

# **NEW OJK REGULATION ON GUIDELINES AND MANDATORY MINIMUM CAPITAL FOR COMMERCIAL BANKS**

The OJK has also issued Regulation No. 11/POJK.03/2016 on the Mandatory Minimum-Capital Requirements for Commercial Banks. It repeals and replaces regulations, BI Regulation No. 15/12/PBI/2013 and BI Circular No. 9/31/DPNP.

This regulation aims to improve the quality of every commercial bank by making sure they maintain a certain level of funds related to the bank's risk profile and the percentage of the bank's risk-weighted assets. This requirement also applies to branch offices of foreign commercial banks. Any requirements regarding components, capital instruments and the calculation of capital adequacy will be determined under the Global Regulatory Framework for More Resilient Banks and Banking Systems (Basel III).

The core capital component of every bank must largely consist of high quality instruments such as common stock and profit. Another component of the core capital is the financial instruments which are subordinative to the payment of a dividend or non-cumulative yields which meets certain conditions. In addition, capital ratios are improved to ensure the quality or the sufficiency of the capital level. The OJK may also determine a higher capital requirement for certain banks if it deems it necessary.

Under Article 6, banks must establish additional capital in the form of a Capital Conservation Buffer and Countercyclical Buffer. Banks with potential systemic impact must make an additional Capital Surcharge, as well. The main purpose of this is as a buffer against the risk of potential losses due to a financial and economic crisis or excessive credit growth. This requirement will be implemented gradually over a certain period set by the OJK.