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PRESS RELEASE

BASEL III IMPLEMENTATION TO BE ADAPTED TO NATIONAL INTERESTS

Jakarta, December 8, 2017. Chairman of Financial Services Authority's (OJK) Board of Commissioners Wimboh Santoso said that the Basel III framework would be implemented with emphasis on national interests in mind, and banks were expected to play optimal roles in promoting economic growth.

Wimboh gave the statement following a meeting of the Group of Governors and Heads of Supervision (GHOS) of 27 member countries of the Basel Committee on Banking Supervision. The meeting was held at the European Central Bank, Frankfurt, Germany, on Friday (Dec. 7), local time.

"In implementing international standards, the OJK will always prioritize national interests. Such as in relation to the treatment of risk weight for sovereign exposures (government bonds) in banks' assets, we will continue using zero-percent risk weighted assets (RWA). This is an example of successful international diplomacy that came from arduous and lengthy negotiation process," he said.

Wimboh explained that the GHOS forum's agreement to finalise the Basel III framework would allow for simpler implementation in the banking industry and facilitate the regulators in monitoring such implementation.

"This will help reduce complexity in calculation of banks' risk-weighted assets (RWA) and enable improvements to comparability and transparency aspects," he said.

The main agenda of this GHOS meeting was finalizing some reforms to banking sector regulations under the Basel III post-crisis regulatory reforms.

The presence of the OJK at this forum marked an implementation of Indonesia's commitment—in relation to its status as a G-20 member country—to reform regulation in the banking sector in compliance with global standards towards a strong banking system.

Wimboh added that endorsement of the Basel III reform agenda completed the global reform of the banking systems under the Basel III framework. Next, the GHOS would focus on ensuring the standards were implemented consistently through the Regulatory Consistency Assessment Programme (RCAP).

The Basel III reforms endorsed by the forum included the following elements:

1. a revised standardised approach for credit risk
2. revisions to the internal ratings-based approach for credit risk
3. revisions to the credit valuation adjustment (CVA)—used to calculate capital charge for over-the-counter (OTC) derivative trading activities against potential mark-to-market losses arising from credit risk)—including the removal of the internally modelled approach in its calculation and the introduction of a revised standardised approach for CVA

4. a revised standardised approach for operational risk, which will replace the existing standardised approaches and the advanced measurement approaches
5. revisions to the measurement of the leverage ratio (the capital measure divided by the exposure measure) and implementation of a leverage ratio buffer for global systemically important banks
6. an output floor, which will ensure that risk-weighted assets (RWAs) generated by internal models are no lower than 72.5% of RWAs as calculated by the standardised approaches.

These endorsed standards will take effect from 1 January 2022 and will be phased in over five years. Similarly, the implementation date of the Basel III requirements for market risk will be extended, from the one originally set in 2019, to 1 January 2022.

Concerning propositions on sovereign debt (the debt of either the central or local governments and debt to the Central Bank), which is deemed to have no risk weight in the RWA calculation, the GHOS established that the existing sovereign exposure calculation standard with zero-percent RWA would remain in place. The decision has generated positive impacts on national banks' capacity in credit distribution.

This meeting also established that countries would be considered compliant with the Basel framework if they implemented the standardised approaches, even though they did not implement any of the internally modelled approaches.

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