteen Indonesian banks are currently designated as D-SIBs. The list of D-SIBs is revised every six months. No specific tighter rules are applied to exposures between D-SIBs.
Basel paragraph number	93: Implementation date
Reference in the domestic regulation	Article 65 of Regulation No 32/POJK.03/2018
Observation	The Basel LEX framework notes that all aspects of the framework must be implemented in full by 1 January 2019. OJK provided a transitional period for the commercial banks until 1 June 2019. The regulation concerning the legal lending limit and large exposures limit for commercial banks (Regulation 32/POJK.03/2018) came into force on 1 June 2019.

2.3.3 Value of exposures

Basel paragraph number	37: Exclusion of other forms of collateral only eligible under IRB
Reference in the domestic regulation	Nil
Observation	The Basel LEX framework notes that other forms of collateral that are only eligible under the IRB approach are not eligible to reduce exposure values for large exposure purposes. No such provision is mentioned in the Indonesian LEX regulation as there are no banks using the IRB approach. The OJK considers the standardised approach to be sufficient for the Indonesian banks and there is no plan currently to implement the IRB approach.

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

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Assessment Team members

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Review Team members

Mr Alberto Rios	Bank of Spain
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Ms Mo Dumo	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:

- *Supervisory framework for measuring and controlling large exposures*, April 2014
- *Frequently asked questions on the supervisory framework for measuring and controlling large exposures*, September 2016

Table A.1 lists the regulations issued by the OJK to implement the LEX framework 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 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 large exposure regulations — Table A.1

Domestic regulations	Type, version and date
OJK Regulation	POJK No 32/POJK.03/2018 concerning Legal Lending Limit and Large Exposures of Commercial Banks, issued on 27 December 2018. POJK No 38/POJK.03/2019 concerning Amendment of POJK No 32/POJK.03/2018 concerning Legal Lending Limit and Large Exposures of Commercial Banks, issued on 19 December 2019.

Source: OJK.

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

Annex 3: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings described in Section 2.2 and summarised in Table A.2. Assessment Teams evaluate the materiality of findings quantitatively where possible, or using expert judgment when the impact cannot be quantified.

The materiality assessment for quantifiable gaps is based on the cumulative impact of the identified deviations on the reported large exposures of banks in the RCAP sample. These banks are listed in Table A.3.

Number of deviations by component — Table A.2

Component	Not material	Potentially material	Material
Scope and definitions	1	0	0
Minimum requirements and transitional arrangements	0	0	0
Value of exposures	0	0	0

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: Rectifications made by the OJK

List of rectifications by the OJK — Table A.[4]

Basel paragraph	Reference in Indonesia regulations before amendment	Description of the rectification
16	Article 24	Article 24 revoked. • Placements in each Prime Bank are included in the large lending limits (LLL) calculation. • Article 9 (LLL limit 10% for related party) is applied to placements in each related-party Prime Bank. Article 16 (LLL Limit 25%) is applied to placements in each Prime Bank other than the related party.
16	Article 46	Article 46 amended (1) The portion of provision of funds to borrowers that has obtained a guarantee from a related-party Prime Bank is excluded from the calculation of the LLL insofar as the guarantee granted meet several requirements. Exceptions from the LLL calculation shall be set at a maximum of 90% of bank capital for funds provided to related parties.
61	Article 43 no (1)	Article 43 no (1) amended. The portion of provision of funds guaranteed by the central government is exempted from the LLL calculation.
69	Article 33 no (2) and (5)	Article 33 amended. No (2) The LLL for the purchase of covered bonds is calculated based on the covered bond's nominal value. No (5) The LLL for the purchase of covered bonds that meet certain requirements shall be calculated at a minimum of 20% of the covered bond's nominal value.
77	Article 32	Article 32 amended If the LTA need not be applied, the bank's exposure to the structure must be the nominal amount it invests in the structure.
76	Elucidation Article 32 No (5)	Elucidation Article 32 No (5) amended In the event that a bank is not required to identify an underlying asset using the look-through approach, the bank must be able to demonstrate that regulatory arbitrage considerations will not influence the decision to apply the look-through approach.
82	Appendix I Part D.2.b.3	Appendix I Part D.2.b.3 amended. Add a provision requiring the banks to assign the exposure resulting from the investment in the relevant structures to each of the identified third parties.
15	-	OJK is currently developing a reporting system which requires banks to submit their 20 largest exposures under the Indonesia LEX regulation. The reporting is expected to be implemented by January 2020. Add a provision requiring banks to submit their 20 largest exposures under the Indonesia LEX regulation.
84–89	-	OJK will accommodate provisions related to CCP in POJK LEX which will align with the BCBS LEX Framework.

Source: OJK.

Annex 5: Areas where the Indonesian rules are stricter than the Basel standards

In some areas, the OJK has 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.

- The OJK applies its rules to all conventional commercial banks at both solo and consolidated levels.
- Intragroup exposures have not been included in the scope of the Basel LEX framework. Nevertheless, the OJK's LEX regulation has provisions concerning related-party (intragroup exposures other than those exposures to related Prime Banks and the bank's pension funds), in which case the limit is set at 10% of the bank's capital.
- Any SOE is deemed to be a PSE, and claims to SOEs are treated as claims on sovereigns. However, instead of an exemption from LLL, exposures to SOEs, for the purpose of national development, are subject to an LLL limit of 30% of the bank's capital (Tier 1 and Tier 2 capital). Nevertheless, for prudential purposes, SOEs are assigned a minimum risk weight of 20%.
- Exposures to local government, where the support from the central government is legislated, could qualify as claims on sovereigns. However, instead of an exemption, exposures to local government are subject to 25% limit. Nevertheless, these exposures are accorded a 20% risk weight under the risk-based capital framework solely for prudential reasons.
- The OJK requires banks to conduct a connectedness assessment based on economic interdependence for all counterparties irrespective of the size of the exposures.