FSB FINANCIAL STABILITY BOARD

Press release

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FSB completes peer review of Indonesia

The Financial Stability Board (FSB) published today its peer review of Indonesia.

The peer review examined two topics that are important for financial stability: the change in Indonesia's regulatory structure, and crisis management arrangements. These same topics are relevant in other FSB jurisdictions and have been covered in peer reviews of various FSB members in the past. The review focused on the steps taken to date by the Indonesian authorities to implement reforms in these areas, including by following up on relevant recommendations in the 2010 Financial Sector Assessment Program (FSAP) undertaken by the International Monetary Fund (IMF) and the World Bank.

The Indonesian authorities established a new, integrated supervisory authority (OJK) that, on 31 December 2012, assumed regulatory and supervisory responsibilities for capital markets and non-bank financial institutions. On 31 December 2013, the OJK took over regulatory and supervisory responsibility of the banking system from the central bank.

Good progress has been made in addressing some of the FSAP recommendations on the two topics, although the reforms are still ongoing. The challenge for the authorities will be to complete the transition to a new regulatory structure effectively and to develop solid foundations to the crisis management framework. Providing legal protection to financial sector regulators and supervisors as well as to public officials involved in crisis management and resolution is an important prerequisite for the success of the reforms.

The authorities should be commended for putting in place a detailed transition plan for the transfer of banking regulation and supervision responsibilities to OJK. At the same time, the peer review noted a number of important tasks to complete the transition effectively, including: the need for a comprehensive change management programme in OJK to promote a common culture and effective staff interaction across departments at all levels; a review of OJK's organisational structure and supervisory approach to deliver the benefits of an integrated supervisor; and further development of the macroprudential policy framework to delineate the respective roles and responsibilities of each authority.

The peer review also found that the authorities have made good progress in establishing a comprehensive crisis management framework. The prompt corrective action regulation and emergency liquidity provision framework have been revised; the Financial System Stability Coordination Forum has improved coordination and information sharing among the authorities; and a nationwide crisis management protocol is being established to provide guidance and procedures for crisis prevention and resolution. While the effective application of the framework in practice still needs to be confirmed, it is encouraging that the authorities have already undertaken crisis simulation exercises to test it.

Despite these accomplishments, more work is needed to ensure the effectiveness of the framework and to fully address some FSAP recommendations. This includes the enactment of the Financial System Safety Net Law to ensure a sound legal framework for effective crisis management; the finalisation of an assessment methodology to be able to identify domestic systemically important banks at an early stage and to subject them to appropriate prudential as well as recovery and resolution planning requirements; and revisions to the legal framework to avoid giving priority to open bank assistance and nationalisation as resolution options for a failing systemically important bank.

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The peer review of Indonesia is the tenth country peer review conducted by the FSB and the fourth using the revised objectives and guidelines for the conduct of peer reviews set forth in the December 2011 *Handbook for FSB Peer Reviews*. FSB member jurisdictions have committed to undergo an FSAP assessment every five years and, to complement that cycle, an FSB peer review two to three years following an FSAP. As part of this commitment, Indonesia volunteered to undergo a peer review in 2013; the peer review of Germany is underway and will be completed in April 2014. All completed peer review reports are available on the FSB website.

Country peer reviews focus on the implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies agreed within the FSB, as well as their effectiveness in achieving desired outcomes. They examine the steps taken or planned by national authorities to address IMF-World Bank FSAP and Report 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 itself 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.

The report published today describes the findings and conclusions of the peer review of Indonesia. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Lesetja Kganyago, Deputy Governor, South African Reserve Bank. The review benefited from dialogue with the Indonesian authorities and from discussion in the FSB Standing Committee on Standards Implementation.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.