

COMPUTATION OF PROPORTIONATE ASSET BASED ON MARKET RISK USING STANDARD METHOD OF SYARIAH COMMERCIAL BANK (Circular Letter of Financial Service Authority Number 35/SEOJK.03/2015, dated December 21, 2015

WITH THE BLESSING OF THE ONE AND ONLY GOD

The Board of Directors of

Syariah Commercial Bank

At location

Pertaining to the validity of Regulation of Financial Service Authority Number 21/POJK.03/2014, concerning Obligatory Provision of Minimum Capital by Syariah Commercial Bank (Statute Book of the Republic of Indonesia Years 2014 Number 352, Supplement to Statute Book of the Republic of Indonesia Number 5630), hereinafter referred to as POJK KPMM BUS, it is necessary to further govern computation of Risk-Based Proportionate Asset (ATMR) on Market Risk using Standard Method of Syariah Commercial Bank in any Circular Letter Financial Service Authority, as follows:

I. GENERAL

1. Market Risk shall be risk in balance sheet position and administrative account resulting from a change in market price, such as risk a change in asset value that may be traded or leased.
2. Based on POJK KPMM BUS, in computing Obligatory Provision of Minimum Capital (KPMM) either individually or in consolidation with Subsidiary Company, any Bank that complies with certain criteria shall be obliged to take ATMR into account for Market Risk.
3. Market Risk in the computation of KPMM covers benchmark of interest rate risk, exchange risk, equity risk, and/or commodity risk.

4. Bank either individually or in consolidation with Subsidiary Company shall be obliged to take into account the benchmark of interest rate risk, and/or exchange risk.
5. Bank in consolidation other than taking into account the risks referred to figure 4, shall also be obliged to take into account:
 - a. equity risk, if the Bank possesses Subsidiary Company as exposed in the equity risk, and/or
 - b. commodity equity, if the Bank possesses Subsidiary Company that is exposed in commodity risk.
6. In computing ATMR for Market Risk, the Bank may use two (2) kinds of approaches, such as:
 - a. Standard Method (Standard Method); and/or
 - b. Internal Model (Internal Model).

To apply the initial phase, the Bank that complies with certain criteria shall be obliged to first use Standard Method in taking the Market Risk into consideration.

II. COMPUTATION OF ATMR MARKET RISK USING STANDARD METHOD.

A. COMPUTATION OF BENCHMARK OF INTEREST RATE RISK

1. General Provision

- a. The benchmark of interest rate risk shall be computed on financial instrument in the Trading Book as exposed in the benchmark of interest rate risk, such as Commercial Paper or SUKUK.
- b. Computation of capital charge on benchmark of interest rate risk shall cover:
 - 1) specific risk from each financial instrument in the long run;
 - 2) public risk from the entire portfolio in the long run.
- c. Market value of Syariah Commercial Paper or SUKUK used in computing specific risk and public risk shall be dirty price, namely the market value of Syariah Commercial Paper or SUKUK (clean price) in addition to the present value for the compensation to be received (clean price) (recorded accurately). The present value for the compensation to be received may be refused if

based on the term of payment of coupon, the present value does not cause material difference with the value of compensation to be received.

2. Computation of Specific Risk

- a. Computation of capital cost for specific risk is designed to protect the Bank and loss risk resulting from the change of price of any of its financial instrument caused by the factors that relate to the issue of financial instrument (issuer).
- b. Imposition of specific risk is divided into category by referring to Table 1 below:.

Table 1. Issuer and Risk Weight (Specific Risk)

Issuer of Risk Weight	(%)
1. Indonesian Government	0,00
2. Government of Other Country	
a. AAA rank up to AA-	0,00
b. A rank up to BBB- with:	
i. remaining term up to due date from equivalent to six (6) months	0,25
ii. remaining term with due date exceeding and six (6) months up to 24 (twenty-four) months	1,00
iii. remaining term up to due date of 24 (twenty-four) months	1,60
c. BB ranking up to B-	8,00
d. ranking below B-	12,00
e. without ranking	8,00
3. Qualification	
a. remaining term up to the due date is less than or equivalent to six (6) months	0,25

b. remaining term up to the due date more than six (6) months up to 24 (twenty-four) months	1,00
c. remaining term up to the due date more than 24 (twenty-four) months	1,60
4. Others	
a. corporate with:	
i. A-1 ranking – short term	1,60
ii. A-2 ranking – short term	4,00
iii. A-3 ranking – short term	8,00
iv. below A-3-ranking - short term	12,00
v. AAA ranking up to AA-	1,60
vi. A ranking up to A-	4,00
vii. BBB ranking up to BB-	8,00
viii. ranking less than BB-	12,00
ix. non-ranking	12,00
b. bank classified with :	
i. short term Collection / Payment	
1) short term less than A-3	12,00
2) BB ranking up to B-	4,00
3) ranking less than B-	12,00
4) non-ranking	4,00
ii. Long Term Collection / Payment	
1) short-term ranking less than A-3	12,00
2) BB+ ranking up to B-	8,00

3) less than B- ranking	12,00
4) non-ranking	8,00

c. entity on public sector and bank

multilateral and international development

i. BB ranking up to B-	8,00
ii. less than B- ranking	12,00
iii. non-ranking	8,00

1) Indonesia Government

Included in category of financial instrument of Indonesia Government is the whole instrument issued, guaranteed, or guaranteed by stock issued by::

a) Central Government of the Republic of Indonesia;

b) Bank Indonesia

c) Entities and other government institutions the finance of which operations are entirely comes from the State Revenue and Expenditure (APBN) of the Government of the Republic of Indonesia.

2) Government of Other Countries

Included in category of financial instrument of the Government of other countries shall be all instruments issued, guaranteed or guaranteed by stock issued by the Central Government or Central Bank of other countries.

3) Qualification

a) Included in category of financial instrument shall be qualification of:

(1) Syariah Commercial Paper issued, guaranteed, and guaranteed by stock issued by:

(a) Regional administration as governed in in the provisions in the statutory regulation on Regional Administration;

(b) bank;

(c) State-owned Business Entity (BUMN) as governed in the provisions in statutory regulation on BUMN, not classified as bank cited below;

(d) Multilateral Development Bank, namely: World Bank Group consisting of International Bank for Reconstruction and Development (IBRD) and International Finance Corporation (IFC), Asian Development Bank (ADB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), European Investment Bank (EIB), European Investment Fund (EIF), Nordic Investment Bank (NIB), Caribbean Development Bank (CDB), Islamic Development Bank (IDB), and Council of Europe Development Bank (CEDB);

(e) International Institutions, such as, Bank for International Settlements, International Monetary Fund (IMF), and European Central Bank,

Possessing investment ranking from one (1) Institution with ranking recognized by Financial Service Authority.

The Bank referred to in letter (b) consists of banks operating in Indonesia and banks operating outside Indonesia, including Indonesia Export Financing Institution as referred to in the Law on Indonesia Export Financing Institution.

(2) Syariah Commercial Paper issued by a party other than that referred to in figure (1), possessing investment ranking (investment grade) from at least two (2) ranking institutions that are recognized by the Financial Service Authority.

b) Domestic ranking is utilized for Syariah Commercial Paper or sukuk in Rupiah currency.

International ranking is utilized for Syariah Commercial Paper or sukuk in foreign exchange.

4) Others

Included in other category is all Syariah Commercial Paper or sukuk issued, guaranteed, or guaranteed by stock issued by qualified corporation, bank, entity on public sector, multilateral development bank and international institution not covered in category of Indonesia Government, government of other countries.

What is meant by corporation, bank, entity on public sector, multilateral development bank, and international institution shall be parties covered by Collection / Payment to Corporation, Collection / Payment to the Bank, Collection / Payment to Entity on Public Sector, and Collection / Payment to Multilateral Development Bank and International Institution as referred to in the requirements of the Financial Service Authority that governs computation of proportionate asset based on risk for credit risk using standard approach.

3. Computation of General Risk

- a. Computation of capital cost for General Risk is meant to protect the Bank from loss risk caused by the change in the benchmark of market interest rate.
- b. General risk is charged on the position of Syariah Commercial Paper and sukuk and recorded in the Trading Book.
- c. Methode of computation that may be conducted to compute general risk shall utilize Maturity Method or Duration Method. The Bank may choose the two (2) methods so long it is exercised consistently and accurately. For Bank utilizing Duration Method, the management of the Bank must be able to ensure that the Bank has the capacity to apply such method based on the principle of prudence.
- d. Bank shall be obliged to make written notification to the Directorate of Syariah Banking Supervisory, Regional Office or local Office of Financial Service Authority if the Bank intends to use Duration Method in computing general risk.
- e. The written notification referred to in letter d must be supported by document and information covering:

- 1) policy and procedure for implementing the Duration Method;
 - 2) The instrument computed by Duration Method;
 - 3) system that supports implementation of the procedure for computation;
 - 4) process and procedure for control of the method of computation.
 - 5) internal validation by Independent Party of method of computation of Market Risk utilized.
- f. Financial Service Authority may examine the Duration Method utilized by the Bank to ensure authenticity of the document and information referred to in letter e.
- g. Method Maturity Method
- 1) Long position and all positions of Syariah Commercial Paper or sukuk is drawn up to maturity ladder consisting of 13 (thirteen) time band. What is meant by maturity ladder shall be Table compiled based on classification of the remaining due date or term up to stipulation of the next compensation from Syariah Commercial Paper or sukuk.
 - 2) Instrument with fixed compensation shall be allocated based on the remaining due date, while the instrument with variable compensation shall be allocated based on the term up to the stipulation of the next repricing date).
 - 3) Imposition of General Risk shall be divided into weighing category as referred to in Table 2 below.

Table 2. Time Scale and General Risk - Maturity Method)

Time Scale Weight	Risk (%)
< 1 month	0,00
> 1 – 3 months	0,20

> 3 – 6 months	0,40
> 6 – 12 months	0,70
> 1 – 2 years	1,25
> 2 – 3 years	1,75
> 3 – 4 years	2,25
> 4 – 5 years	2,75
> 5 – 7 years	3,25
> 7 – 10 years	3,75
> 10 – 15 years	4,50
> 15 – 20 years	5,25
> 20 years	6,00

4. Treatment of Repo Transaction

- a. Syariah Commercial Paper delivered to counterparty as collateral in Repo Transaction recorded in the Trading Book according to the prevailing Accountancy Standard shall be recorded as long position in computing specific risk and general risk.

b. Computation of Specific Risk

Computation of Specific Risk from Syariah Commercial Paper or sukuk shall be determined from:

- 1) category of the issuer; and
- 2) ranking and/or remaining due date.

c. Computation of General Risk

Computation of General Risk shall be based on the remaining due date for Syariah Commercial Paper or sukuk with fixed compensation or remaining term until the next compensation for Syariah Commercial Paper or sukuk with variable compensation.

B. COMPUTATION OF EXCHANGE RISK

1. Computation of exchange value risk shall be conducted on foreign exchange position in the Trading Book and Banking Book that is exposed to exchange value risk including gold and refer to the com-

putation of Net Exchange Position of foreign exchange considering that movement of gold price is almost the same as movement of foreign exchange value and the Bank shall treat gold transaction equal with transaction of foreign exchange.

2. Computation of capital cost for exchange risk from foreign exchange position is charged 8% (eight percent) on the entire Net Foreign Exchange Position at the end of the day.
3. In computing exchange value risk, the Bank may exempt Structural Position from the computation of Net Foreign Exchange Position so long it complies with all the requirements as governed in the prevailing provision on net foreign exchange position.
 - a. If the Bank choose to exempt the Structural Position such exemption must be exercised consistently and obtain approval of the Financial Service Authority.
 - b. In obtaining approval of the Financial Service Authority, the Bank shall be obliged to submit supporting document pertaining to the status and Structural Position and proof of transaction account.

Example :

Structural Position in the form of fixed asset overseas needs to be supported such as by providing the document in the form of proof of ownership, proof of payment, and document of accounting.

- c. Financial Service Authority may ask for additional document from the Bank to ascertain feasibility of any Structural Position to be exempted from the computation of Net Foreign Exchange Position.

C. COMPUTATION OF EQUITY RISK

1. Equity Risk for Bank in consolidated with Subsidiary Company shall be computed in consolidation with exercised on financial instrument in the Trading Book that is exposed to equity risk covering common stocks with or without voting rights, Syariah Commercial Paper or sukuk that may be converted to shares (convertible securities), or other financial instrument possessing characteristic

such as shares, but not included in shares participation in the Subsidiary Company and temporary shares participation in the context of saving financment that is treated as deducting factor in computing Bank's capital and non-convertible preference shares.

2. Computation of capital cost for equity risk in the Trading Book covers:

- a. Specific Risk from equity position constituting computation of value of long position and any financial instrument that is exposed to equity issued by any issuer in any financial market.

If the financial instrument that is exposed to equity risk is traded on more than one financial market, such financial market must be treated as position on the financial market where such financial instrument is traded by (primary listing).

- b. General Risk from equity position constituting computation of the total value of long position from any financial instrument that is exposed to equity risk on any financial market.

3. Computation of Specific Risk

- a. Computation of capital cost for specific risk is designed to protect the Bank from loss risk caused by a change in price of any financial instrument that is exposed to equity risk caused by factors that pertain to issuer. Risk that relates to counter party in the is accounted for separately in computing credit risk resulting from failure of the counter party's credit risk.

- b. Computation of capital cost for specific risk shall be 8% (eight percent) of the equity position.

4. Computation of General Risk

- a. Computation of cost for general risk is meant to protect the Bank from loss risk caused by a change in the market factor.

- b. Computation of capital cost for general risk shall be 8% (eight percent) of the equity position.

Example:

Company	Total Shares	Position	Market Price/ Shares	Market Price
A	10.000	Long	Rp100	Rp1.000.000
B	20.000	Long	Rp.200	Rp4.000.000

Total long position =

$\text{Rp.1.000.000,00} + \text{Rp.4.000.000,00} = \text{Rp.5.000.000,00}$

Specific Risk =

$\text{Rp.5.000.000,00} \times 8\% = \text{Rp.400.000,00}$

General Risk =

$\text{Rp.5.000.000,00} \times 8\% = \text{Rp. 400.000,00}$

Equity Risk =

$\text{Rp.400.000,00} + \text{Rp.400.000,00} = \text{Rp.800.000,00}$

Thus is the computation, thereby capital cost for equity risk shall be Rp.800.000,00 (eight hundred thousand Rupiah).

D. COMPUTATION

to be continued

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