BANK INDONESIA REGULATION
NUMBER 1/6/PBI/1999

CONCERNING

DESIGNATION OF COMPLIANCE DIRECTOR AND
APPLICATION OF THE STANDARDS FOR THE PRACTICE OF
THE INTERNAL AUDIT FUNCTION FOR COMMERCIAL BANKS

THE GOVERNOR OF BANK INDONESIA,

Considering:

a. whereas to uphold the application of prudential principles in Bank management, it is necessary for a member of the board of directors to be designated compliance director to monitor and ensure that these principles are applied;

b. whereas to safeguard banking operations, it is also necessary for the internal audit function of a bank to operate effectively;

c. now therefore it is deemed necessary to enact provisions concerning the designation of the compliance director and application of the standards for the practice of the internal audit function for commercial banks in a Bank Indonesia Regulation;

In view of:

1. Act Number 7 of 1992 concerning Banking (State Gazette Number 31 of 1992, Supplement to the State Gazette Number 3472) as amended by Act Number 10 of 1998 (State Gazette
HAS DECREED:

To enact: THE BANK INDONESIA REGULATION CONCERNING DESIGNATION OF COMPLIANCE DIRECTOR AND APPLICATION OF THE STANDARDS FOR THE PRACTICE OF THE INTERNAL AUDIT FUNCTION FOR COMMERCIAL BANKS.

CHAPTER I
GENERAL PROVISIONS

Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. Bank is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking, as amended by Act Number 10 of 1998, including a branch office of a foreign bank;

2. Branch Office of a Foreign Bank is the branch office of a foreign bank which is directly responsible to the head office of the bank concerned and has an address and domicile in Indonesia;

3. Compliance Director is a member of the board of directors of a Bank or member of the management of a Branch Office of a Foreign Bank assigned the task of determining the measures required to ensure the compliance of the Bank with Bank Indonesia regulations, other prevailing laws and regulations, and agreements and commitments with Bank Indonesia;

4. Standards for the Practice of the Bank Internal Audit Function (abbreviated as SPFAIB) are the minimum standards for
CHAPTER II
DESIGNATION OF COMPLIANCE DIRECTOR

Article 2

(1) A Bank is required to designate a member of the board of directors as Compliance Director.

(2) A Branch Office of a Foreign Bank shall designate one of the members of the branch office management as Compliance Director.

Article 3

(1) The appointment and dismissal of the Compliance Director as referred to in Article 2 paragraph (1) shall take place by decision of the board of commissioners and the president director with prior approval from Bank Indonesia.

(2) For a Branch Office of a Foreign Bank, the appointment and dismissal of the Compliance Director as referred to in Article 2 paragraph (2) shall take place by decision of an authorized officer in accordance with the organizational structure of the Bank with prior approval from Bank Indonesia.

Article 4

A member of the board of directors of a Bank or member of the management of the Branch Office of a Foreign Bank designated as Compliance Director shall comply with at least the following requirements:

a. does not hold a concurrent position as president director of a Bank or head of the Branch Office of a Foreign Bank;

b. is not in charge of operational activities, accounting, and/or the Internal Audit Unit;
c. understands Bank Indonesia regulations and prevailing laws and regulations;
d. is capable of working independently.

**Article 5**

The Compliance Director shall be assigned with and responsible for at least the following:

a. determining the measures necessary to ensure that the Bank has complied with all Bank Indonesia regulations and other prevailing laws and regulations pertaining to the implementation of prudential principles;
b. monitoring and ensuring that the business operations of the Bank are not in departure from prevailing regulations;
c. monitoring and ensuring the compliance of the Bank with all agreements and commitments made by the Bank with Bank Indonesia.

**Article 6**

In conducting the tasks referred to in Article 5, the Compliance Director shall be required to prevent the board of directors of the Bank or the management of the Branch Office of the Foreign Bank from pursuing policies and/or adopting decisions in departure from Bank Indonesia regulations and other prevailing laws and regulations.

**Article 7**

(1) The Compliance Director shall provide regular reports on the performance of his/ her duties and responsibilities to the president director with a copy to the board of commissioners.

(2) For a Branch Office of a Foreign Bank, the Compliance Director shall issue regular reports on the performance of his/ her duties and responsibilities to the branch office manager and the competent authorities in accordance with the organizational structure of the bank.
CHAPTER III
STANDARDS FOR THE PRACTICE OF THE BANK
INTERNAL AUDIT FUNCTION

Article 8

(1) Banks shall apply the bank internal audit function as stipulated in the Standards for the Practice of the Bank Internal Audit Function, which is attached to and constitutes an integral part of this Bank Indonesia Regulation.

(2) In the event that a Bank has its own internal audit standards, these standards shall comply with at least the Standards for the Practice of the Bank Internal Audit Function as referred to in paragraph (1).

Article 9

Pursuant to the Standards for the Practice of the Bank Internal Audit Function, a Bank shall:

a. prepare an Internal Audit Charter;
b. establish an Internal Audit Unit;
c. prepare internal audit guidelines.

Article 10

The Internal Audit Unit shall be assigned and responsible for:

a. assisting the president director and the board of commissioners in their supervisory tasks by providing an elaboration of the operational aspects of audit planning, implementation, and monitoring of findings;
b. preparing analyses and evaluation of financial, accounting, operational, and other activities through on-site examination and off-site monitoring;
c. identifying all possibilities for improving and strengthening efficiency in the use of resources and funds;
d. issuing recommendations for improvements and objective information on activities examined at all levels of management.
Article 11

(1) The Internal Audit Unit shall be a unit directly responsible to the president director.

(2) In conducting its duties, the Internal Audit Unit shall deliver reports to the president director and the board of commissioners with a copy to the Compliance Director.

(3) The head of the Internal Audit Unit shall be appointed and dismissed by the president director of the Bank with the approval of the board of commissioners.

CHAPTER IV
REPORTING

Article 12

Banks shall deliver reports to Bank Indonesia concerning the performance of the duties of the Compliance Director as follows:

a. reports of the key tasks performed by the Compliance Director as referred to in Article 5;

b. a special report on any policy and/or decision of the board of directors or manager of the Branch Office of the Foreign Bank which in the opinion of the Compliance Director is in departure from Bank Indonesia regulations and/or other prevailing laws and regulations as referred to in Article 6.

Article 13

Banks shall deliver reports to Bank Indonesia on the implementation of the internal audit function as follows:

a. report on appointment and dismissal of the head of the Internal Audit Unit, accompanied by considerations and reasons for appointment or dismissal;

b. reports on implementation of key internal audit findings, including confidential information from audit findings;

c. special report on each internal audit finding deemed to endanger the survival of the bank;
d. report on the external review, including an opinion on the findings of the Internal Audit Unit and its compliance with the Bank Internal Audit Standards and possible remedial measures.

Article 14

(1) The reports referred to in Article 12 letter a, signed by the Compliance Director and the president director or the head of a Branch Office of a Foreign Bank, shall be delivered to Bank Indonesia at the end of each June and December, not later than 1 (one) month after the reporting month.

(2) In the event that the president director or the head of a Branch Office of a Foreign Bank is unwilling to sign a report as referred to in Article (1), the Compliance Director shall deliver the report directly to Bank Indonesia accompanied by an explanation.

(3) A report as referred to in Article 12 letter b, signed by the Compliance Director, shall be delivered to Bank Indonesia not later than 7 (seven) days after the policy and/or decision has been adopted.

Article 15

(1) A report as referred to in Article 13 letter a, signed by the president director and the board of commissioners, shall be delivered to Bank Indonesia not later than 14 (fourteen) days after the date of appointment or dismissal of the head of the Internal Audit Unit.

(2) Reports as referred to in Article 13 letter b, signed by the president director and the board of commissioners, shall be delivered to Bank Indonesia at the end of each June and December, not later than 2 (two) months after the reporting month.

(3) A report as referred to in Article 13 letter c, signed by the president director and the board of commissioners, shall be delivered immediately to Bank Indonesia, not later than 7 (seven) days after the becoming informed of the audit finding.

(4) A report as referred to in Article 13 letter d shall be delivered to Bank Indonesia not less than once every 3 (three) years, not later than 1 (one) month after the results of the external review have been received by the Bank.
CHAPTER V
ADDRESSES FOR APPLICATIONS AND DELIVERY OF REPORTS

Article 16

(1) Applications for approval of appointment as Compliance Director shall be addressed to:

a. The Board of Governors of Bank Indonesia, attn: Directorate of Bank Licensing and Information, with a copy to the Directorate of Bank Supervision, Jl. M.H. Thamrin No. 2, Jakarta 10110, for a Bank having its head office in the Jakarta-Bogor-Tangerang-Bekasi area; or

b. The Board of Governors of Bank Indonesia, attn: Directorate of Bank Licensing and Information, with a copy to the Directorate of Bank Supervision, Jl. M.H. Thamrin No. 2, Jakarta 10110 and the local Bank Indonesia Branch Office, for a Bank having its head office outside the Jakarta-Bogor-Tangerang-Bekasi area.

(2) Reports as referred to in Article 14 and Article 15 shall be addressed to:

a. Directorate of Bank Supervision, Bank Indonesia, Jl. M.H. Thamrin No. 2, Jakarta 10110, for a Bank having its head office in the Jakarta-Bogor-Tangerang-Bekasi area; or

b. Local Bank Indonesia Branch Office for a Bank having its head office outside the Jakarta-Bogor-Tangerang-Bekasi area.

CHAPTER VI
TRANSITIONAL PROVISIONS

Article 17

(1) Nomination of candidates for Compliance Director as referred to in Article 3 shall be delivered to Bank Indonesia not later than 30 (thirty) days after the enactment of this Bank Indonesia Regulation.

(2) Nomination of candidates for Compliance Director shall be delivered to Bank Indonesia at the address as referred to in Article 16 paragraph (1).
Article 18
A Bank which had a Compliance Director prior to the enactment of this Bank Indonesia Regulation shall bring itself into conformity with the provisions of this Bank Indonesia Regulation.

CHAPTER VII
ADMINISTRATIVE SANCTIONS

Article 19
(1) Any Compliance Director who fails to comply with the obligations referred to in Article 5, Article 6, Article 7, and Article 14 shall be liable to sanctions in the form of revocation of Bank Indonesia approval for appointment as Compliance Director.

(2) The Bank shall nominate a new candidate for Compliance Director in the event that the administrative sanctions referred to in paragraph (1) are applied to an existing Compliance Director.

(3) Nomination of a new candidate for Compliance Director as referred to in paragraph (2) shall be delivered to Bank Indonesia not later than 30 (thirty) days after the revocation of Bank Indonesia approval for appointment of Compliance Director as referred to in paragraph (1).

Article 20
(1) Any bank failing to comply with the provisions as referred to in Article 2, Article 8, Article 9, Article 17 paragraph (1), Article 18, and/or Article 19 paragraph (2) shall be liable to administrative sanctions.

(2) Administrative sanctions as referred to in paragraph (1) include but are not limited to:
   a. written warning;
   b. downgrading of bank rating;
   c. dismissal of the bank management, followed by the appointment of caretaker management until a General Meeting of Shareholders or Meeting of Members of a Cooperative
appoints permanent replacements with the approval of Bank Indonesia;

d. inclusion of the members of management, Bank employees, and shareholders on the list of disgraced persons in the banking sector.

Article 21

A Bank late in delivery of a report as referred to in Article 14 or Article 15 shall be liable to administrative sanctions in the form of a fine of Rp 1,000,000 (one million rupiahs) for each report per day of delay.

Article 22

(1) A Bank shall be deemed delinquent in delivery of a report as referred to in Article 14 or Article 15 in the event that the Bank has not delivered the report by 30 (thirty) days after the stipulated deadline.

(2) A Bank delinquent in delivery of a report as referred to in paragraph (1) shall be liable to administrative sanctions in the form of a fine of Rp 60,000,000 (sixty million rupiahs) for each report, and the administrative sanctions referred to in Article 20 paragraph (2).

CHAPTER VIII
MISCELLANEOUS PROVISIONS

Article 23

A Bank participating in the recapitalization program for commercial banks shall be subject both to the provisions of this Bank Indonesia Regulation and Government Regulation Number 84 of 1998 dated December 31, 1998 concerning the Recapitalization Program for Commercial Banks and their implementing regulations.
CHAPTER IX
CONCLUDING PROVISIONS

Article 24

With the issuance of this Bank Indonesia Regulation, Decree of the Board of Managing Directors of Bank Indonesia Number 27/163/KEP/DIR dated March 31, 1995 concerning the Requirement for Application of the Standards for the Practice of the Bank Internal Audit Function for Commercial Banks is revoked and declared no longer valid.

Article 25

This Bank Indonesia Regulation shall come into force on the date of its enactment.

Enacted in: Jakarta,
Date: September 20, 1999

THE GOVERNOR OF BANK INDONESIA

(signed)
SYAHRIL SABIRIN

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 158 OF 1999

DPNP
GENERAL REVIEW

Various improvements have been introduced under the national program for bank restructuring, including the bank recapitalization program, the assessment of the integrity and qualifications (fit and proper) of bank owners and management, and the adjustment of some banking regulations pertaining to the application of prudential banking principles.

The follow up of these measures needs to be monitored on an ongoing basis to ensure that the measures remain in keeping with the desired objective of creating a sound banking system.

In addition to the upgrading of the bank supervision function conducted by Bank Indonesia, it is also necessary for each commercial bank to conduct its own internal monitoring of the implementation of planned improvements and constantly ensure the compliance of commercial banks with prevailing banking laws and regulations.

To achieve these ends, it is necessary for a member of the board of directors of each commercial bank to be designated Compliance Director.
For commercial banks participating in the bank recapitalization program, the Compliance Director shall also have the task of ensuring the compliance of his bank with its recapitalization agreement and work plan approved by Bank Indonesia.

It is expected that the Compliance Director will assist bank management in conducting operations in compliance with prudential principles.

In addition, it is necessary to ensure effective implementation of the bank internal audit function by means of a common understanding of the mission, authority, independence, and scope of bank internal audit.

**ARTICLE BY ARTICLE**

Article 1

**Number 1**

The provisions concerning Commercial Banks are guided by the Decree of the Board of Managing Directors of Bank Indonesia concerning Commercial Banks and the Decree of the Board of Managing Directors of Bank Indonesia concerning Banks Based on Syariah Principles.

**Number 2**

The provisions concerning Branch Offices of Foreign Banks are guided by the Decree of the Board of Managing Directors of Bank Indonesia concerning Requirements and Procedure for Establishment of Branch Offices, Sub-Branch Offices, and Representative Offices of Foreign Banks.

**Number 3**

Self-explanatory

**Number 4**

Self-explanatory
Article 2
Paragraph (1)
Self-explanatory
Paragraph (2)
Branch office management is defined as the branch office manager and officers at one level below the branch office manager in a Branch Office of a Foreign Bank.

Article 3
Paragraph (1)
Self-explanatory
Paragraph (2)
The parties authorized to appoint the Compliance Director include but are not limited to director at the head office or manager of a regional office of the bank concerned.

Article 4
Letter a
Self-explanatory
Letter b
Operational activities are defined as the activities in credit, treasury, and mobilization of funds, and other operational activities.
Letter c
Self-explanatory
Letter d
Working independently is defined as capable of expressing views and thoughts in keeping with one's profession, without manifesting partiality toward the interests of another party in departure from prevailing laws and regulations and prudential principles in bank management.
Article 5

Letter a

Determination of measures includes but is not limited to the development of compliance procedures for each work unit, bringing bank internal guidelines into conformity with changes in prevailing laws and regulations, and developing a management decision making process.

Prudential regulations include but are not limited to regulations governing the Capital Adequacy Ratio, Legal Lending Limit, Net Open Position, Earning Assets Quality, and Allowance for Earning Assets Losses.

Letter b

This shall be accomplished among others by monitoring the application of compliance procedures used in each work unit as tools for decision making, and by providing training and building awareness for compliance with prevailing regulations.

Letter c

Agreement made between the Bank and Bank Indonesia includes but is not limited to an agreement made under the bank recapitalization program.

A commitment made by the Bank is the commitment of the Bank to comply with a Cease and Desist Order issued by Bank Indonesia.

Article 6

In the event that the Compliance Director has taken preventive measures, but irregularities still occur, the board of directors of the Bank or the manager of the Branch Office of the Foreign Bank shall continue to bear responsibility for the irregularities that occur.

Article 7

Paragraph (1)

Self-explanatory
Paragraph (2)
Self-explanatory

Article 8
Paragraph (1)
Self-explanatory
Paragraph (2)
Self-explanatory

Article 9
Letter a
Self-explanatory
Letter b
Self-explanatory
Letter c
Self-explanatory

Article 10
Letter a
Self-explanatory
Letter b
Self-explanatory
Letter c
Self-explanatory
Letter d
Self-explanatory

Article 11
Paragraph (1)
Self-explanatory
Paragraph (2)
The copy of the Internal Audit Unit report to the Compliance Director is intended among others to inform improvements to the existing compliance procedures in each work unit.

Paragraph (3)
Self-explanatory

Article 12
Letter a
Self-explanatory
Letter b
Self-explanatory

Article 13
Letter a
Self-explanatory
Letter b
Self-explanatory
Letter c
Self-explanatory
Letter d
Self-explanatory

Article 14
Paragraph (1)
Self-explanatory
Paragraph (2)
Self-explanatory
Paragraph (3)
Self-explanatory
Article 15
Paragraph (1)
Self-explanatory
Paragraph (2)
Self-explanatory
Paragraph (3)
Self-explanatory
Paragraph (4)
Self-explanatory

Article 16
Paragraph (1)
Self-explanatory
Paragraph (2)
Self-explanatory

Article 17
Paragraph (1)
Self-explanatory
Paragraph (2)
Self-explanatory

Article 18
Bringing into conformity with the Bank Indonesia Regulation is defined as bringing the job description and qualifications of an existing Compliance Director into conformity with the Bank Indonesia Regulation and submitting an application for approval to Bank Indonesia not later than 30 (thirty) days after the enactment of this Bank Indonesia Regulation.
Article 19
Paragraph (1)
Self-explanatory
Paragraph (2)
Self-explanatory
Paragraph (3)
Self-explanatory

Article 20
Paragraph (1)
Self-explanatory
Paragraph (2)
Self-explanatory

Article 21
Self-explanatory

Article 22
Paragraph (1)
Self-explanatory
Paragraph (2)
Self-explanatory

Article 23
In the case of designation/appointment of a Compliance Director for a Bank participating in the recapitalization program for commercial banks, provisions shall apply as set forth in Government Regulation Number 84 of 1998 dated December 31, 1998 concerning the Recapitalization Program for Commercial Banks and Joint Decree of the Minister of Finance of the Republic of Indonesia and the Governor of Bank Indonesia
Number dated February 8, 1999

concerning the Recapitalization Program for Commercial Banks, namely, that designation/appointment shall take place in a General Meeting of Shareholders.

Article 24
Self-explanatory

Article 25
Self-explanatory

SUPPLEMENT TO THE STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 3883 of 1999

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