



The Financial Services Authority
of
The Republic of Indonesia

**A COPY OF
THE FINANCIAL SERVICES AUTHORITY REGULATION
NUMBER 17/POJK.03/2014**

**CONCERNING
THE IMPLEMENTATION OF INTEGRATED RISK MANAGEMENT FOR
FINANCIAL CONGLOMERATES**

**BY THE GRACE OF GOD ALMIGHTY
THE BOARD OF COMMISSIONERS OF FINANCIAL SERVICES AUTHORITY**

- Considering :
- a. that in order to create financial sector that grow sustainably and stable and also highly competitive, effective risk exposure management is required;
 - b. that in existence of financial services institution which has ownership and/ or control in various financial services institution has risen the complexity of transaction and interaction between financial services agencies in financial system which causes risk exposure increase;

- c. that the ownership and/or controlling.. relationship in various financial services institution would influence business flow.. of the financial services institution causes by risk exposure incurred either directly or indirectly from the business activities of the child company, terelasi... company, and other entities grouped in some financial conglomeration;
- d. that in order to manage risk exposure as referred to in letter a, financial conglomerates need to apply integrated risk management;
- e. that in the implementation of integrated risk management for financial conglomerates it is hoped to manifest financial system stability that grow sustainably, thus able to encourage national competitiveness;
- f. that based on the consideration as referred to in letter a, letter b, letter c, letter d and letter e it is necessary to establish a Financial Services Authority Regulation concerning The Implementation of Integrated Risk Management for Financial Conglomerates.

- Pursuant to :
1. Law Number 2 of 1992 concerning Insurance Business (the State Gazette of the Republic of Indonesia of 1992 Number 13, Supplement to the State Gazette of the Republic of Indonesia Number 3467);
 2. Law Number 7 of 1992 concerning Banking (the State Gazette of the Republic of Indonesia of 1992 Number 31, Supplement to the State Gazette of the Republic of Indonesia Number 3472) as amended with the Law Number 10 of 1998 (the State Gazette of the Republic of Indonesia of 1998 Number 182, Supplement to the State Gazette of Republic Indonesia Number 3790);

3. Law Number 8 of 1995 on Capital Market (the State Gazette of the Republic of Indonesia of 1995 Number 64, Supplement to the State Gazette of the Republic of Indonesia Number 3608);
4. Law Number 21 of 2008 concerning the Shariah Banking (the State Gazette of the Republic of Indonesia of 2008 Number 94, Supplement to the State Gazette of the Republic of Indonesia Number 4867);
5. Law Number 21 of 2011 concerning the Financial Services Authority (the State Gazette of the Republic of Indonesia of 2011 Number 111, Supplement to the State Gazette of the Republic of Indonesia Number 5253).

HAS DECIDED:

To stipulate : THE FINANCIAL SERVICES AUTHORITY REGULATION CONCERNING IMPLEMENTATION OF INTEGRATED RISK MANAGEMENT FOR FINANCIAL CONGLOMERATES.

CHAPTER 1

GENERAL PROVISIONS

Article 1

Terminologies used in this Financial Services Authority Regulation are defined as follows:

1. Financial Services Institution hereinafter referred as FSI is the institution that conducts activities in financial, capital market, insurance, pension funds, financial company sectors and other

Financial Services Institution as referred to in the Law concerning Financial Services Authority.

2. Financial Conglomerates are FSIs that within one group or unit due to relation of ownership and/or control.
3. Main Entity is the parent FSI of the Financial Conglomerate or FSI that is appointed directly by the controlling shareholders of Financial Conglomerates.
4. Risk is the loss potential as the result of certain event.
5. Risk Management is series of methodologies and procedures used to identify, measure, monitor and control Risk arise from all FSI's business activities.
6. Integrated Risk Management is series of methodologies and procedures used to identify, measure, monitor and control Risk arise from all FSI's business activities grouped in the one integrated Financial Conglomerates.
7. Board of Directors are:
 - a. For FSI with legal status as Limited Company the Board of Directors are as referred to in the Law concerning Limited Company;
 - b. For FSI with legal status as Regional Company the Board of Directors are as referred to in the Law concerning Regional Company;
 - c. For FSI with legal status as Cooperative is the management as referred to in the Law concerning Cooperative;
 - d. For FSI with legal status as Joint Venture the Board of Directors are as referred to in the Article of Association;
 - e. For FSI with legal status as branch office of the entity based abroad is the head of branch office and the official one level below the head of branch office.
8. Board of Commissioners are:

- a. For FSI with legal status as Limited Company the Board of Commissioners are as referred to in the Law concerning Limited Company;
- b. For FSI with legal status as Regional Company.. supervisor as referred to in the Law concerning Regional Company;
- c. For FSI with legal status as Cooperation is the supervisor as referred to in the Law concerning Cooperation;
- d. For FSI with legal status as Joint Venture the Board of Commissioners as referred to in the Article of Association;
- e. For FSI with legal status as branch office of foreign entity is the party appointed to perform supervisory function.

Article 2

Financial Conglomerate must implement Integrated Risk Management comprehensively and effectively as governed by the provisions in this Financial Services Authority Regulation.

Article 3

Main Entity must integrate the implementation of Risk Management towards Financial Conglomerates.

CHAPTER II

FINANCIAL CONGLOMERATE STRUCTURE

Article 4

- (1) Financial Conglomerate as referred to in Article 2 has structure that consisted of Main Entity and:
 - a. Subsidiary Company; and/or
 - b. Sister Company together with subsidiary company.

(2) Financial Conglomerates as referred to in paragraph (1) include FSI types as follows:

- a. Bank;
- b. Insurance and reinsurance company;
- c. Securities company; and/or
- d. Financial company.

Article 5

(1) Subsidiary company as referred to in Article 4 paragraph (1) is legal entity or company owned and/controlled by FSI directly or indirectly either in-country or abroad that conduct its business in the financial services sector.

(2) Subsidiary company as referred to in paragraph (1) consisted of:

- a. A subsidiary company which is a company owned by FSI more than 50% (fifty per hundred);
- b. A participation company is a company owned by FSI 50% (fifty per hundred) or less, but FSI has control over the company;
- c. A company owned by FSI more than 20% (twenty per hundred) up to 50% (fifty per hundred) that meets the following requirements:
 1. FSI and other parties' ownership towards the subsidiary company are equal; and
 2. Each owner jointly controls the subsidiary company based on covenant, and proven by a written agreement or commitment from the owner to provide either financial or non-financial support according to each type of ownerships.

- d. Other entity that must be consolidated based on the prevailing financial accounting standard.

Article 6

Sister Company as referred to in Article 4 paragraph (1) is a number FSIs separated by institution and/or legally but owned and/or controlled by the same controlling shareholders.

Article 7

- (1) FSI must identify relations concerning ownership and/or control with other FSIs in defining Financial Conglomerates as referred to in Article 4.
- (2) Financial Conglomerates must possess Main Entity.
- (3) In terms of structure, the Financial Conglomerates consisted of parent FSI and subsidiary FSI, Main Entity is the parent FSI.
- (4) In terms of structure of the Financial Conglomerates other than referred to in paragraph (3), the Financial Conglomerates controlling shareholders must appoint the Main Entity.
- (5) In terms of Financial Conglomerates is owned by more than one party with equal ownerships, the appointment of Main Entity must be based on the agreement between parties with equal portion of ownerships.
- (6) A party appointed as a Main Entity as referred to in article (4) and article (5) is the FSI that owns largest total assets and/or own good quality Risk Management implementation.
- (7) Financial Services Authority has the authority to ask Main Entity to provide adjustments towards:
 - a. FSI including in the Financial Conglomerates; and/or

- b. FSI appointed as Main Entity.

CHAPTER III

THE SCOPE OF INTEGRATED RISK MANAGEMENT

Article 8

The Implementation of Integrated Risk Management as referred to in Article 2 covers at least:

- a. Supervision of the Main Entity Board of Directors and Board of Commissioners;
- b. The adequacy of policy, procedures and limit determination of the Integrated Risk Management;
- c. The adequacy of the integrated identification, measurement, monitoring and control process of Risk, and Integrated Risk Management information system; and
- d. Comprehensive internal control system towards the implementation of Integrated Risk Management.

Article 9

(1) Risks that must be managed in the Integrated Risk Management include:

- a. Credit Risk;
- b. Market Risk;
- c. Liquidity Risk;
- d. Operational Risk;
- e. Legal Risk;

- f. Reputation Risk;
 - g. Strategic Risk;
 - h. Compliance Risk;
 - i. Inter-group transaction Risk;
 - j. Insurance Risk.
- (2) Insurance Risk as referred to in paragraph (1) letter j is not mandatory to be managed by Financial Conglomerates that do not possess insurance company and/or reinsurance.

Article 10

The implementation of the Integrated Risk Management can be adjusted with business characteristics and complexity of Financial Conglomerates.

CHAPTER IV

SUPERVISION OF MAIN ENTITY BOARD OF DIRECTORS AND BOARD OF COMMISSIONERS

Article 11

- (1) Main Entity Board of Directors and Board of Commissioners are authorized and responsible for ensuring the implementation of Integrated Risk Management according to business characteristics and complexity of Financial Conglomerates.
- (2) In supporting the implementation of Integrated Risk Management as referred to in paragraph (1) Main Entity Board of Directors and Board of Commissioners must ensure the implementation of Integrated Risk Management in each FSI in Financial Conglomerates.

(3) In terms the Main Entity is FSI that conducts business activity based on shariah principle, the Shariah Supervisory Agency of the Main Entity must ensure the implementation of Integrated Risk Management do not contradict shariah principles.

Article 12

(1) The authority and obligation of the Main Entity Board of Directors with regard to ensure the implementation of Integrated Risk Management as referred to in Article 11 paragraph (1) and paragraph (2) include at least:

- a. To draft a written and comprehensive policy concerning Integrated Risk Management according to the prevailing provisions in this Financial Services Authority Regulation;
- b. Implement the stipulated Integrated Risk management policy;
- c. Develop Risk culture as part of the implementation of the Integrated Risk Management at Financial Conglomerates;
- d. Ensure effective human resource management which include competency, qualification and adequate human resources at Main Entity to implement Integrated Risk Management;
- e. Ensure the Integrated Risk Management is implemented independently;
- f. Evaluate periodic review findings of the Integrated Risk Management Working Unit upon the Integrated Risk Management.

(2) Main Entity Board of Directors must evaluate and adjust Risk strategy and framework as part of the Integrated Risk Management policy as referred to in paragraph (1) letter a at least

1 (one) time in 1 (one) year or anytime when there are changes in factors that influence Financial Conglomerates business activity significantly.

- (3) With regard to the implementation of authority and obligation as referred to in paragraph (1), the Main Entity Board of Directors must have adequate comprehension concerning Risk inherent to all business activities of the Financial Conglomerates and able to take necessary actions according to Financial Conglomerates Risk profile.

Article 13

Main Entity must appoint Main Entity Director in charge of the Risk Management function to become Director in charge of Integrated Risk Management Risk functions to carry out the implementation of Integrated Risk Management.

Article 14

- (1) Authority and obligation of the Main Entity Board of Commissioners in order to ensure the implementation of Integrated Risk Management as referred to Article 11 paragraph (1) and paragraph (2) include at least:

- a. Directing, agreeing and evaluating Integrated Risk Management policy;
- b. Evaluating the implementation of Integrated Risk Management by Main Entity Board of Directors.

- (2) Main Entity Board of Commissioners must evaluate the Integrated Risk Management policy as referred to in paragraph

(1) letter b at least 1 (one) time in 1 (one) year or anytime there are changes in factors influencing business activities significantly.

Article 15

Main Entity Board of Directors and Board of Commissioners other than the requirement to carry out authority and obligation with regard to the implementation of Integrated Risk Management in Financial Conglomerates must also carry out authority and obligation as Board of Directors and Board of Commissioners with regard the implementation of risk management at Main Entity according to the prevailing provisions for Main Entity.

Article 16

With regard to the implementation of Integrated Risk Management that is comprehensive and effective, the Main Entity must establish:

- a. Integrated Risk Management Committee; and
- b. Integrated Risk Management Working Unit.

Article 17

(1) Integrated Risk Management Committee as referred to in Article 16 letter a consisted at least:

- a. Main Entity Director in charge of Risk Management function as referred to in Article 13 as the chairman and member of Integrated Risk Management Committee concurrently;

- b. Director representing and appointed from FSI in Financial Conglomerates; and
 - c. Executive officer.
- (2) The number and composition of directors who become the Integrated Risk Management Committee as referred to in paragraph (1) letter b adjusted to the Financial Conglomerates necessities as well as the efficient and effectivity implemented task of Integrated Risk Management Committee by paying attention to among other things representatives of each financial services sectors.
- (3) The number and type of memberships of the executive officer in Integrated Risk Management Committee as referred to in article (1) letter c are adjusted to the needs of each Financial Conglomerates.
- (4) Integrated Risk Management Committee as referred to in paragraph (1) has the authority and obligation to provide recommendation to Main Entity Board of Directors, at least with regard to:
- a. The drafting of Integrated Risk Management policy; and
 - b. Revision or improvement of Integrated Risk Management policy based on the implementation evaluation results.

Article 18

- (1) The establishment of Integrated Risk Management Working Unit as referred to in Article 16 letter by in Main Entity is adjusted according to business characteristics and complexity as well as the Risk inherent to Financial Conglomerates.

- (2) In the case Main Entity has Risk Management Working Unit, the implementation of task and obligation of the Integrated Risk Management Working Unit may become one of the functions of the existing Risk Management working unit.
- (3) Integrated Risk Management Working Unit as referred to in paragraph (1) and paragraph (2) must be independent.
- (4) In conducting its tasks, Integrated Risk Management Working Unit must coordinate with working unit that implement Risk Management function in each FSI in Financial Conglomerates.
- (5) Integrated Risk Management Working Unit directly responsible to Director in charge of Integrated Risk Management function as referred to in Article 13.

Article 19

The authority and obligation of the Integrated Risk Management Working Unit include:

- a. Provide input to Main Entity Board of Directors among other things in the drafting of Integrated Risk Management policy;
- b. Monitor the implementation of Integrated Risk Management policy including the development of procedures and tools to identify, measure, monitor and control Risks;
- c. Conduct Risk monitoring at Financial Conglomerates based on the result of the following assessment:
 1. Risk profile of each FSI in Financial Conglomerates,
 2. Risk level of each integrated Risks;
 3. Integrated Risk profile;

- d. Conduct stress testing;
- e. Conduct review periodically to ensure:
 - 1. The accuracy of Risk assessment methodology;
 - 2. Implementation adequacy of the management information system;
and
 - 3. The precision of policy, procedure and limit determination of
integrated Risks;
- f. Examine the proposal of new line of business that is strategic and significantly influential towards the Financial Conglomerates Risks exposure;
- g. Provide information to Integrated Risk Management Committee concerning matters that must be acted upon according to the evaluation results of the implementation of Integrated Risk Management;
- h. Provide information to Integrated Risk Management Committee, with regard to the drafting and improvement of Integrated Risk Management policy;
- i. Drafting and submit integrated Risk profile report periodically to Main Entity Director in charge of Integrated Risk Management function and to Integrated Risk Management Committee.

CHAPTER V

POLICY, PROCEDURE AND LIMIT DETERMINATION OF INTEGRATED RISK MANAGEMENT

Article 20

In drafting policy, procedure and determine limit for Integrated Risk Management as referred to in Article 8 letter b, Main Entity must pay attention to risk appetite and risk tolerance.

Article 21

Integrated Risk Management Policy must cover at least:

- a. Risk setting related to Financial Conglomerate business activities;
- b. Integrated Risk Management strategy formulation;
- c. Setting measurement method used and Integrated Risk Management information system;
- d. Setting Risk strategy and framework according to Risk appetite and Risk tolerance;
- e. Setting Risk rating assessment methodology;
- f. Drafting of contingency plan and worst case scenario;
- g. Setting internal controlling system in the implementation of Integrated Risk Management.

Article 22

(1) Integrated Risk Management Policy as referred to in Article 21 is described in Integrated Risk Management procedure and Risk limit determination.

(2) Integrated Risk Management Procedure as referred to in paragraph (1) must contain at least:

- a. Clear Accountability and delegation level of authorization in the implementation of Integrated Risk Management;

- b. Conduct periodic procedure review; and
 - c. Adequate procedure documentation.
- (3) Setting Risk limit as referred to in paragraph (1) must at least cover:
- a. Overall limit;
 - b. Limit of each risk; and
 - c. Limit of each FSI in Financial Conglomerates that has exposure Risk.
- (4) Financial Conglomerates must possess agreement mechanism when it reached overdraft limit. ??

CHAPTER VI

IDENTIFICATION, MEASUREMENT, MONITORING, CONTROL AND INFORMATION SYSTEM PROCESSES OF THE INTEGRATED RISK MANAGEMENT

Article 23

- (1) Main Entity must conduct integrated identification, measurement, monitoring and Risk control processes upon all significant Risk factors.
- (2) The implementation of identification, measurement and Risk control processes as referred to in paragraph (1) are supported by:
- a. Sufficient information system for Integrated Risk Management; and

- b. Reporting on performance, financial condition and risk exposure on:
 - 1. Financial Conglomerates; and
 - 2. Each FSI within Financial Conglomerates.

Article 24

- (1) In order to identify Risk, Main Entity must conduct analysis at least upon the Risk incurred in the Financial Conglomerates business.
- (2) In order to measure Risk, Main Entity must at least conduct:
 - a. Periodic evaluation towards the suitability of assumption, data source and procedure used to measure Risk; and
 - b. Improvement towards Risk measurement method when there are changes in factors that influence Risks significantly.
- (3) In order to monitor Risk, Main Entity must at least conduct:
 - a. Evaluation on Risk exposure; and
 - b. Improve reporting process and scope.
- (4) In order to implement Risk control, Main Entity must ensure Financial Conglomerates have Risk control method on Risk that could jeopardize Financial Conglomerates' business continuity.

Article 25

- (1) Information System of Integrated Risk Management at least produce report or information concerning:

- a. Risk exposure;
 - b. Compliance on the Integrated Risk Management implementation compare to drafted policy and procedure; and
 - c. Compliance towards limit setting.
- (2) Report or information produced from Integrated Risk Management as referred to in paragraph (1) is submitted periodically to the Main Entity Director in charge of the Integrated Risk Management function and to Integrated Risk Management Committee.

CHAPTER VII

INTERNAL CONTROLLING SYSTEM OF THE INTEGRATED RISK MANAGEMENT

Article 26

- (1) Main Entity must have overall internal controlling system towards the implementation of Integrated Risk Management as referred to in Article 8 letter d.
- (2) Internal controlling system as referred to in paragraph (1) is developed to ensure:
- a. Adhere to policy or internal provision, as well as the prevailing regulation and law;
 - b. The availability of financial information and management that are comprehensive, accurate, efficient and on time; and

- c. The effectivity of risk culture at Financial Conglomerates organization as a whole.

CHAPTER VIII

REPORTING

Article 27

- (1) Main Entity must submit report concerning FSI that becomes Main Entity and FSI that becomes Financial Conglomerates' member to Financial Services Authority.
- (2) Main Entity must submit report to Financial Services Authority when:
 - a. New Financial Conglomerates including the appointment of Main Entity;
 - b. Adjustment on Main Entity;
 - c. Adjustment on Financial Conglomerates member; and/or
 - d. Dissolution of Financial Conglomerates,
- (3) Report is provided at the latest 20 (twenty) working days since the condition as referred to in paragraph (2) take place.
- (4) In the case that the report as referred to in paragraph (2) has been reported to Financial Services Authority based on other Financial Services Authority stipulation, those report is considered to meet the reporting requirements.
- (5) Main Entity must submit adjustment report towards:
 - a. FSI included in the Financial Conglomerates; and/or
 - b. FSI appointed as Main Entity, when directed by Financial Services Authority as referred to in Article 7 paragraph (7).

Article 28

- (1) Main Entity must develop integrated Risk profile report periodically.
- (2) Integrated Risk profile as referred to in paragraph (1) is categorized to be 5 (five) levels.
- (3) Integrated Risk profile report is drafted every semester for the end of June and December.
- (4) Main Entity must submit integrated Risk profile to Financial Services Authority.
- (5) Integrated Risk profile report is submitted at least on the 15 (fifteen) of the second month after the end of the related report month.
- (6) In the case the 15th (fifteenth) falls on Saturday/ Sunday/ holiday, the integrated Risk profile report is submitted on the following working day.

Article 29

Main Entity that are in the form of a bank that submit integrated Risk profile report periodically, the bank is considered to have met the obligation to submit the consolidation Risk profile report periodically as stipulated in the provision concerning the application of consolidated risk management for bank that control...subsidiary company.

Article 30

Main Entity is declared late in the submission of integrated Risk profile report when the report is received by Financial Services Authority after the report submission deadline as referred to in Article 28 paragraph (5).

CHAPTER IX

MISCELLANEOUS

Article 31

Relationships between FSIs which owned and controlled directly by the Republic of Indonesia Government are exempted from Financial Conglomerates definitions.

Article 32

- (1) In the case Financial Conglomerates are within the same financial services sector and there are already Financial Services Authority provisions concerning risk management for the financial services sector, the Integrated Risk Management as referred to in Article 8 follow the Financial Services Authority provisions concerning risk management applicable to the financial services sectors.
- (2) The Financial Conglomerates as referred to paragraph (1) must:
 - a. Own Main Entity as referred to in Article 7 paragraph (2);
 - b. Establish Integrated Risk Management Committee and Integrated Risk Management Working Unit as referred to in Article 16;
 - c. Submit report as referred to in Article 27; and
 - d. Submit integrated Risk profile report as referred to in Article 28.

Article 33

Main Entity must provide data and information related to the implementation of Integrated Risk Management to Financial Services Authority.

Article 34

In the implementation of Integrated Risk Management, Main Entity must ensure the following matters:

- a. Sufficient capital of the Financial Conglomerates;
- b. Liquidity management is conducted effectively;
- c. Integrated monitoring of intragroup transaction;
- d. Risk Management supplying funds including large exposure effectively; and
- e. The implementation of integrated governance effectively.

BAB X

SANCTIONS

Article 35

Financial Conglomerates that violate the stipulations in Article 1, Article 7 paragraph (2), Article 9, Article 22 paragraph (4) and Article 32 paragraph (2); Main Entity that violates the stipulations in Article 3, Article 11 paragraph (2) and paragraph (3), Article 12 paragraph (2) and paragraph (3), Article 13, Article 14 paragraph (2), Article 15, Article 16, Article 20, Article 23, Article 24, Article 26 paragraph (1), Article 27 paragraph (1), paragraph (2) and paragraph (5), Article 28 paragraph (1), Article 33 and Article 34; FSI that violates stipulations in Article 7 paragraph (1); and Financial Conglomerates controlling shareholders that violate the provisions in Article 7 paragraph (4), will be imposed on administrative sanctions in the form of:

- a. written warning;
- b. demolition of financial soundness level;
- c. cancellation of the fit and proper test results;

- d. restriction of business activity;
- e. order to replace management;
- f. blacklisting of management; and/or
- g. revocation of approval, registration and ratification.

Article 36

Main Entity which are deemed late in submitting the integrated Risk profile report as referred to in Article 24 paragraph (4) will be imposed on sanction in the form of written warning and the obligation to pay IDR 1,000,000.00 (one million rupiah) for each day of the delay with the maximum of IDR 100,000,000.00 (one hundred million rupiah).

Article 37

The mechanism to impose sanction as referred to in Article 35 and Article 36 follow the prevailing provisions for FSI in each financial services sector.

CHAPTER XI

TRANSITIONAL PROVISIONS

Article 38

Report concerning FSI serving as Main Entity and FSI serving as the member of Financial Conglomerates as referred to in Article 27 paragraph (1) is must firstly be submitted on 31 March 2015 at the latest.

Article 39

The requirement to report integrated Risk profile as referred to in Article 28 paragraph (4) for the first time must be conducted for the report position as follow:

- a. June 2015, for Main Entity categorized as Business-Based Commercial Bank/ fourth business group of commercial banks (BBCB) 4;
- b. December 2015, for Main Entity categorized as Bank other than Business-Based Commercial Bank/ fourth business group of commercial banks (BBCB) 4 and non-bank.

Article 40

The imposition of sanction as referred to in Article 35 will come to effect in:

- c. 1 January 2017, for Main Entity categorized as Business-Based Commercial Bank (BBCB) 4;
- d. December 2015, for Main Entity categorized as Business-Based Commercial Bank (BBCB) 4 and non-bank.

CHAPTER XII

CONCLUDING PROVISIONS

Article 41

Further provisions concerning the implementation of Integrated Risk Management for Financial Conglomerates are stipulated in a Circular Letter of the Financial Services Authority.

Article 42

Upon the enactment of this Financial Services Authority's Regulation, FSI should continue to implements prevailing provisions at each financial services sectors.

Article 43

This Financial Services Authority Regulation shall come into effect upon its promulgation.

For public cognizant, it is hereby ordered that this Regulation of Financial Services Authority be promulgated in the State Gazette of the Republic of Indonesia.

Enacted in Jakarta

On 18 November 2014

CHAIRMAN OF
COMMISSIONERS BOARD,
FINANCIAL SERVICES
AUTHORITY,

[Signature]

MULIAMAN D. HADAD

Promulgated in Jakarta

On 19 November 2014

MINISTER OF LAW AND HUMAN RIGHTS
THE REPUBLIC OF INDONESIA,

[Signature]

YASONNA H. LAOLY

A copy of the original document

Director of Law 1

Legal Department

[Signature]

Tini Kustini

THE STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 2014 NUMBER
348

ELUCIDATION
OF
THE FINANCIAL SERVICES AUTHORITY REGULATION
NUMBER 17/POJK.03/2014

CONCERNING
THE IMPLEMENTATION OF INTEGRATED RISK MANAGEMENT FOR
FINANCIAL CONGLOMERATES

I. GENERAL

The condition of financial services sector that is sustainably growing and stable also secure are the main preconditions for the financial system to be able to support financial system stability achievement and play a role optimally in the national economy.

Financial industry is one of the industries that has operational complexity and high level of competition, which causes the financial industry to be exposed with high risk and must operate cautiously as well as efficient.

Along with the development of globalization, information technology and product innovations also activities, the Financial Services Institution (FSI) has provided a financial system that is extremely complex, dynamic and interlink between each financial services sectors either concerning products and institutions, or ownerships which causes the increase of risk exposure.

In order to face such condition, the FSI must pay attention all risks that may influence its business continuity. Risks that must be considered are including all risks which either directly or indirectly may influence FSI's business continuity, either originated from subsidiary company and sister company, or other entities grouped in one financial conglomerates.

In order to measure risk more comprehensively, financial conglomerates must implement integrated risk management. Through the implementation of integrated risk management, the financial conglomerates will benefit among others from the improvement of risk management, the setting of risk appetite and risk tolerance according to the financial conglomerates' complexity and business characteristics so at the end can produce synergy and increase business capacity and capital. Besides that, the implementation of integrated risk management for financial conglomerates is hoped to manifest financial system stability that is growing sustainably thus able to increase national competitiveness.

In relation to those matters, there is a need to regulate the Implementation of Integrated Risk Management for Financial Conglomerates in the Financial Services Authority Regulation.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Self-explanatory.

Article 3

Self-explanatory.

Article 4

Self-explanatory.

Article 5

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

The term “controlling” means individual or company/institution, either solely or jointly and directly or indirectly own 50 % (fifty per hundred) or less shares that have voting rights upon a company or other institution unless:

1. There is an agreement with other shareholder, so has voting rights more than 50% (fifty per hundred);
2. Have the authority to govern financial policy and company/other institution operations based on article of association/ agreement;
3. Have the authority to appoint or replace most of the Board of Directors and Board of Commissioners of other equivalent organs; and/or
4. Able to dominate majority votes during Board of Directors and Board of Commissioners or other equivalent organs meeting and control company/institution through Board of Directors and Board of Commissioners or other equivalent organs.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Article 6

Self-explanatory.

Article 7

Paragraph (1)

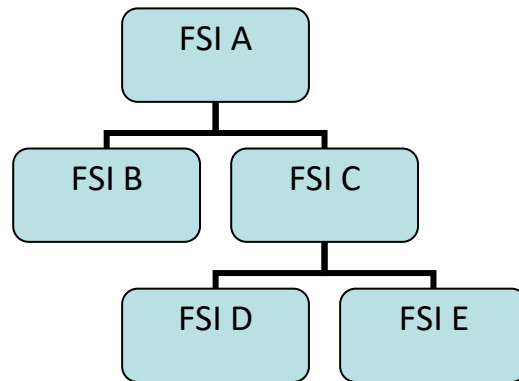
Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

For example: FSI A is the parent FSI from subsidiary FSI which consisted directly of FSI B and FSI C, and indirectly of FSI D and FSI E. Thus, the Financial Conglomerates Main Entity is FSI A. Such arrangement is illustrated in the chart below:

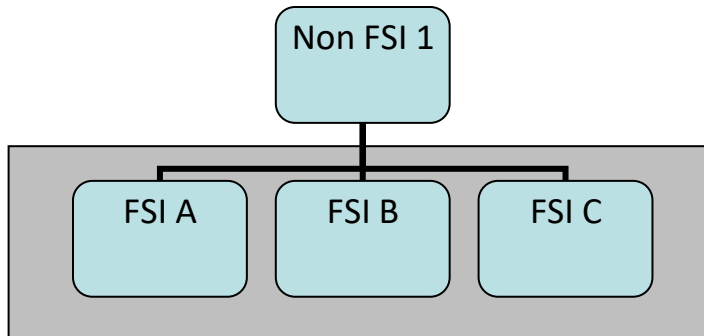


Paragraph (4)

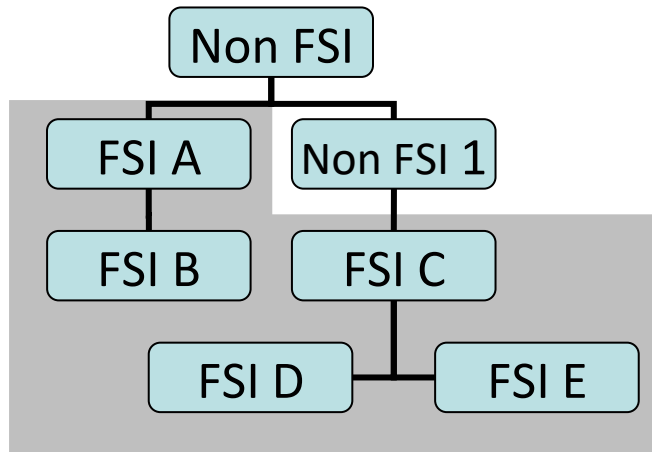
What includes as controlling shareholder in this paragraph are:

1. Nonfinancial individual/ company; or
2. Individual/ company based abroad.

For example: “Non FSI 1” is controlling shareholder from Financial Conglomerates consisted of FSI A, FSI B, and FSI C. “Non FSI 1” must appoint Main Entity in the implementation of Integrated Risk Management. Such arrangement is illustrated in the chart below:



The next example is: “Non FSI 2” is controlling shareholder from Financial Conglomerates that is consisted of FSI A, FSI B, FSI C, FSI D and FSI E. “Non FSI 2” must appoint Main Entity in order to implement the Integrated Risk Management. Such arrangement is illustrated in the chart below:



Paragraph (5)

Self-explanatory

Paragraph (6)

Self-explanatory

Paragraph (7)

Self-explanatory

Article 8

Self-explanatory

Article 9

Paragraph (1)

Letter a

The term “Credit Risk” is Risk due to the failure of debtors and/or other party in fulfilling their obligations to Financial Conglomerates.

For FSI that conduct business activity based on Shariah principle, the credit Risk also includes equity investment Risk.

The term Equity Investment Risk means Risk due to FSI also bears the client’s business loss which are financed through profit sharing financing either through net revenue sharing or profit and loss sharing.

Letter b

The term “Market Risk” means Risk due to market adverse movement concerning the portfolio owned by Financial Conglomerates.

The term “market variable” means interest rate, exchange rate, commodity and equity.

For FSI conducting business based on Shariah principle, the market Risk also includes rate of return Risk.

The term rate of return risk means Risk incurred due to the modification in the rate of return paid by FSI to the client, since there is modification in the rate of return received by FSI from the fund, which can influence the client’s behavior of the FSI third party funds.

Letter c

The term “Liquidity Risk” means Risk incurred due to the inability of the Financial Conglomerate to fulfill its obligation maturing from cash flow financing and/or from high quality liquid asset that can be used as collateral, without disturbing activity and financial condition of the Financial Conglomerates.

Letter d

The term “Operational Risk” means Risk due to inadequacy and/or dysfunctional internal process, human error, system failure, and/or external events influencing Financial Conglomerates operations.

Letter e

The term “Legal Risk” means Risks due to legal claim and/or constraints in the juridical aspect. Constraints in juridical aspect among other things caused by legal claims, the absence of supporting law and regulation, or the vulnerability of contract such as not meeting the agreement official requirements and flawed in the collateral contract.

Letter f

The term “Reputation Risk” means Risk due to the lessening of stakeholder’s trusts as the result of negative perception towards FSI either as the member of Financial Conglomerates or towards Financial Conglomerates as a whole.

Letter g

The term “Strategic Risk” means Risk due to the inaccuracy in taking and/or implementing any strategic decisions and failure in anticipating modification in business environment.

Letter h

The term “Compliance Risk” means Risk due to incompliance and/or failed to obey the prevailing regulation and provisions.

Letter i

The term “Intragroup transaction Risk” means Risk due to the dependency of any entity either directly or indirectly towards other entity in the Financial Conglomerates with regard to fulfill obligation of the written agreement and non-written agreement either followed by funds transfer and/or not followed by funds transfer.

Intra-group transaction Risk may be incurred from:

1. Cross ownerships between FSI in Financial Conglomerates;
2. Short-term centralized liquidity management;
3. Collateral, loans and commitment given or obtained by FSI from other FSI in the Financial Conglomerates;
4. Exposure for shareholder, including loan exposure and off-balance sheet such as collateral and commitment;
5. Purchasing and selling assets to other FSI in one Financial Conglomerates;
6. Risk transfer through reinsurance; and/or
7. Transaction to divert third party risk exposure between FSI in one Financial Conglomerates.

Letter j

The term “Insurance Risk” means Risks due to the failure of insurance company to fulfil its obligation to policyholder as the effect of inadequacy in underwriting, pricing and the use of reinsurance and/or claim handling.

Paragraph (2)

Self-explanatory.

Article 10

Self-explanatory

Article 11

Paragraph (1)

Self-explanatory

Paragraph (2)

The implementation of Risk Management for each FSI includes at least:

1. Supervision of FSI Board of Commissioners and Board of Directors;
2. Sufficient policy, procedure and Risk Management limit setting;
3. Sufficient identification process, measurement, monitoring, Risk control and Risk management information system, and
4. Comprehensive internal control system towards the implementation of Risk management.

Paragraph (3)

Self-explanatory

Article 12

Paragraph (1)

Letter a

Integrated Risk Management policy states among other things Risk strategy and framework set according to Risk appetite level and Risk tolerance.

Letter b

The implementation of Integrated Risk Management policy includes:

1. Evaluation of Integrated Risk Management implementation at Financial Conglomerates;

2. Ensure all significant Risks and impact caused by the said Risk have been followed up;
3. Submit accountability report periodically to Board of Commissioners of the Main Entity;
4. Communicate Integrated Risk Management policy effectively to all level of relevant organization in Financial Conglomerates to be understood clearly.

Letter c

The development of Risk culture among others are done by fostering risk awareness through sufficient communication in Financial Conglomerates concerning the importance of Risk control and effective internal control.

Letter

The management of human resources at the Main Entity that perform Integrated Risk Management function is conducted by:

1. Clear determination of human resources qualification for each level of position related to the implementation of Integrated Risk Management;
2. Competent official and staff placements at work unit related to the implementation of Integrated Risk Management according to the nature, number and complexity of business activities;
3. Adequacy of quantity and quality of human resources in understanding their tasks and responsibilities, either for business unit, Risk Management work unit or supporting unit responsible towards the implementation of Integrated Risk Management;

4. Competency improvement of human resources such as through sustainable education and training programs concerning the implementation of Integrated Risk Management;
5. Comprehension of all human resources towards strategy, Risk appetite, Risk tolerance and integrated Risk framework as well as implementing them consistently in the activities handled.

Letter e

The term “independent” means:

1. There is separation in working unit that perform the Integrated Risk Management function and conduct internal control function with the operational work unit (risk-taking unit) at the Main Entity, subsidiary company and sister company.
2. The implementation of Risk management that is free from conflict of interest between Financial Conglomerates with each FSI.

Letter f

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

The term “necessary action” means among others by providing recommendation or suggestion related to the implementation of Risk Management to FSI members of Financial Conglomerates.

Article 13

Self-explanatory.

Article 14

Paragraph (1)

Letter a

Integrated Risk Management Policy includes among others Risk strategy and framework stipulated according to the risk appetite and risk tolerance.

Letter b

Evaluation is conducted among others through the evaluation of Main Entity Board of Directors' responsibilities.

Paragraph (2)

Self-explanatory.

Article 15

Self-explanatory.

Article 16

Self-explanatory.

Article 17

Paragraph (1)

The Committee Membership of Integrated Risk Management can be in the form of fixed membership and non-fixed, according to the need of Financial Conglomerates.

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Executive official is official one level below Directors who leads Risk Management operational work unit and/or function/work unit.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Letter a

Self-explanatory.

Letter b

The improvement of Integrated Risk Management policy is conducted periodically or incidentally as the effect of modification in the internal and external conditions which influence capital adequacy, Risk profile and effectivity of the implementation of Integrated Risk Management based on evaluation findings.

Article 18

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

The term “independent” means separation of working unit which conduct Integrated Risk Management function with operational work unit (risk taking unit) at the Main Entity.

Paragraph (4)

One coordination example is the work unit or function of Risk Management of each FSIs inform each Risk exposure to each FSI at each Integrated Risk Management work unit periodically.

The frequency for information submission on Risk exposure is adjusted to the Risk type characteristics.

Each FSI can adjust the right Risk Management work unit organization according to its condition by considering among others financial and human resources conditions.

Paragraph (5)

Self-explanatory.

Article 19

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

The term “stress testing” is the test towards the capability of Financial Conglomerates during crisis using specific stress scenario at Financial Conglomerates or stress scenario at market.

Stress testing is conducted also by calculating Risk related to activities on off balance sheet.

Letter e

The implementation of periodic evaluation has the objective to anticipate if there are adjustments in the internal and external factors at Financial Conglomerates.

Letter f

New business line may take the form of any entities that are grouped in the Financial Conglomerates in new market segment which can increase Risk exposure of Financial Conglomerates.

The evaluation of new line of business proposal is focused primarily on the capacity aspect of managing new business, including the completeness of system and procedure used also their impacts towards risk exposure as a whole.

Letter g

Information given to Integrated Risk Management Committee among others regarding the amount and maximum Risk exposure that must be paid attention by the Main Entity Board of Directors or FSI at Financial Conglomerates.

Letter h

Self-explanatory.

Letter i

Risk profile is the overall picture of the magnitude Risk potential inherent to the Financial Conglomerates whole portfolio or exposure.

The frequency for report submission can be increased if market condition changed quickly but at least to submit per semester.

Article 20

Risk appetite is the Risk level and coverage available to be taken in order to achieve target in integration. The level of Risk appetite is mirrored in the business strategy and target.

Risk tolerance is the Risk level and coverage which are set at maximum and constitute as the description of Risk level that will be taken.

The level of Risk appetite and Risk tolerance must be aligned with business strategy, Risk profile and Financial Conglomerates capital plan.

Article 21

Letter a

Risk setting related to the Financial Conglomerates business activity is based on the result of identification process towards the Risk inherent to each line of businesses that are already and will done by FSI at Financial Conglomerates. The Risk setting must also be done when Financial Conglomerates are about to conduct new line of business in the form of business expansion and/or diversification.

Letter b

The formulation of Integrated Risk Management Strategy is structured by paying attention to general principles and other factors as follows:

1. Long term oriented to ensure the business continuity by considering economic condition or cycle;
2. The development of economy and industry also their impacts at Financial Conglomerates Risk;
3. Financial Conglomerates business complexity include the adequacy of human resources and supporting infrastructure;
4. The capacity to control and manage Risk comprehensively, including Risk at subsidiary company and sister company;
5. Portfolio mixture and diversification;
6. Financial condition of the Financial Conglomerates to generate profit, and absorb Risk incurred due to the effect of modification in the internal and external factors; and
7. Expected capital adequacy together with sufficient resource allocation.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

The determination of Risk rating evaluation method is the basis for Main Entity to set integrated Risk profile according to prevailing Risk rating at Financial Conglomerates.

Letter f

Contingency plan policy is developed to encounter the possibility of worst internal and external conditions in order to protect Financial Conglomerates business continuity.

Letter g

Self-explanatory.

Article 22

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Evaluation on the procedures is conducted periodically at least 1 (one) time within 1 (one) year or any time according to Risk coverage, the need and development of Financial Conglomerates.

Letter c

The term “sufficient procedure documentation” means documentations that are written, complete and easy to conduct audit trail for internal control purposes.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 23

Paragraph (1)

The term “all risk factors” means various parameters influencing Risk exposure including those originated from non-financial company which influence Financial Conglomerates.

The term “significant risk factors” means Risk factors either quantitative or qualitative that count significantly towards financial condition of the Financial Conglomerates.

Paragraph (2)

Self-explanatory.

Article 24

Paragraph (1)

Risk identification among others can be based on loss experience taken place.

Paragraph (2)

Letter a

Evaluation frequency is conducted periodically according to business development and external condition influencing Financial Conglomerates condition.

Letter b

Factors significantly influencing Risk among others are the additional of new line of business which can influence the Financial Conglomerates financial condition.

Paragraph (3)

Letter a

Evaluation toward Risk exposure is conducted by Risk monitoring and reporting that are significant or impacting to the Financial Conglomerates capital condition.

Letter b

The improvement on reporting process and coverage is conducted among other things when there is significant modification in business activities, products, transaction, Risk factor, information technology and information system of the Integrated Risk Management.

Paragraph (4)

Risk control can be conducted among others through hedging, risk mitigation methods, capital increase to absorb loss potential.

Article 25

Paragraph (1)

Letter a

Risk exposure report or information cover quantitative and qualitative exposure, either in composite or detailed

exposure for each Risk type and FSI in Financial Conglomerates.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 26

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Financial and management information that are comprehensive, accurate, efficient and on time are needed in order to make the right and accountable decisions which shall be communicated to interested parties.

Letter c

The effectivity of Risk culture has the objective to identify early weaknesses and distortion and re-assess the fairness of policy and procedure existing in Financial Conglomerates on an ongoing basis.

Article 27

Paragraph (1)

Report is attached with Main Entity appointment document.

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 28

Paragraph (1)

Self-explanatory.

Paragraph (2)

The best rating out of 5 (five) category of the Integrated Risk profile rating is rating 1 (one).

Paragraph (3)

Integrated Risk profile report is presented in comparison with previous semester.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Paragraph (6)

Self-explanatory.

Article 29

The report of Integrated Risk profile can be used by Main Entity to conduct consolidated soundness evaluation as referred to in the provisions concerning commercial bank soundness evaluation.

Article 30

Self-explanatory.

Article 31

Self-explanatory.

Article

Paragraph (1)

The Financial services sector consisted of banking sector, capital market sector and non-banking financial industry sector.

For example:

In the case the overall Financial Conglomerates consisted of several insurance companies, thus the implementation of Integrated Risk Management refer to the provisions concerning risk management for insurance company.

Paragraph (2)

Self-explanatory

Article 33

Data and information from Main Entity is used by Financial Services Authority in order to conduct evaluation and assessment towards the implementation of Integrated Risk Management conducted by Financial Conglomerates.

Article 34

Self-explanatory.

Article 35

Self-explanatory.

Article 36

Self-explanatory.

Article 37

Self-explanatory.

Article 38

Self-explanatory.

Article 39

Self-explanatory.

Article 40

Self-explanatory.

Article 41

Self-explanatory.

Article 42

Self-explanatory.

Article 43

Self-explanatory.