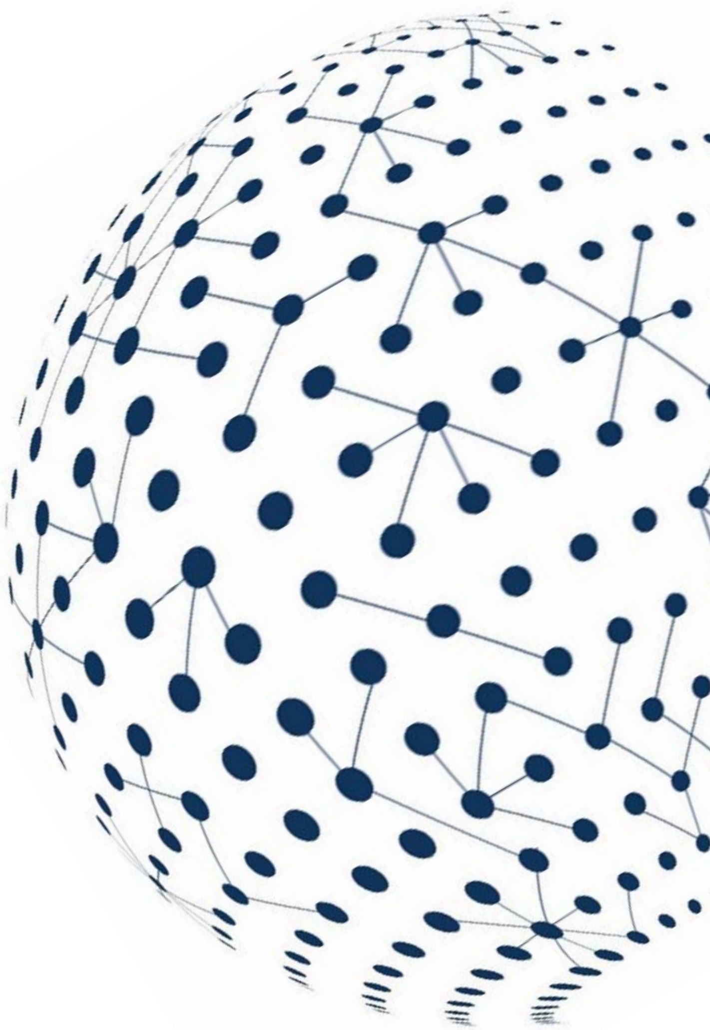
Peer Review of Indonesia

Review Report



26 February 2021

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Foreword

Financial Stability Board (FSB) member jurisdictions have committed, under the FSB Charter and in the *FSB Framework for Strengthening Adherence to International Standards,*[1] to undergo periodic peer reviews. To fulfil this responsibility, the FSB has established a regular programme of country and thematic peer reviews of its member jurisdictions.

Country reviews focus on the implementation and effectiveness of regulatory, supervisory or other financial sector policies in a specific FSB jurisdiction. They examine the steps taken or planned by national/regional authorities to address IMF-World Bank Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes recommendations on financial regulation and supervision as well as on institutional and market infrastructure that are deemed most important and relevant to the FSB's core mandate of promoting financial stability. Country reviews can also focus on regulatory, supervisory or other financial sector policy issues not covered in the FSAP that are timely and topical for the jurisdiction and for the broader FSB membership. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, or its compliance with international financial standards.

FSB jurisdictions have committed to undergo an FSAP assessment every five years; peer reviews taking place typically two to three years following an FSAP will complement that cycle. As part of this commitment, Indonesia volunteered to undergo a peer review in 2020.

This report describes the findings and conclusions of the Indonesia peer review, including the key elements of the discussion in the FSB's Standing Committee on Standards Implementation (SCSI) in November 2020. It is the second FSB peer review of Indonesia and is based on the objectives and guidelines for the conduct of peer reviews set forth in the *Handbook for FSB Peer Reviews.*[2]

The analysis and conclusions of this peer review are based on the responses to a questionnaire by Indonesian financial authorities and reflect information on the progress of relevant reforms as of December 2020. The review has also benefited from dialogue with the Indonesian authorities and market participants as well as discussion in the FSB SCSI.

The draft report for discussion was prepared by a team chaired by Daphne Doo (Hong Kong Securities and Futures Commission) and comprising Benjamin Cohn-Urbach (Australian Securities and Investments Commission), Robert Dübbers (European Commission) and Mohamed Wehliye (Saudi Central Bank). Eija Holttinen and Michael Januska (FSB Secretariat), Hwan-Seng Hee (Hong Kong Securities and Futures Commission) and Jessica Gao (Australian Securities and Investments Commission) provided support to the team and contributed to the preparation of the report.

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1 See the *FSB Framework for Strengthening Adherence to International Standards* (January 2010).

2 See the *Handbook for FSB Peer Reviews* (April 2017).

Abbreviations

Bappebti	Indonesian Commodity Futures Trading Regulatory Agency
BCBS	Basel Committee on Banking Supervision
BI	Bank Indonesia
CCP	Central counterparty
CDE	Critical Data Elements
CFD	Contract for difference
ETP	Exchange traded product
FSB	Financial Stability Board
FSAP	IMF-World Bank Financial Sector Assessment Program
FX	Foreign exchange
GDP	Gross domestic product
ICH	Indonesia Clearinghouse
IDR	Indonesian Rupiah
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
KBI	Kliring Berjangka Indonesia
LEI	Legal Entity Identifier
LPS	Indonesia Deposit Insurance Corporation
MOF	Ministry of Finance
MoU	Memorandum of Understanding
NCCDs	Non-centrally cleared derivatives
NDF	Non-deliverable forward
OJK	Indonesia Financial Services Agency (Otoritas Jasa Keuangan)
OTC	Over-the-counter
SA-CCR	Standardised approach for measuring counterparty credit risk exposures (BCBS)
SCSI	Standing Committee on Standards Implementation
TR	Trade repository; “TR-like entity”
UPI	Unique Product Identifier
USD	United States Dollar
UTI	Unique Transaction Identifier

Executive summary

Background and objectives

The main purpose of this peer review is to examine steps the authorities have taken to implement over-the-counter (OTC) derivatives market reforms in Indonesia, including by following up on relevant FSAP recommendations and G20 commitments.

Main findings

Indonesia's OTC derivatives market is relatively small, both compared to its economy and from a global perspective, but has been steadily growing over the past five years. Foreign exchange (FX) derivatives are by far the largest OTC derivatives class in Indonesia, followed by interest rate and commodity derivatives. The Indonesian authorities report that the COVID-19 pandemic has had a minimal impact on its OTC FX and interest rate derivatives markets. Domestic banks (including local subsidiaries of foreign banking groups and local branches of foreign banks) are the most active derivatives market participants and can only trade FX and interest rate derivatives. In 2017 the World Bank noted that Indonesia should develop its OTC derivatives market to enable risk hedging and further development of its capital market.

The Indonesian authorities have made some progress in implementing OTC derivatives reforms, while focusing on developing their domestic derivatives market. Together with the Ministry of Finance (MOF), the authorities responsible for the development and application of OTC derivatives market reforms in Indonesia are: Bank Indonesia (BI); the Financial Services Authority (OJK); and the Commodity Futures Trading Regulatory Agency (Bappebti). Reporting requirements have been in place for banks' OTC FX and interest rate derivatives transactions and for other participants' commodity derivatives transactions for many years, and there is effective sharing and use of the data collected among domestic authorities. Progress continues on central clearing requirements and margin requirements for non-centrally cleared derivatives (NCCDs), and the authorities are appropriately prioritising these areas over establishing platform trading. In addition, the authorities continue to make progress on these reforms despite pressures in the wake of the COVID-19 pandemic.

At the same time, further steps can be taken in this area. These include: improving the reporting, use and transparency of OTC derivatives data; addressing legal uncertainties in netting for derivatives transactions; and implementing remaining OTC derivatives reforms.

Continue to improve reporting, use and transparency of OTC derivatives data

The trade repository (TR)-like entity run by BI was set up to process banking returns and does not have many of the same governance structures of operationally or legally separate TRs in other jurisdictions. Furthermore, while some information on OTC derivatives is publicly disclosed through monthly banking statistics reports, it is comingled with spot transactions and does not have the same level of detail as publicly disclosed by many TRs in other jurisdictions. Improving the granularity of derivatives data would improve public transparency of the OTC derivatives market in Indonesia.

While the authorities' main focus is on domestic banks' Indonesian Rupiah (IDR) denominated derivatives transactions, a lack of data sharing with foreign jurisdictions impedes a clearer picture of OTC derivatives activities that may impact the domestic market. Furthermore, the absence of the adoption of unique global identifiers for participants, transactions and products in the derivatives market will present obstacles to the authorities in sharing and receiving such data from foreign trade repositories.

Addressing legal uncertainties relating to netting for derivatives transactions;

There are uncertainties in the functioning of the current legal framework in bankruptcy that may hinder the introduction of efficient central clearing and margin requirements. The authorities should seek to address these, as legal certainty in these areas is important to incentivise central clearing and implement margin requirements for NCCDs. Where the authorities lack sufficient powers to address these uncertainties, they should continue to highlight the urgency of addressing these matters with the legislature, courts, and other relevant stakeholders.

Implementing remaining OTC derivatives reforms.

Central clearing is not yet available or required for the two largest OTC derivatives classes traded in Indonesia, and margin requirements for NCCDs and capital requirements for bank exposures to CCPs need to be finalised. Furthermore, the introduction of margin requirements is planned to be concurrent with the operationalisation of a domestic CCP. In the event the establishment of the CCP is delayed, the authorities should consider introducing margin requirements for NCCDs independently of the CCP's establishment, as these requirements can reduce systemic risk in addition to promoting central clearing.

Recommendations

In response to the aforementioned findings and issues, the peer review has identified the following recommendations to the Indonesian authorities:

1. The authorities should continue to improve reporting and use of OTC derivatives data by: (a) finalising their review of TR infrastructure and reporting requirements and implementing improvements identified in the review; (b) improving public transparency of OTC derivatives data, including clearer breakdowns by type of product and counterparty type; (c) obtaining and using foreign TR data to better understand the Indonesia-related offshore OTC derivatives market; and (d) introducing a timeline for adoption of the LEI, UTI, UPI and CDE.

2. The authorities should address legal uncertainties relating to netting for derivatives transactions in bankruptcy in order to facilitate central clearing and margin requirements.

3. The authorities should implement remaining OTC derivatives reforms in an appropriately sequenced manner by adopting: (a) central clearing of standardised OTC derivatives; (b) margin requirements for NCCDs; and (c) capital requirements for exposures to CCPs.

1. Introduction

Indonesia completed its first FSB peer review in 2014,[3] which examined its evolving regulatory structure and crisis management arrangements. The review concluded that good progress had been made in addressing some of the 2010 FSAP recommendations on the two topics, although the reforms were still ongoing. The review highlighted the challenge for authorities to complete the transition to a new regulatory structure effectively and to develop solid foundations to the crisis management framework.

Indonesia subsequently underwent an FSAP Update in 2017.[4] The FSAP found that Indonesia's macroeconomic performance in recent years had been robust and the financial system had been stable. It noted that Indonesia's financial system was relatively shallow compared to emerging market peers and dominated by banks belonging to financial conglomerates, which posed a challenge for effective oversight. Capital markets still needed to be developed further, and external long-term financing was important due to a limited domestic investor base.

The FSAP noted that systemic risk was low, the banking system appeared generally resilient to severe shocks, and the authorities had been pursuing an ambitious agenda to strengthen financial oversight and crisis management. In terms of areas where further progress was needed, the FSAP highlighted that the mandates for the Financial Services Authority's (OJK) supervision and Bank Indonesia's (BI) macroprudential policy did not give primacy to financial stability over development objectives.

The WB's 2017 Financial Sector Assessment (FSA) noted that Indonesia's capital markets need to be developed further and that they have a relatively strong foreign presence, making them sensitive to shifts in global market sentiment. The FSA noted that one of the priorities in developing Indonesia's financial markets includes promoting the development of derivatives to enable risk hedging. It also noted that the absence of a deep and liquid market to hedge interest rate and foreign exchange fluctuations is a prime impediment to capital market development, and recommended that Indonesia develops interest rate swaps and foreign exchange derivatives markets.

The IMF's 2017 Article IV report concluded, among other things, that the Indonesian economy continued to perform well, and that systemic risks were contained.[5] It noted that financial deepening with appropriate prudential standards would support infrastructure development, and that while the authorities had been strengthening financial oversight and crisis management, including in response to the findings of the FSAP, efforts should continue in these areas. The IMF's 2019 Article IV report highlighted considerable efforts by the authorities to advance the development of money markets and identified further actions that could help develop these markets, including amendments to allow close-out netting to mitigate counterparty credit risk.[6]

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3 See *Peer Review of Indonesia* by the FSB (February 2014).

4 See *Indonesia: Financial System Stability Assessment* (June 2017, IMF Country Report No. 17/152) and *Indonesia – Financial Sector Assessment* (June 2017, World Bank).

5 See *Indonesia: 2017 Article IV Consultation* (February 2018, IMF Country Report No. 18/32).

6 See Box 3, *Indonesia: 2019 Article IV Consultation* (July 2019, IMF Country Report No. 19/250).

Progress in implementing the core G20 financial regulatory reforms in Indonesia is uneven. Implementation is most advanced for Basel III (where several core elements have been adopted) and compensation-related reforms. Implementation is less advanced for OTC derivatives reforms, reforms aimed at ending too-big-to-fail and enhancing the resilience of non-bank financial intermediation. The Annex to this report provides background information on Indonesia's implementation status of G20 reforms, including reasons given by the authorities for the delays as well as expected completion dates in core reform areas.

This peer review examines the implementation of OTC derivatives market reforms in Indonesia. The review focuses on the steps taken by the authorities to implement reforms in this area, including by following up on relevant G20 commitments.

1.1 G20 OTC derivatives market reforms

In response to the global financial crisis, the G20 initiated a fundamental overhaul of OTC derivatives markets. The G20 Leaders agreed in 2009 that all OTC derivatives should be reported to TRs; that standardised OTC derivatives should be centrally cleared and, where appropriate, traded on exchanges or electronic trading platforms; and that non-centrally cleared derivatives (NCCDs) should be subject to higher capital requirements. In 2011 the G20 Leaders also agreed minimum standards on margin requirements for NCCDs.[7]

The objectives of this overhaul were to mitigate systemic risk, improve transparency, and protect against market abuse. The weaknesses exposed by the crisis included the build-up of large counterparty exposures between market participants that were not appropriately risk-managed; contagion risk arising from the interconnectedness of market participants; and the limited transparency of overall counterparty credit risk exposures that precipitated a loss of confidence and market liquidity in times of stress.

This report provides an overview of the Indonesian OTC derivatives market and analyses the progress to date, implementation challenges and planned next steps with respect to the reforms. In particular, it examines the legal and regulatory framework and institutional arrangements in relation to OTC derivatives; trade reporting requirements and the access to and uses of TR data; as well as the plans for implementation of central clearing, exchange and platform trading and margin requirements. Drawing on available information and guidance by the FSB and standard-setting bodies, Section 4 highlights lessons of experience and makes recommendations in response to identified issues.

2. OTC derivatives market structure

Indonesia's OTC derivatives market is relatively small, both compared to its economy and from a global perspective, but has been steadily growing over the past five years. The authorities report that the notional amount outstanding of OTC derivatives in Indonesia reached USD 81 billion in 2019 (0.7% of gross domestic product (GDP)) and annual turnover reached USD 559

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7 See the *G20 Leaders' Statement: The Pittsburgh Summit* (September 2009) and *G20 Leaders' Cannes Summit Final Declaration* (November 2011).

billion (51% of GDP). Turnover in IDR-denominated derivatives grew by an annual average of 13% between 2015 and 2019. OTC foreign exchange (FX) derivatives (the largest derivatives class in Indonesia) accounted for 0.06% of the global trading volume in 2019, and turnover in IDR-based onshore FX derivatives grew by an annual average of 7% between 2015 and 2019.[8]

Four classes of derivatives are currently traded in Indonesia: FX, interest rate, commodity and equity derivatives. Indonesia has no credit derivatives market. Almost all derivatives market activity is conducted OTC in the FX, interest rate and commodity classes.[9] FX derivatives accounted for over 97% of the 2019 turnover of the Indonesian OTC derivatives market. Commodity derivatives account for 2% of total turnover, and interest rate derivatives 1% (see Table 1). Measured by notional outstanding amounts of OTC derivatives, FX derivatives accounted for 79% in 2019 (down from 84% in 2017), interest rate derivatives accounted for 21% (up from 16% in 2017), with negligible outstanding amounts for OTC commodity derivatives.[10]

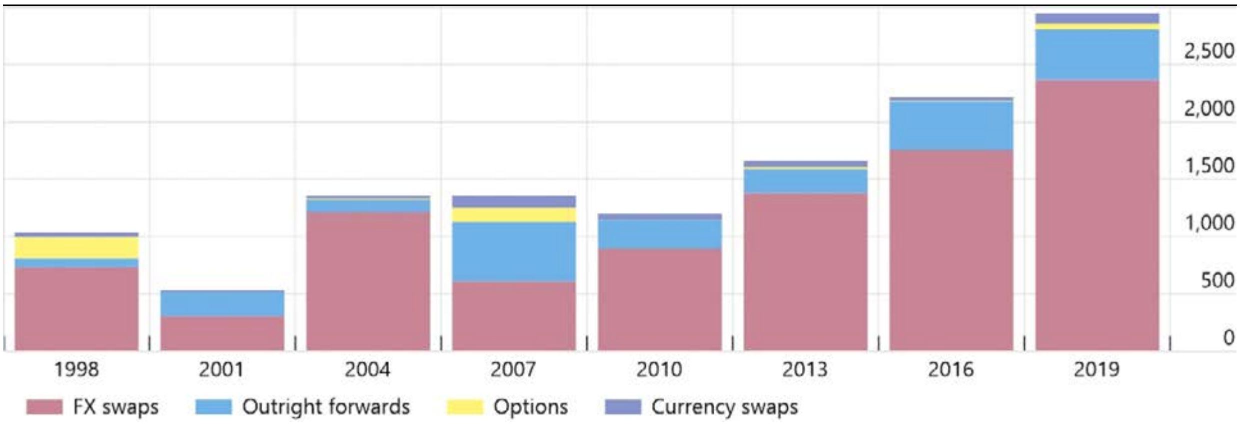
Table 1: One-year turnover of Indonesian OTC derivatives market in 2019

Asset Class	USD (Million)	Percentage
Commodity	9,397	1.7%
Foreign Exchange	544,818	97.4%
Interest Rate	5,075	0.9%
Total	**559,290**	**100.00%**

Source: Indonesian authorities

FX swaps make up the largest share of the OTC FX derivatives market in Indonesia, followed by FX forwards and cross-currency swaps (see Figure 1). Indeed, FX swaps are an important money market instrument for Indonesia.

FX Derivatives Daily Market Turnover in Indonesia by instrument **Figure 1**



Source: BIS Triennial Central Bank Survey 2019

8 Source: BIS Triennial Central Bank Survey 2019.

9 Equity derivatives are not traded OTC but are only exchange-traded (on the Indonesian Stock Exchange).

10 OTC commodity derivatives traded in Indonesia are mainly retail Contracts for Difference. They are excluded from this section as it is a high-turnover, short-term, retail-focused market that operates quite differently from the remainder of Indonesia's OTC derivative market.

The impact of the COVID-19 pandemic on the Indonesian OTC FX and interest rate derivatives markets has been minimal. The authorities report that the volume of OTC interest rate swap transactions decreased from 2019 to 2020, but in the authorities' view it is mainly due to the change of IDR interest rate's direction rather than the impact of the COVID-19 outbreak.

Indonesia's financial sector is dominated by banks, who are only allowed to trade OTC FX and interest rate derivatives.[11] Domestic banks (including local subsidiaries of foreign banking groups and local branches of foreign banks) were the most active derivatives market participants in OTC FX and interest rate derivatives (52% market share) in 2019, followed by foreign clients (31%, including overseas branches and subsidiaries of Indonesian banks and overseas offices of Indonesian corporates) and domestic non-bank clients (17%, mostly non-financial corporates).

Following the Asian Financial Crisis, Indonesian authorities implemented a range of regulatory reforms to maintain the stability of the IDR, which aim to limit the use of derivatives to hedging purposes.[12] Although banks are significant participants and provide hedging and liquidity in these markets, other requirements and restrictions imposed on OTC derivatives transactions and products[13] has created a shallow OTC derivatives market with limited market participants and hedging instruments. In order to develop its onshore derivatives market, Indonesia introduced domestic NDFs in 2018, and their trading volume has been growing. Indonesian banks may not participate in the offshore NDF market[14], but corporates may conduct such transactions with international banks and financial institutions to meet their FX hedging needs.[15]

OTC commodity derivatives markets are dominated by corporations, investment managers and individuals. Almost all transactions are associated with retail contracts for difference (CFDs), and market players are usually individuals such as gold traders, brokers and retail investors. Banks are not allowed to transact in commodity derivatives.

3. Steps taken and actions planned

Indonesia has taken steps to implement trade reporting and interim and final capital requirements for NCCDs. Table 2 shows Indonesia's progress between 2015 and 2020 in

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11 Banks must satisfy certain capital adequacy and risk management capabilities to trade OTC derivatives. For example, banks with Tier 1 capital below IDR 1 trillion are not allowed to enter into derivatives transactions; banks with Tier 1 capital between IDR 1 and 5 trillion may enter into plain vanilla transactions, and those with Tier 1 capital above IDR 5 trillion may enter into more complex derivatives transactions.

12 One regulation specified that with regard to prudential banking principles, Indonesian authorities deemed it necessary to limit banks' participation in derivative transactions containing elements of speculation (Bank Indonesia Regulation Number 7/31/PBI/2005). Other BI regulations limit speculative transactions by non-bank participants by requiring them to provide evidence of underlying economic activities when entering into OTC FX and interest rate derivative transactions (Bank Indonesia regulations 20/13/PBI/2018 and 18/19/PBI/2016).

13 For example, there is a requirement to hedge liabilities but no similar requirement to hedge assets/income, which may create an imbalance of supply and demand. Domestic products are also limited to simple instruments.

14 LCH reported USD 159 billion open interest in cleared IDR NDFs as at 11 September 2020 (https://www.lch.com/services/forexclear/volumes). Given that banks cannot trade these products in Indonesia, these transactions are not reported to the Indonesian authorities.

15 As there is no reporting obligation for corporate entities, these transactions are not reported to BI. However, the Indonesian authorities stated that they undertake a regular survey to understand the extent of offshore NDF usage by Indonesian corporate entities, and believe the use is relatively limited.

implementing OTC derivatives market reforms and compares its implementation status (as of end-October 2020) with that of other selected FSB jurisdictions.

Table 2: Implementation of OTC derivatives reforms, selected FSB jurisdictions

		Trade Reporting	Central Clearing	Interim Capital	Final Capital	Margin	Platform Trading
Indonesia Sep 2015	**ID**	**Blue**	**3**	**1**	**Not applicable**	**1**	**1**
Indonesia Oct 2020	**ID**	**Blue**	**3**	**Blue**	**Blue***	**2**	**3**
China Oct 2020	CN	**Blue**	**Blue**	**Blue**	**3#**	**1**	**3**
India Oct 2020	IN	**Blue**	**3**	**Blue**	**3**	**2**	**3**
Saudi Arabia Oct 2020	SA	**Blue**	**1**	**Blue**	**Blue**	**Blue**	**1**
South Africa Oct 2020	ZA	**3**	**3**	**Blue**	**2**	**3**	**1**

Blue cells refer to comprehensive standards/requirements being in place with respect to over 90% of the transactions in the relevant jurisdiction for the reform indicated. 1 refers to the initial stage of implementation (only the legislative framework or another authority is in force or has been proposed in a public consultation). 2 for capital or margin requirements means that the legislative framework or other authority is in force and, with respect to at least some transactions, standards / requirements have been published for public consultation. 3 means that these have been adopted with respect to at least some transactions. The status of implementation of final capital requirements was not assessed in 2015 because the final standards (on measuring counterparty credit risk exposures and for capital requirements for bank exposures to CCPs) were due to be implemented only by 1 January 2017.

* The status refers to the implementation of SA-CCR. Indonesia published in September 2020 a consultation paper on final capital requirements for exposures to CCPs.

In China the final standard on measuring counterparty credit risk exposures (SA-CCR) is in force and adoption has not started for the capital requirements for bank exposures to CCPs.

Source: FSB *OTC Derivatives Market Reforms: Tenth Progress Report on Implementation* (November 2015) and *OTC Derivatives Market Reforms: 2020 Note on Implementation Progress* (November 2020).

3.1 Legal and regulatory framework

The authorities responsible for the development and application of OTC derivatives market reforms in Indonesia are: the MOF; BI, the central bank; OJK, an integrated supervisory authority established in 2011; and Bappebti.

The legal, regulatory and institutional arrangements differ for OTC FX and interest rate derivatives on the one hand and OTC commodity derivatives on the other hand.[16] For the former, BI and OJK have undertaken several initiatives to implement OTC derivatives market reforms, using subordinate legislation under the Capital Market Act (e.g. BI and OJK regulation). BI and OJK are currently developing further the framework for OTC FX and interest rate derivatives. OTC Commodity derivatives are governed by the Commodity Futures Trading Act (Law Number 32 Year 1997, as amended by Law Number 10 Year 2011). The relevant authorities and their responsibilities are set out in Table 3 below.

Additionally, the Indonesian Civil Code and the Indonesian Bankruptcy Act impact the functioning of the OTC derivatives market. In principle, the former provides the legal basis for netting off the debt of one party against a similar asset held with another party. However, the latter provides the administrators the power to claw back assets after a bankruptcy has been

[16] As mentioned previously, there are no equity OTC derivatives in Indonesia. The legal and regulatory framework for exchange traded equity derivatives is based on the Capital Market Act (Law Number 8 Year 1995).

declared. Due to the lack of jurisprudence on derivatives transactions in bankruptcy cases in Indonesia, it is still uncertain whether the administrator will refrain from challenging the implementation of close-out netting. The authorities consider that the current legal frameworks are sufficient to facilitate effective close-out netting when no bankruptcy proceeding is being triggered for any party involved in the transaction. There is not sufficient legal certainty over the effectiveness of a margin regime or enforcement of default procedures of an OTC derivatives CCP in bankruptcy.[17] The authorities are currently seeking various solutions to address this issue, including legislative ones. They have also implemented some temporary solutions, such as including netting in their regulations or educating relevant stakeholders on the functioning of derivatives markets[18] and the benefits of netting and margining for derivatives.

Table 3: Relevant Authorities in Indonesian OTC Derivatives Markets

Authorities	Roles
Bank Indonesia	Bank Indonesia has authority over the OTC FX and interest rate derivatives markets. Such authority covers trade reporting (including the TR-like entity); and licensing, regulating and supervising OTC FX and interest rate derivatives CCPs and trading platforms.
OJK	OJK has authority over margin, capital and conduct requirements for OTC FX and interest rate derivatives in the banking sector.
Bappebti	Bappebti has authority over the OTC commodity derivatives market, including margin requirements and licensing, regulating and supervising commodity clearing houses and trading platforms.

Source: Indonesian authorities

3.1.1 Regulatory cooperation

The Indonesian authorities cooperate on derivatives issues in a number of ways. In 2016, the Ministry of Finance, BI and OJK established the Coordination Forum on Economic Development by means of Financial Market (FK-PPPK), which meets regularly to coordinate the implementation of the National Strategy for Financial Market Development 2018-24.[19] The Financial System Stability Committee, also established in 2016, consists of the Minister of Finance, Governor of BI, Chairman of OJK and Chairman of the Indonesia Deposit Insurance Corporation (LPS) and is meant to facilitate coordinated responses for preventing and mitigating financial system crises. In addition, an inter-authority Task Force was established in October 2017 to design and promote the establishment of a CCP for OTC derivatives transactions. More recently, Bank Indonesia has been considering trade reporting requirements, including to which entity trades should be reported (see section 3.2.2 below). Furthermore, bilateral arrangements to exchange information are in place between BI and OJK, BI and LPS, and OJK and LPS, based on various Memorandums of Understanding (MoUs). In addition, the Ministry of Finance, BI, OJK and Bappebti cooperate and exchange views on an ad hoc basis.

17 In addition, the acceptance of OTC derivatives trading in Indonesia suffers from a perception that it is as "gambling-like" activity by relevant stakeholders.

18 For example by translating the 2002 International Swaps and Derivatives Association Master Agreement to Indonesian to remove the language barrier in understanding its terms and conditions.

19 Under this strategy the authorities seek to deepen the derivatives market and strengthen financial market infrastructures. The FK-PPPK holds semi-annual meetings for senior members and monthly meetings for technical staff. See *National Strategy for Financial Market Development 2018-2024* (2018).

3.2 Trade reporting

3.2.1 Reporting entities

Trade reporting is part of BI's overarching reporting system of bank activities. BI has required banks to report all transactions, including derivatives transactions, on a daily basis using a banking return regulatory reporting system since 2005. BI regulations apply to OTC FX and interest rates derivatives entered into by domestic banks, which includes local subsidiaries of foreign banking groups and local branches of foreign banks. For OTC commodity derivatives, ETP providers and brokers are subject to trade reporting requirements to commodity exchanges.

3.2.2 Reporting information and frequency

Banks are required to report detailed data on new individual transactions at the end of each trading day.[20] In addition, they must report their balance sheet and off-balance sheet positions to the authorities on a monthly basis, including outstanding derivative positions. Information on collateral and mark-to-market valuation of OTC derivatives positions is available in monthly (but not daily) reporting, and life cycle events for trades are not reported on a daily basis but updated as part of the position reporting at month-end. The authorities note that these daily and monthly reporting requirements have allowed them to monitor banks' FX and interest rate derivatives exposures, both at the individual transaction and aggregate levels. OTC commodity derivatives transactions must be reported to commodity exchanges within 10 seconds, and the reporting requirements are single-sided.

Various domestic identifiers are used in the daily and monthly reporting. These include a tax identifier, debtor identifier, bank identifier and investor identifier for market participants.[21] Entities are not required to have a Legal Entity Identifier (LEI) to carry out derivatives transactions, nor are they required to request or report an LEI of their counterparties.[22] The authorities have started an interagency dialogue to discuss various uses of the LEI, and have not yet considered the Unique Transaction Identifier (UTI),[23] Unique Product Identifier (UPI) and Critical Data Elements (CDE).[24]

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20 The reporting obligation is double-sided for interbank transactions and single-sided for bank to non-bank transactions.

21 In addition, BI also uses the Business Identifier Code to identify both parties of payment transactions being processed by the domestic payment system.

22 The LEI is a 20-character, alpha-numeric code, to uniquely identify legally distinct entities that engage in financial transactions globally. As of May 2019, Indonesia was one of two FSB member jurisdictions with no regulatory reference to the LEI and was among four FSB jurisdictions with no LEI strategy in place. See the FSB *Thematic Review on Implementation of the Legal Entity Identifier* (May 2019).

23 CPMI-IOSCO provided guidance to authorities about the harmonisation of the UTI (see CPMI and IOSCO *Technical Guidance: Harmonisation of the Unique Transaction Identifier* (2017)) and the FSB recommended implementation of the global UTI by end-2020 – see FSB *Governance arrangements for the unique transaction identifier (UTI): Conclusions and implementation plan* (2017). The primary purpose of UTI is to uniquely identify individual OTC derivatives transactions on reports to TRs. The UTI will help to ensure the consistent aggregation of these transactions by minimising the likelihood that the same transaction will be counted more than once.

24 The primary purpose of a UPI is to identify the product that is the subject of a particular OTC derivatives transaction. A UPI would be assigned to each product type, and regulators would be able to aggregate OTC derivatives transactions by product (using the UPI Code) or by individual reference data elements that comprise the product (such as the underlying). Critical data elements (other than UTI and UPI) identify the other key characteristics of a derivatives transaction. In October 2019 the FSB and CPMI-IOSCO recommended implementation of the global UPI and CDE not later than the third quarter 2022. See FSB *Governance arrangements for the UPI: Conclusions, implementation plan and next steps to establish the International*

3.2.3 Trade repositories

Indonesian authorities have not licensed any domestic or foreign TR to operate. Trade reporting to BI is done via its internal TR-like entity (see Box 1) and covers OTC FX and interest rate derivative transactions. OTC commodity derivatives are reported to commodity exchanges as TR-like entities (Jakarta Futures Exchange, Indonesian Commodity & Derivative Exchange) and ultimately to Bappebti.

Box 1 – BI's TR-like entity

There is no separate board or dedicated oversight structure for the operation of BI's TR-like function. The TR-like function in BI is subject to an internal governance framework to support its operation, supervision and policy-making functions. The authorities note that the independence and effectiveness of these functions are ensured by a separation of duties at department levels and lines of reporting to members of the BI's Governing Board in BI.

BI's TR-like entity is subject to the governance of BI's Governing Board and departments of Financial Market Development; Statistics; Report Management and Compliance; Information System Management; Risk Management; and Internal Audit. The aforementioned departments report to different Governing Board members.

BI notes that it ensures proper governance of the TR-like entity's operation through three lines of defence.

1. The business unit, through a self-assessment mechanism in identifying the risk and control process for the business unit.
2. The Risk Management Department which sets up the risk management framework (including business continuity management) and facilitates and provides risk assessment consultation to the business unit.
3. The Internal Audit Department which carries out independent risk-based and compliance audits in all business units, including the department responsible for the TR-like entity's operation and IT.

The authorities have not conducted a self-assessment of their progress on implementing the relevant CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI).[25]

3.2.4 Data quality and transparency

BI has adopted several measures to ensure the completeness, accuracy and timeliness of data reported to the TR-like entity. As a result, BI considers that data quality has improved in recent years, with the number of false reporting items falling from about 1,000 in 2017 to 81 in 2019 (compared to 150 million items reported to BI annually). Furthermore, BI can impose sanctions on a bank that fails to meet the data reporting and accuracy obligations. When this happens, the sanction letter is also sent to OJK for information.

Information on banks' OTC derivatives transactions is publicly disclosed through monthly banking statistics.[26] The information on OTC derivatives transactions is, however, comingled

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Governance Body (2019) and CPMI and IOSCO *Governance arrangements for critical OTC derivatives data elements (other than UTI and UPI)* (2019).

25 See CPMI-IOSCO *Principles for Financial Market Infrastructures* (April 2012).

26 See Indonesia Banking Statistics.

with spot transactions and as such does not have the same level of detail as that generally disclosed by trade repositories in other jurisdictions.

3.2.5 Access to and use of TR data by domestic authorities

Domestic access and use of reported data

Under current arrangements, BI, OJK and LPS have direct access to data held by the BI TR-like entity according to their respective mandates. This arrangement is stipulated under several MoUs among the three authorities. BI and OJK have access to granular (transaction-level) data, whereas LPS can access more aggregated data on derivative transactions based on product type, tenor, or price. Domestic authorities' access to transaction-level data was improved by the implementation of an integrated reporting system in December 2019. This system integrated six previous reporting systems managed by BI, OJK and LPS into one. The initiative is meant to improve reporting efficiency and flexibility, as well as consistency, clarity, and collaboration among authorities with regard to banks' reporting requirements.

The Indonesian authorities use data from the TR-like entities to support their mandates for a number of different uses. The uses include: implementing monetary policy; managing currency policy; assessing general macroeconomic conditions and systemic risk; conducting market surveillance; and supervising financial institutions.

Cross-border access to TR data

BI has not issued any regulation on banks' reporting to foreign TRs and there has not been any cross-border sharing of TR data. Banks may report their derivatives transactions to foreign TRs in order to meet foreign reporting requirements, but such reporting does not eliminate the mandatory reporting requirement to BI. Whereas the Indonesian authorities do not see any legal barriers to reporting, there is no MoU in place for sharing of data with overseas authorities. BI has not requested any derivatives data held by foreign TRs nor has it received any requests from foreign authorities for derivatives transaction data held by the BI TR-like entity. BI is of the view that, should it receive such a request, data could be provided subject to the establishment of an MoU.

3.3 Central clearing

The Indonesian authorities are currently working to facilitate the establishment of CCPs for OTC FX and interest rate derivatives. OTC commodity derivatives transactions must be cleared through clearing houses.

3.3.1 Central clearing of FX and interest rate derivatives

The Indonesian authorities see several benefits to establishing a CCP but also some challenges. They recognise that CCPs can help reduce segmentation among market participants, and understand that enhanced domestic infrastructure must meet international standards to attract all participants to the Indonesian derivatives market.[27]

In 2017, BI, OJK and the Ministry of Finance established a Task Force for the Establishment of a CCP for OTC Derivatives (Task Force). The Task Force produced a business model for an OTC derivatives CCP for OTC FX and interest rate derivatives. In 2019, based on the Task Force's business model, BI issued BI Regulation Number 21/11/PBI/2019 concerning the Implementation of Central Counterparties for OTC FX and Interest Rate Derivative Transactions. The authorities expect a CCP for OTC FX and interest rate derivatives to be established in 2021 and be fully operational by 2022.

The Task Force has recommended several aspects to be reflected in the business model and regulation of CCPs. These include the CCPs' duties, obligations, supervision and reporting. The Indonesian authorities published a technical standard for such a CCP in May 2020, covering licensing, administration and reporting arrangements and an outline of the default waterfall. However, the proposed business model does not yet include a governance framework to oversee people, processes and priorities. The Task Force concluded its tasks in September 2019. Moving forward, Indonesian authorities will be individually responsible for further developing and issuing necessary regulations to adopt recommendations related to OTC derivatives reforms.

BI also plans to issue a regulation on clearing obligations and the types of instruments required to be cleared through a CCP. This regulation, to be issued in coordination with OJK and the MOF, is expected to be implemented gradually as a part of the broader OTC derivatives reforms in Indonesia.

3.3.2 Clearing of OTC commodity derivatives

The only type of OTC derivative that must currently be cleared in clearing houses (since 2011) is OTC commodity derivatives. This obligation applies to transactions performed on the domestic market, which must be cleared at one of the two commodity clearing houses in Indonesia: Indonesia Clearinghouse (ICH) or Kliring Berjangka Indonesia (KBI). The domestic OTC commodity derivatives market is largely a retail market.

Indonesia's clearing model for OTC commodity derivatives is a two-layer model in which two different entities undertake the functions traditionally fulfilled by a clearing house. In the first layer, each ETP provider acts as the counterparty to each trade concluded on the ETP it operates. In the second layer, the clearing house carries out a substitution function, where it acts as the buyer to the seller and as the seller to the buyer. Each of the two clearing houses fulfils this function for several ETP providers (ICH for 11 and KBI for 16 ETP providers). The main risk management tools used by clearing houses to manage default risk are margins from ETP providers and investors.

[27] Market participants with foreign background (local branches or subsidiaries of foreign banks) may not be able to participate in the local CCP, or may not be able to participate without a high capital charge, unless the CCP is exempted or recognised, or a qualified CCP in the home jurisdictions of such firms.

3.4 Exchange and platform trading

Equity and commodity derivatives are required to be traded on exchanges or electronic trading platforms in Indonesia. All equity derivatives must be traded on the exchange. For OTC commodity derivatives, the Commodity Futures Trading Act requires all transactions to be conducted on an ETP. Bappebti must approve and license each ETP to support effective supervision and to achieve a well-functioning and transparent market. The requirement to trade on an ETP is further regulated by Government Regulation Number 49 Year 2014 and Bappebti Regulation Number 88 Year 2011.

For OTC FX and interest rate derivatives, there is a legal framework for trading platform providers (market operators). This is in Bank Indonesia Regulation Number 21/5/PBI/2019 concerning Market Operators for Money Market and Foreign Exchange Transactions. The regulation covers the licensing requirement, types of instrument, minimum capital requirement and foreign equity ownership.

OTC FX and interest rate derivatives are currently not required to be traded on exchanges or designated trading platforms. BI is currently conducting an assessment on mandatory platform trading for OTC FX and interest rate derivatives. The assessment is expected to be concluded in 2021, with a plan to issue a regulation on mandatory trading in 2022. In particular, BI is currently assessing which OTC FX and interest rate derivatives would be required to be traded through a designated trading platform. However, the authorities plan to implement the requirements gradually based on market conditions (e.g. at an initial stage, mandatory trading could be considered only for standardised instruments that are relatively liquid in the market).

3.5 Margin and capital requirements and other risk mitigation measures for NCCDs

Higher capital and margin requirements for NCCDs are not applicable to OTC commodity derivatives, given that all such OTC transactions have to be cleared in clearing houses. What follows therefore applies only to FX and interest rate derivatives.

3.5.1 Margin requirements for NCCDs

Indonesia is working to introduce requirements for the exchange of margin in NCCDs. OJK recently issued a consultation paper on a margin regime, including a timetable for entry into force, counterparty specifications, classes of derivatives subject to the obligation and initial margin models.[28] The authorities intend to adopt the key requirements of the BCBS-IOSCO standards.[29] The margin regime would be applied to all financial institutions and non-financial entities (subject to thresholds), and cover onshore NCCDs.

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[28] See OJK's *Margin Requirement for Non-Centrally Cleared Derivatives* (Aug 2020).

[29] See *Margin requirements for non-centrally cleared derivatives*, (BCBS-IOSCO, March 2015), followed by time extensions on implementation (July 2019). These margin requirements are part of a broader G20 reform framework for international convergence of such standards. See *Basel III: International Convergence of Capital Measurement and Capital Standards: A Revised Framework* and *Basel III: Finalising post-crisis reforms*.

The Indonesian authorities' main objective for introducing margin requirements is to further promote central clearing. They are therefore currently planning to apply margin requirements only once an Indonesian CCP for OTC FX and interest rate derivatives has been established. In the meantime, the authorities want to ensure that Indonesian firms are not disincentivised to trade NCCDs because of higher costs of margining ahead of the establishment of the CCP.

3.5.2 Higher capital requirements for NCCDs

The Indonesian authorities apply higher capital requirements for OTC FX and interest rate NCCDs.[30] Banks have to calculate and apply an additional capital requirement for counterparty credit risk using the Standardised Approach to Counterparty Credit Risk (SA-CCR).[31] Indonesia has not implemented the final capital requirements for exposures to CCPs because domestic CCPs do not clear any of the derivatives asset classes that banks are legally allowed to enter into (interest rate and FX derivatives). OJK recently published a consultation paper on capital requirements for bank exposures to CCPs.[32]

3.5.3 Other risk mitigation measures for NCCDs

Indonesia has implemented certain requirements for risk mitigation techniques applicable to NCCD transactions. Banks must apply daily mark-to-market valuation for IDR denominated derivative transactions to determine their capital requirements. However, there is no requirement for counterparties to NCCD transactions to agree on or document the process for determining the mark-to-market value. Additionally, banks are required to ensure that trading relationship documentation is agreed with respect to each NCCD transaction, that trade confirmations are provided, and that dispute resolution arrangements are included in contractual documents. There are no specific requirements for portfolio reconciliation, portfolio compression, or governance.

The Indonesian authorities currently require investors to have underlying transactions in order to hold FX derivatives contracts. The authorities are of the view that this requirement could be considered as a form of risk mitigation technique as it ensures that derivative transactions are not performed for speculative purposes.

4. Conclusions and recommendations

The Indonesian authorities have made some progress in implementing OTC derivatives reforms, while focusing on developing their domestic derivatives market. Reporting requirements have been in place for banks' OTC FX and interest rate derivatives transactions and for other participants' commodity derivatives transactions for many years, and there is effective sharing and use of the data collected among domestic authorities. The authorities are working to facilitate the establishment of a CCP and to establish central clearing requirements for OTC FX and interest rate derivatives, and are consulting on margin requirements for NCCDs to be introduced

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[30] Higher capital requirements for NCCDs have been adopted through the issuance of OJK Circular Letter Number 48/SEOJK.03/2017.

[31] See *The standardised approach for measuring counterparty credit risk exposures* (BCBS, April 2014).

[32] See OJK's *Capital Requirements for Bank Exposure to Central Counterparties* (September 2020).

concurrently with the establishment of a CCP. Interim and certain final capital requirements are in place for FX and interest rate NCCDs, and the authorities are appropriately prioritising the above areas over establishing platform trading for OTC FX and interest rate derivatives. In addition, the authorities continue to make progress in these areas despite evolving pressures in the wake of the COVID-19 pandemic. OTC commodity derivatives are cleared in clearing houses and traded on electronic platforms, though these are retail-oriented products and much less significant from a systemic risk perspective than OTC FX and interest rate derivatives.

At the same time, further steps can be taken. These include steps to: improve the reporting, use and transparency of OTC derivatives data; addressing legal uncertainties relating to netting for derivatives transactions; and implementing remaining OTC derivatives reforms.

4.1 Continue to improve reporting, use and transparency of OTC derivatives data

BI has taken a number of steps to improve the efficiency of its TR-like function. The TR-like entity run by BI was set up to process banking returns and does not have many of the same governance structures of operationally or legally separate TRs in other jurisdictions.[33] In particular, it appears the current governance framework does not meet all of the requirements expected from an OTC derivatives TR, for example around governance, access and participation, and disclosure of market data. The Indonesian authorities have not conducted a self-assessment of their progress in implementing the PFMI,[34] and are currently conducting an assessment to determine the most suitable TR model in Indonesia. The assessment underway also considers whether the scope of reporting entities and the information to be reported are adequate. This should help identify possible improvements such as extending reporting beyond banks or requiring life cycle event information to be reported on a daily basis.

The granularity of published derivatives data should be improved. While some information on OTC derivatives is publicly disclosed through monthly banking statistics reports, it is comingled with spot transactions and does not have the same level of detail as publicly disclosed by many TRs in other jurisdictions. Improving the granularity of derivatives data, including a clearer breakdown by product and counterparty type, would improve public transparency of the OTC derivatives market in Indonesia.

Access to foreign TR-data on IDR would help authorities fulfil their mandate. The main focus of the Indonesian authorities is on IDR-denominated derivatives transactions conducted by domestic banks, and as such they have no MoUs in place with foreign regulators for derivatives data-sharing. However, there is a very active offshore NDF market in IDR. Establishing data-sharing agreements with foreign jurisdictions would allow the Indonesian authorities to access foreign TR data on IDR in order to better understand the OTC derivatives activities that may impact the domestic market, thereby enhancing their financial stability analysis.

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33 See for example Box 2 of the *Peer Review of Mexico* by the FSB (March 2020), which describes the TR-like entity in the Central Bank of Mexico.

34 Indonesia is the only FSB member jurisdiction not to have undertaken such a self-assessment for a TR. See https://www.bis.org/cpmi/level1_status_report.htm.

Finally, the Indonesian authorities should develop a roadmap for adoption of global identifiers and data elements, notably the LEI, UTI, UPI and CDE. While there have been interagency discussions on the merits of the LEI, such discussions have not taken place for the UTI, UPI or CDE. The authorities suggest their domestic identifiers are sufficient given the current characteristics of the Indonesian derivatives markets. However, many market participants have voluntarily registered for an LEI, including the federal debt management office, banks and securities companies. Furthermore, regulatory uses of the LEI are multiple and the benefits can be substantial, and these uses and benefits should grow as the Indonesian market develops further.[35] Adopting globally harmonised identifiers also allows international market players to report information in the same way to domestic and foreign TRs and assist in the global aggregation of TR data. Ultimately, the adoption of these identifiers will allow the authorities to share and receive OTC derivatives data with and from foreign TRs to facilitate their analysis.

- **Recommendation 1**: The authorities should continue to improve reporting and use of OTC derivatives data by: (a) finalising their review of TR infrastructure and reporting requirements and implementing improvements identified in the review; (b) improving public transparency of OTC derivatives data, including clearer breakdowns by type of product and counterparty type; (c) obtaining and using foreign TR data to better understand the Indonesia-related offshore OTC derivatives market; and (d) introducing a timeline for adoption of the LEI, UTI, UPI and CDE.

4.2 Address legal uncertainties relating to netting

There are uncertainties around the functioning of the current Indonesian legal framework in bankruptcy that may hinder the introduction of efficient central clearing and margin requirements. The Indonesian law may not provide a sufficient legal basis for: close-out netting of derivative transactions; an effective margin regime for non-centrally cleared OTC derivatives transactions; or the enforcement of default procedures by an OTC derivatives CCP. Legal certainty on these points is important to incentivise central clearing and implement margin requirements for NCCDs. Where the power to address these uncertainties is held outside the Indonesian financial authorities, these authorities should continue to highlight the urgency of addressing these matters with the legislature, courts, and other relevant stakeholders.

Legal certainty for the operation of the CCP is also important so that it can apply to be exempted or recognised by overseas authorities. As Indonesian authorities intend to require local clearing, it is important for its domestic CCP to obtain exemption/recognition status in relevant overseas jurisdictions before the implementation of the central clearing mandate. This will also help to attract foreign participants and avoid market fragmentation that could hurt liquidity and stifle the growth of Indonesia's OTC derivatives market.

- **Recommendation 2**: The authorities should address legal uncertainties relating to netting for derivatives transactions in bankruptcy in order to facilitate effective central clearing and margin requirements.

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[35] Internationally, implementation of the LEI has enabled a variety of uses by authorities, including: monitoring financial risks, enhanced reporting to credit registries, statistical analysis, understanding company and market structures, market surveillance and resolution of financial institutions. See the FSB *Thematic Review on Implementation of the Legal Entity Identifier* (May 2019)

4.3 Implement remaining OTC derivatives reforms in an appropriately sequenced manner

Proper sequencing of reforms is important to avoid market fragmentation. As previously noted, central clearing is not yet available or required for OTC FX and interest rate derivatives, the two largest OTC derivatives asset classes traded in Indonesia. The authorities plan to implement margin requirements concurrently with the operationalisation of the Indonesian OTC FX and interest rate derivatives CCP, which will also give time for the legal uncertainty over the effectiveness of a margin regime to be resolved. Final capital requirements for exposures to CCPs are pending.

The authorities should consider introducing margin requirements for NCCDs independently of the establishment of the CCP. Otherwise if there will be a delay in the establishment of the CCP, margin requirements may not come into effect for some time. The BCBS-IOSCO margin requirements for NCCDs have two main stated benefits: reduction of systemic risk and promotion of central clearing. While the approach in Indonesia will encourage central clearing (when available), systemic risk could grow if market participants do not exchange margin for NCCDs. The absence of margin requirements could also limit end-users' access to hedging, if financial firms need to limit their non-margined exposures.

- **Recommendation 3**: The authorities should implement remaining OTC derivatives reforms in an appropriately sequenced manner by adopting: (a) central clearing of standardised OTC derivatives; (b) margin requirements for NCCDs; and (c) capital requirements for exposures to CCPs.

Annex: Indonesia's implementation of G20 financial reforms (as of October 2020)

This FSB Jurisdictional Profile presents the status of implementation of G20 financial regulatory reforms, drawing on information from various sources. The tables below distinguish between priority areas that undergo more intensive monitoring and detailed reporting via progress reports and peer reviews, and other areas of reform whose monitoring is based on annual survey responses by FSB member jurisdictions. See here for further information.

IMPLEMENTATION STATUS OF REFORMS IN PRIORITY AREAS

Reform Area	BASEL III^						COMPENSATION	OVER-THE-COUNTER (OTC) DERIVATIVES				RESOLUTION				NON-BANK FINANCIAL INTERMEDIATION	
	Risk-based capital	Liquidity Coverage Ratio (LCR)	Require-ments for SIBs	Large exposures framework	Leverage ratio	Net Stable Funding Ratio (NSFR)		Trade reporting	Central clearing	Platform trading	Margin	Minimum external TLAC requirement for G-SIBs	Transfer / bail-in / temporary stay powers for banks	Recovery and resolution planning for systemic banks	Transfer / bridge / run-off powers for insurers	Money market funds (MMFs)	Securiti-sation
Agreed phase-in (completed) date	*2013 (2019)*	*2015 (2019)*	*2016 (2019)*	*2019*	*2018*	*2018*		*end-2012*	*end-2012*	*end-2012*	*2016 (2022)*	*2019/2025 (2022/2028)*					
Status	LC	C		C		C										**	

Legend	Final rule or framework implemented. Final rule published but not implemented, draft regulation published or framework being implemented. Draft regulation not published or no framework in place (dark red colour indicates that deadline has lapsed). Requirements reported as non-applicable. Basel III: **C**=Compliant, **LC**=Largely compliant, **MNC**=Materially non-compliant, **NC**=Non-compliant. △=Final rules implemented but certain elements are not finalised. OTC derivatives: R/F=Further action required to remove barriers to full trade reporting (R) or to access trade repository data by foreign authority (F). Non-bank financial intermediation: */**=Implementation is more advanced in one or more/all elements of at least one reform area (money market funds), or in one or more / all sectors of the market (securitisation). Further information on the legend.
Notes	G-SIBs=Global Systemically Important Banks. TLAC=Total Loss-Absorbing Capacity.
Source	FSB, *Implementation and Effects of the G20 Financial Regulatory Reforms: 2020 Annual Report*, November 2020.

IMPLEMENTATION STATUS OF REFORMS IN **OTHER AREAS**

Reform area	**Hedge funds**			**Securitisation**			**Supervision**				**Macroprudential frameworks and tools**	
	Registration, appropriate disclosures and oversight of hedge funds	Establishment of international information sharing framework	Enhancing counterparty risk manage-ment	Strengthen-ing of regulatory and capital framework for monolines	Strengthening supervisory requirements or best practices for investment in structured products	Enhanced disclosure of securitised products	Consistent, consolidated supervision and regulation of SIFIs	Establishing supervisory colleges and conducting risk assessments	Supervisory exchange of information and coordination	Strengthen-ing resources and effective supervision	Establishing regulatory framework for macroprudential oversight	Enhancing system-wide monitoring and the use of macropru-dential instruments
Status	N/A*	N/A	REF*	N/A*	REF	REF	REF	N/A*	REF	REF	REF	REF

Reform area	**Credit rating agencies**		**Accounting standards**	**Risk management**		**Deposit insurance**	**Integrity and efficiency of financial markets**		**Financial consumer protection**
	Enhancing regulation and supervision of CRAs	Reducing the reliance on ratings	Consistent application of high-quality accounting standards	Enhancing guidance to strengthen banks' risk management practices	Enhanced risk disclosures by financial institutions		Enhancing market integrity and efficiency	Regulation and supervision of commodity markets	
Status	REF*	REF	REF	REF	REF	REF	N/A	REF	REF

Legend	REF=Implementation reported as completed. IOG=Implementation reported as ongoing. ABN=Applicable but no action envisaged at the moment. N/A=Not applicable. *=collected in previous year(s) for all members.
Notes	The FSB has not undertaken an evaluation of survey responses to verify the status or assess the effectiveness of implementation. In a number of cases, the complexity of the reforms and the summarised nature of the responses does not allow for straightforward comparisons across jurisdictions or reform areas. In particular, reforms whose status in a particular area is reported as complete should not be interpreted to mean that no further policy steps (or follow-up supervisory work) are anticipated in that area. CRA = Credit Rating Agency, SIFI = Systemically important financial institution.
Source	FSB, *Jurisdictions' Responses to the 2019 IMN Survey*. The 2020 survey was not undertaken due to the FSB re-prioritisation of its 2020 work programme to focus on responding to the COVID-19 pandemic.

Other information	Latest IMF-World Bank FSAP: Jun 2017	Latest FSB Country Peer Review: 2014	Home jurisdiction of G-SIBs: no	Signatory of IOSCO MMoU: yes	Signatory of IAIS MMoU: no

The following table presents information from the Indonesian authorities on the steps taken to date and actions planned in core reform areas (not covered in this peer review) where implementation has not yet been completed. The actions mentioned below have not been examined as part of the peer review and are presented solely for purposes of transparency and completeness.

Reform area	*Steps taken to date and actions planned including timeframes)*
Basel III	
Leverage ratio	The regulation concerning the Basel III leverage ratio requirements was published in December 2019 (POJK number 31/POJK.03/2019).
Resolution	
Transfer/bail-in/temporary stay powers for banks	As stipulated in Article 18 of Law No. 9 Year 2016 concerning financial safety net, the systemic bank should develop a recovery plan in which comprises the obligation of the ultimate shareholders to conduct bail-in (e.g. convert debt to equity). OJK has enacted OJK Regulation Number 14/POJK.03/2017 concerning Recovery Plan for Systemic Banks, that SIB must hold debt instruments which have the characteristics of capital (as a bail-in instrument). With regard to temporary stay powers for banks, LPS has the power to impose early termination right if the contracts are potentially burdensome to the bank or following activation of the Banking Restructuring Program, according to the LPS Law and the Law of Prevention and Mitigation of Financial System Crisis. Nevertheless, there is no explicit time constrain (i.e., the maximum duration of time) to impose resolution authority's right on this area.
Recovery and resolution planning for systemic banks	LPS has set up a roadmap for the adoption of resolution planning and resolvability assessment for D-SIBs and established a dedicated working group consisting of representatives from MOF, LPS, BI, OJK, and Financial Sector Stability Committee. The resolution planning was piloted for selected DSIBs in 2019, while the development of LPS Regulation concerning the bank's resolution plan and resolvability assessment is still ongoing, due to be issued by end of 2020.
Transfer/bridge/run-off powers for insurers	Transfer for insurance is regulated by Otoritas Jasa Keuangan Act (Law No 21 Year 2011) and Insurance Act (Law Number 40 Year 2014, Article 60). Such power is further regulated by article 51 of OJK Regulation Number 71/POJK.05/2016 for conventional insurance and article 52 of OJK Regulation Number 72/POJK.05/2016 for sharia insurance. Under this regulation, financial restructuring measures for a troubled insurance company may include the transfer of ownership and transfer of portfolio to other insurance companies. OJK may revoke the license of a troubled insurance company unable to improve its financial soundness. Based on article 44 of the Insurance Act, upon being revoked, the company should liquidate its assets. Assets liquidation should be conducted under OJK's supervision, as stipulated in OJK Regulation Number 28/POJK.05/2015. In order to protect the interest of policyholders in the case of an insurance company liquidated, the Insurance Act also mandated the establishment of

	the policyholder protection scheme. The scheme might involve the establishment of bridge institution to facilitate the resolution of insurance company. Following up on the mandate, OJK, MOF, and IDC have been conducting a study that is expected to produce academic paper for the establishment of the policyholder protection scheme. The study also covers the discussion on legal form, scope and requirement of coverage protection, and source of funds for the protection scheme. Run-off power is regulated by OJK under the Insurance Act (Article 60 of Law Number 40 Year 2014).
Non-bank financial intermediation	
Money-market funds – measures for valuation, liquidity management and (where applicable) stable net asset value	Measures for valuation are regulated by OJK through Bapepam-LK regulation IV.C.2 concerning market fair value for mutual fund. Measures for variable net asset value is regulated by OJK through OJK regulation POJK no. 47/D.04/2015 concerning guidelines for net asset value for mutual funds.