Frequently Asked Questions

Bank Indonesia Circular Letter number 14/37/DPNP, dated 27th December 2012, regarding the Minimum Capital Requirement based on the Risk Profile and fulfilment of Capital Equivalency Maintained Assets (CEMA)

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

   This Bank Indonesia Circular represents further elucidation of Bank Indonesia Regulation 14/18/PBI/2012 on the minimum capital requirement for commercial banks.

2. **What is regulated in this Bank Indonesia Circular?**

   This Circular explains components of the Internal Capital Adequacy Assessment Process (ICAAP) in more depth, elaborating each component, as well as guidelines for the preparation of reports linked to calculating minimum capital based on risk profile and instructions how to prepare reports relating to CEMA.

3. **Which components of ICAAP are applicable to Banks?**

   The components of ICAAP applicable to Banks include the following:

   a. Active supervision of the Board of Commissioners and Board of Directors;

   b. Assessments of capital adequacy;

   c. Monitoring and Reporting; and

   d. Internal Control.

4. **What are the responsibilities of the Board of Commissioners and Board of Directors in terms of ICAAP?**

The responsibilities of the Board of Commissioners and Board of Directors, among others, are as follows:

a. understanding the characteristics and level of risk encountered by the Bank, assessing the quality of risk management and linking the level of risk to the capital adequacy of the Bank in order to anticipate the risks faced as well as to support the business plan and future strategic plan of the Bank; and
b. ensuring the implementation of a consistent and integrated ICAAP in the Banks' operational activities.

5. How do Banks assess capital adequacy according to ICAAP?

In the assessment of capital adequacy, banks shall be required to have sufficient policies and procedures in place to ensure that all risks are identified, measured and reported regularly to the Board of Commissioners and Board of Directors. In addition, Banks shall be required to apply methods and processes to assess capital adequacy by associating risk level with the level of capital required to absorb potential losses arising from such risks. The measurement of risk and calculating the level of capital required, including the methods and assumptions, shall be documented.

6. How do Banks monitor and report capital adequacy according to ICAAP?

In terms of monitoring and reporting, Banks shall be required to implement an information system to monitor and report risk exposure as well as to measure the impact of changes in the risk profile on the capital requirement of the Bank. Reports shall be submitted regularly to the Board of Commissioners and Board of Directors.

7. How is the internal control process performed under ICAAP?

When conducting internal control, Banks shall be required to implement an adequate internal control system to ensure the reliability of the applied ICAAP as well as to enable annual ICAAP reviews or as required by the Bank.

8. **What documentation shall be required by Banks to be submitted to Bank Indonesia according to ICAAP?**

   It shall not be necessary for Banks to submit ICAAP documentation to Bank Indonesia. Nonetheless, such documentation shall be mandatorily administrated by Banks and thereby available as required by Bank Indonesia.

   Mandatory reports to be submitted by Banks include the assessment of the minimum capital requirement based on the risk profile that refers to Appendix I of this Circular

9. **When will calculations of the capital requirement based on risk profile become compulsory?**

   Calculations of the capital requirement based on risk profile shall begin using the risk profile for the position in December 2012. The position of the risk profile in December is used as the basis for the capital requirement for the position from March to August, while the position of the risk profile in June is used as the basis for the capital requirement from September to February.

10. **Who are obliged to meet the minimum CEMA requirement?**

    All branch offices of foreign banks are obliged to meet the minimum CEMA requirement.

11. **What is the minimum CEMA requirement that must be met by branches of foreign banks?**

    Minimum CEMA is set at 8% (eight percent) of total bank liabilities each month and no less than Rp1 trillion (one trillion rupiah).

12. **What are the requirements for financial assets to meet CEMA?**

    a. Government Securities

       Held-to-maturity securities issued by the Government of the Republic of Indonesia.

b. Other Securities

    1. issued by banks incorporated in Indonesia;
    2. non-equity;
    3. of investment grade; and
    4. not purchased for trading purposes.

c. Corporate Securities

    1. issued by corporations incorporated in Indonesia;
    2. non-equity;
    3. of at least an A+ rating or equivalent;
    4. not purchased for trading purposes; and
    5. the portion of corporate securities shall not exceed 20% (twenty percent) of total minimum CEMA.

13. In order to fulfil CEMA, what supporting documentation shall be required to state that CEMA assets are free from any party claims?

Financial assets used as CEMA must be free of any party claims that are authenticated by a statement from a foreign bank branch office. Such a statement shall refer to the format defined in Appendix II of this Bank Indonesia Circular.

14. What is the timetable of phased implementation for minimum CEMA?

a. During the initial stage all branches of foreign banks shall be required to meet a minimum CEMA of 8% (eight percent) of total bank liabilities no later than for the position in June 2013.

b. In the event that the minimum CEMA of 8% of average total liabilities amounts to less than Rp1 trillion (one trillion rupiah) after the position in June 2013 up to November 2017, the branches of foreign banks shall still be required to meet the minimum CEMA of 8% (eight percent) of total liabilities.

c. The minimum CEMA requirement of Rp1 trillion (one trillion rupiah) for the branches of foreign banks as referred to in item 2 shall be effective from December 2017.