

PROPOSED

TECHNICAL ASSISTANCE

(Requested to be financed from the Asian Currency Crisis Support Facility)

TO THE

REPUBLIC OF INDONESIA

FOR THE

ESTABLISHMENT OF A FINANCIAL SERVICES AUTHORITY

February 2002

CURRENCY EQUIVALENTS

(as of 26 February 2002)

Currency Unit	–	Rupiah (Rp)
Rp1.00	=	\$0.000098
\$1.00	=	Rp10,160

Since August 1997 the exchange rate for the rupiah has been determined under a floating system.

ABBREVIATIONS

ADB	–	Asian Development Bank
BAPEPAM	–	Badan Pengawas Pasar Modal (Capital Market Supervisory Agency)
BI	–	Bank Indonesia
DGFI	–	Directorate General of Financial Institutions, Ministry of Finance
FGRSDP	–	Financial Governance Reforms Sector Development Program
FSA	–	Financial Services Authority
IT	–	information technology
MOF	–	Ministry of Finance
NBFI	–	nonbank financial institution
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government coincides with the calendar year.
- (ii) In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. Weaknesses in the regulatory and supervisory oversight framework for the Indonesian financial sector contributed to many of the problems in the financial sector that became evident in the crisis of the late 1990s that saw the virtual collapse of the financial system. In response to the crisis, the Government took steps to strengthen the regulatory and supervisory regime for the financial sector in conjunction with other measures to (i) restore public confidence by providing guarantees for bank depositors, (ii) close nonviable financial institutions, (iii) implement rehabilitation and recapitalization programs for banks, and (iv) support the resolution of impaired assets. A new central bank law in 1999 provided for the future transfer of banking supervision functions from the central bank (Bank Indonesia [BI]) to a single supervisory body for banks and nonbank financial institutions (NBFIs), named the Financial Services Authority (FSA).¹ In response to a request from the Government, the Asian Development Bank (ADB) provided technical assistance (TA)² for planning for FSA. Implementation of that TA commenced in July 2001. It has made major progress in supporting the preparation of the detailed design of FSA, drafting relevant legislation, and mapping the future establishment of FSA. It is due for completion in June 2002, by which time the FSA bill is expected to be submitted to Parliament.

2. The Government's timetable for the establishment of FSA foresees enactment of the FSA law by the end of 2002. This will be followed by a one-year period of preparation and institution building, with FSA formally commencing operations at the start of 2004. To enable ongoing support throughout this time, the Government has requested ADB to provide additional TA.³ ADB fielded a Fact-Finding Mission in January 2002 that reached an understanding with the Government on the objectives and scope of the proposed TA, its cost estimates, and implementation arrangements. The TA framework is provided in Appendix 1. Progress towards the establishment of FSA is one of the key issues to be addressed in the Government's Financial Governance and Social Security Reform Program, which will be supported by a planned ADB program loan in 2002. This program aims to support a broad framework for the overall strengthening of the financial sector and will promote the development of sound financial institutions necessary for good governance and growth. Key policy actions to be carried out in 2002 for the program have been agreed to, and the Government is making progress in accordance with an action plan agreed upon with ADB.

II. ISSUES OR PROBLEMS

3. In Indonesia, banks have been regulated and supervised by BI; the securities market by the Capital Market Supervisory Agency (BAPEPAM), which reports to the Ministry of Finance (MOF); and insurance companies, pension funds, finance companies and venture capital funds by the Directorate General of Financial Institutions (DGFI) in MOF. Notwithstanding improvements achieved under the Financial Governance Reforms Sector Development Program (FGRSDP),⁴ BI and BAPEPAM require further enhancement of their governance standards, and DGFI has neither the resources nor the skills to adequately regulate and supervise the financial institutions under its responsibility. The multiple agency structure has fragmented regulatory and supervisory oversight and has not been conducive to effective

¹ Previously referred to as the Financial Services Supervisory Institution.

² TA 3620-INO: *Development of a Financial Services Supervisory Institution*, for \$1.7 million, approved on 7 January 2001.

³ The TA first appeared in *ADB Business Opportunities* (Internet Edition) in December 2001.

⁴ Supported by ADB Loan 1618-INO: *Financial Governance Reforms Sector Development Program*, for \$1.4 billion, approved on 25 June 1998.

supervision of the conglomerates that have emerged in Indonesia. Weaknesses in the performance of individual agencies have been compounded by limited coordination and information sharing among agencies, thereby making it difficult to assess the consolidated risk exposure of intermediaries. These weaknesses enabled poorly managed financial institutions to take excessive risks, which contributed to liquidity problems in the crisis.

4. Although regulators and supervisors were aware of these flawed market practices, their ability to take appropriate action was limited because of political interference, weak incentive structures, poor accountability, and lack of staff skills. Post-crisis financial reviews and audits of commercial banks revealed weaknesses in balance sheets and lack of compliance with regulations, although BI and auditors had earlier rated these institutions as sound. BAPEPAM lacks the autonomy, resources, and capacity to effectively enforce laws and regulations or to conduct inspections and investigations of brokerage and securities firms. Although MOF has responsibility for the regulation and supervision of NBFIs, it has been unable to effectively perform this role.

5. Recognizing these weaknesses in financial sector oversight, the Government enacted the new central bank law, which requires the future transfer of banking supervision to a new independent FSA to supervise banks and NBFIs. As a preparatory step to establishing FSA, BI, with assistance from the International Monetary Fund, is implementing the Master Plan for Strengthening Banking Supervision System for 2000-2002 and an action plan for banks to comply with international regulatory standards. BI is strengthening its capabilities in (i) commercial bank surveillance, (ii) problem bank management, (iii) offsite and onsite supervision, and (iv) research and training. Simultaneously, under the ADB-supported FGRSDP, BAPEPAM and DGFI (i) have introduced risk-based capital requirements for securities and insurance companies; (ii) are developing management information systems; (iii) have started to strengthen enforcement, inspection, and investigation of market participants; and (iv) have launched staff training in these areas. These initiatives will help prepare BAPEPAM and DGFI for the future consolidation of regulation and supervision functions in FSA.

6. Indonesia is not unique in having relied on separate agencies to handle the regulation and supervision of different types of financial institutions. The United States continues with multiple regulators,⁵ although with enactment of the Gramm-Leach-Bliley Act of 1999, functional regulation has been adopted to enhance competition in financial services and has been extended to the financial conglomerates permitted by the Act. The system recognizes that regulatory specialization enhances risk management and supervision of diverse financial service organizations comprising commercial banks, securities broker-dealers, insurance companies, and other NBFIs. The continued existence of separate regulators reflects the vast size of the financial sector, the effectiveness of regulators, their success in interagency coordination, and the constitutional constraint of state jurisdiction over the insurance sector.

7. Operating with separate regulators in other countries is, however, increasingly difficult, as the financial sector becomes more complex. Potential inconsistencies in the application of regulatory approaches carry the risk of regulatory arbitrage, with profit-driven financial institutions seeking to exploit regulatory differences among regulators of similar financial products. The move toward consolidated regulatory structures has recently gained momentum

⁵ These include (i) the three agencies dealing with the banking sector—the Federal Reserve Board, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation; (ii) the Securities Exchange Commission, which deals with securities markets regulation and supervision; and (iii) the state governments, which deal with insurance regulation and supervision.

due to the lifting of restrictions on capital movements; the need for effective regulation of financial conglomerates with international operations; and the blurring of geographical, functional, and institutional boundaries. In the late 1990s the United Kingdom opted to establish its Financial Services Authority as a single regulator to exercise prudential regulation and supervision of businesses and markets, provide consumer protection, and control financial crime. Japan and the Republic of Korea followed a similar approach. Australia adopted a more functional approach, and assigned the prudential regulatory responsibility for banks, insurance companies, and pension funds to the Australian Prudential Regulation Authority, and the oversight of securities firms and market and business conduct to the Australian Securities Investments Commission. The Reserve Bank of Australia continues to handle monetary policy and stability of the payment system, and two other agencies address market competition and consumer protection. Canada merged banking and insurance regulation and supervision in 1987, but retains separate securities commissions at the provincial level to oversee capital markets. Some Scandinavian countries moved in the mid-1980s to consolidate the regulation and supervision of banks, and insurance and securities markets, while Singapore and several other small countries rely on central banks to oversee the entire financial sector. Drawing on this international experience, the International Committee for Banking Supervisors in September 2000 concluded that, given the diversity and variations in regulatory structures, it is not possible to prescribe a model framework for all. Each country must evolve its oversight structure for the financial sector based on its market structures and practices.

8. Since commencement, TA 3620-INO (footnote 2) has supported the FSA steering committee,⁶ which provides overall direction and decides on policy issues in FSA design; an FSA executive committee of senior officials; and an interministerial working party. The case for regulatory amalgamation in Indonesia has been further endorsed during TA implementation as follows: (i) it will better align the regulatory structure with the emerging conglomerate structure of the Indonesian finance sector, thereby enabling greater coherence in financial regulation and supervision; (ii) it will allow consistent application of regulatory powers across the financial sector; (iii) it will allow the more efficient use of scarce regulatory resources; and (iv) the establishment of a new agency with appropriate autonomy, accountability, and governance structures provides the opportunity to address the weaknesses that constrain progress toward more effective operation of existing agencies. However, regulatory amalgamation alone cannot guarantee an effective outcome. While it will provide a valuable foundation, it is critically important to ensure that restructuring is accompanied by fundamental improvements in the effectiveness of financial regulation. Accordingly, the central focus of the FSA design is to maximize regulatory effectiveness. FSA must establish a new regulatory culture, as far as possible removed from the legacies of the past. This new culture will focus on the achievement of effective regulation and the recognition and reward of ability and commitment among FSA management and staff.

9. A number of other key design issues have been addressed by the steering committee since commencement of the TA. While the 1999 BI law specified the transfer of only banking supervision functions from BI to FSA, it has now been determined that both supervision and regulation of banks will be transferred to FSA. The delineation of responsibilities and functions between BI and FSA has been further clarified, with BI to retain powers relating to monetary policy and operation of the payment system. The need for close coordination between these institutions will be reflected in the appointment of the BI governor to the FSA board. A further design issue, not explicitly covered in the 1999 BI law, has been addressed by the decision of

⁶ Comprising the coordinating minister of economy, minister of finance, governor of BI, minister of justice, and cabinet secretary.

the steering committee to transfer BAPEPAM's functions of regulation of markets and market conduct to FSA.

10. On the basis of policy decisions and directions of the steering committee and an intensive review of existing laws and regulations for the financial sector, TA 3620-INO has supported the Government's preparation of a draft FSA law and necessary consequential amendments relating to FSA operations in other financial sector legislation (including the BI, banking, insurance, pension, and capital markets laws). The draft FSA law is based on international best practice and effectively addresses the independence, accountability, and effective governance of FSA. In particular, there are suitable means for FSA to levy supervised institutions and adequately meet its funding requirements. Following intensive discussions within the Government, the FSA plans and draft law have been endorsed by the ministerial steering committee and have been presented to the broader financial community at the FSA Grand Seminar held on 27 February 2002. With the strong support demonstrated by ministers, submission of the FSA law and related consequential amendments to parliament is anticipated by mid-2002, with enactment expected by the end of 2002. This will be followed by a 12-month transition period during which existing agencies will continue to operate, but FSA will be legally established and will undertake staff recruitment and institution building preparatory to assuming full operational powers and responsibilities in early 2004. A key issue during the transition period will be recruitment of suitable management and staff for FSA while maintaining the operational effectiveness and staff morale in the existing agencies. To address this issue, an interagency transition team is planned by the Government, and significant support under the proposed TA is directed to FSA human resources and staffing issues.

11. Completion of the ongoing TA is anticipated in mid-2002 with submission of the FSA laws to parliament. By that time, FSA's rules and regulations, business plan, and staffing plan will also have been formulated under the ongoing TA. These outputs are expected to meet the requirements of the ongoing TA. However, there will remain a critical need for seamless consulting input to the Government under the proposed TA to ensure necessary technical support during parliamentary consideration of the laws; to finalize with the FSA board and management the details and implementation of staffing, organization, and information technology plans; and to generally support the orderly transition from a multi-agency to a single agency model for financial sector regulation and supervision.

III. THE PROPOSED TECHNICAL ASSISTANCE

A. Purpose and Output

12. The purpose of the proposed TA is to support the establishment of FSA as an effective regulatory and supervisory agency for the financial sector. The ongoing TA has developed the draft FSA law and associated consequential amendments to other financial sector laws. It has also covered the major design issues of FSA and its transition arrangements. The proposed TA will help operationalize and institutionalize the new framework.

B. Methodology and Key Activities

13. Under the guidance of the steering committee (footnote 6) and the executive group,⁷ the proposed TA will assist the interagency transition team established by the Government to

⁷ Comprising the director general of financial institutions from MOF as chairperson; head of BAPEPAM as vice chairperson; and representatives from BI, the Ministry of Justice, and other relevant agencies.

oversee the transition from the existing multi- agency regulatory structure to the single integrated agency structure. In particular, the TA will (i) provide technical support and facilitate discussions on the law among industry professionals, members of parliament, ministers, and government officials; (ii) support further development and implementation of the organizational design, human resources plan, and staff training plan for FSA; (iii) assist in drafting new regulations and necessary revisions of regulations from existing agencies to meet the needs of FSA; (iv) support implementation of the information technology plan; (v) support staff training; and (vi) coordinate and support ongoing legislative reform in existing regulatory agencies to ensure that any further changes in financial sector laws are consistent with the FSA legal framework.

C. Cost and Financing

14. The proposed TA is estimated to cost \$1,930,000 equivalent, comprising a foreign exchange cost of \$1,195,000 and a local currency cost of \$735,000 equivalent. The Government has requested ADB to finance the entire foreign exchange cost and \$305,000 equivalent of the local currency cost, for a total of \$1,500,000, on a grant basis from the Asian Currency Crisis Support Facility funded by the Government of Japan, or from other TA sources available to ADB. The equipment financed by the TA will be procured in accordance with ADB's *Guidelines on Procurement* and other arrangements acceptable to ADB, and will be transferred to FSA upon TA completion. The Government will provide the remaining \$430,000 equivalent in kind for counterpart staff, office accommodation, training, and office support facilities. Detailed cost estimates and financing plan are provided in Appendix 2.

D. Implementation Arrangements

15. As the executing agency for the proposed TA, DGFI will coordinate the work of the consultants and their interaction with the steering committee, the executive group, and the FSA implementation team appointed by the Government. It is estimated that about 26 person-months of international and 24 person-months of domestic consulting services will be required. The international consultants will include experts in (i) financial regulation, (ii) bank supervision, (iii) capital markets, (iv) pension and insurance, (v) law, (vi) information technology, and (vii) human resources, and the domestic consultants will have expertise in the same areas. A firm will be selected in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements on the engagement of domestic consultants. Outline terms of reference for the consultants are provided in Appendix 3. The consultants will prepare an inception report within two months of TA commencement. The report will be discussed and agreed upon at a tripartite meeting of the consultants, the Government, and ADB. A midterm review will be conducted to discuss the findings and progress of the TA. The consultants will submit a draft final report for review at a tripartite meeting and will incorporate comments in the final TA report for endorsement by the steering committee. The TA will commence by July 2002 and end by March 2004.

IV. THE PRESIDENT'S RECOMMENDATION

16. The President recommends that the Board approve the provision of technical assistance, on a grant basis, to the Government of Indonesia in an amount not exceeding the equivalent of \$1,500,000 for the purpose of the Establishment of a Financial Services Authority.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Risks/Assumptions
<p>Goal</p> <p>Consolidation and strengthening of regulatory and supervisory framework to provide effective and efficient oversight for the financial sector</p>	<p>Efficient and effective enforcement of regulation and supervision</p>	<p>The Government has set up a ministerial steering committee and executive group of senior officials to oversee and coordinate the planning and implementation of the Financial Services Authority (FSA). The draft FSA law details accountability and reporting requirements to complement proposed measures to ensure FSA's operational independence.</p>	<p>Political support for passage of proposed FSA law including provisions for its necessary independence to operate in accordance with the law</p> <p>Political commitment to ensure FSA independence is observed so that it can establish a new regulatory culture and maximize regulatory effectiveness</p>
<p>Purpose</p> <p>Establish FSA with the necessary mandate and functions, appropriate governance, administrative structures and policies, procedures, and regulations.</p>	<p>Support enactment of suitable FSA legislation by end of 2002.</p> <p>Support recruitment of FSA management and staff.</p>	<p>Review by FSA executive group and steering committee</p> <p>Consultant's progress report</p> <p>Published reports of FSA</p>	<p>Acceptance of the FSA mandate and design by financial sector interest groups and parliamentary endorsement of the FSA Law</p> <p>Appointment of suitable board members including chief executive, directors and staff</p>
<p>Outputs</p> <p>Draft initial operating budget and FSA fee structure.</p>	<p>Draft completed by March 2003</p>	<p>Publication by FSA of proposed fee structure by June 2003; finalization by end 2003</p>	<p>Acceptance and payment by supervised entities</p>

(Reference in text: page 1, para. 2)

Design Summary	Performance Targets	Monitoring Mechanisms	Risks/Assumptions
<p>Outputs (contd) Prepare FSA organization and human resources plans.</p> <p>Draft, and support delivery of, staff training plan.</p> <p>Prepare FSA regulations.</p> <p>Prepare and support implementation of FSA information technology plan.</p> <p>Support necessary legislative amendments for existing financial sector regulatory agencies to ensure consistency with FSA legal framework.</p>	<p>Drafts completed for review by FSA board by end of 2002</p> <p>Draft completed by mid-2003</p> <p>Drafts completed by mid-2003</p> <p>Draft plan completed by end of 2002</p> <p>Inputs as necessary</p>	<p>Review/approval by FSA management and board.</p> <p>Consultant's progress report</p> <p>Review by FSA management and board Consultant's progress report</p> <p>FSA board approval and circulation Consultant's progress report</p> <p>Consultant's progress report</p> <p>Review/approval by FSA management and board</p>	<p>Adoption by FSA board.</p> <p>Acceptance and endorsement by FSA management and board</p> <p>Endorsement by FSA management and board</p> <p>Availability and recruitment of suitable skilled staff</p> <p>Acceptance by other agencies and parliament</p>
<p>Activities Recruitment of international and domestic consultants to implement the technical assistance</p>	<p>Inputs 26 person-months of consulting services by international consultants and 24-person months of consulting services by domestic consultants</p>	<p>Progress reports from consultants</p> <p>Review missions</p>	<p>Availability and recruitment of suitable consultants, and availability of suitable counterpart staff</p>

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing (ACCSF)			
1. International Consultants			
a. Remuneration	750	0	750
b. Per Diem	90	0	90
c. Travel	80	0	80
2. Domestic Consultants	0	150	150
3. Reports and Communications	0	35	35
4. Office Equipment and Supplies	20	0	20
5. Workshops and Training	98	80	178
6. Contract Negotiations	7	0	7
7. Contingencies	150	40	190
Subtotal (A)	1,195	305	1,500
B. Government Financing			
1. Local Counterpart Staff	0	160	160
2. Office Facilities and Transportation	0	160	160
3. Reports and Communications	0	20	20
4. Workshops and Training	0	30	30
5. Contingencies	0	60	60
Subtotal (B)	0	430	430
Total	1,195	735	1,930

ACCSF =Asian Currency Crisis Support Facility.
Source: Asian Development Bank staff estimates.

(Reference in text: page 5, para. 14)

TERMS OF REFERENCE FOR THE CONSULTANTS

A. General

1. The consultants will support the implementation of the Financial Services Authority (FSA) as an effective oversight regulatory and supervisory agency for the financial sector. A previous Asian Development Bank technical assistance (TA) grant (Stage I) has been supporting the drafting of a proposed FSA law, together with a consequential amendments law that makes all existing finance sector laws consistent with the proposed FSA law. Major FSA design issues and transition arrangements were also addressed in Stage I. Under the proposed TA, consultants will help operationalize the new framework. The consultants will be guided by the output of Stage I, and will work closely with the FSA steering committee, executive group, and implementation team established by the Government to oversee the transition from the existing multi-agency structure to the single integrated structure set up by FSA. The consultants' role will include the following:

- (i) Provide support and facilitate discussions on the law among industry professionals, members of parliament, ministers, and government officials during the legislative process.
- (ii) Develop further details of the organization plan and human resources plan for FSA initiated in Stage 1. This will include extending job descriptions to junior levels, assessing and finalizing appointment criteria and accreditation options for staff to be recruited by FSA, filling out details of the remuneration policy, and assessing transfer costs associated with staff moving from existing regulatory agencies.
- (iii) Assist where needed with assessing appointments to the new FSA.
- (iv) Assist in developing and drafting new and revised regulations to meet the needs of FSA. In some cases, existing regulations will be transferable in content and will require minimal changes to fit the FSA framework. Other regulations will require significant rewriting, both to fit the new framework and to update the content to be consistent with the objectives of the FSA. In several areas, completely new regulations will be required to establish regulatory oversight and consistency where these have been absent in the current framework.
- (v) Assist in developing procedures to ensure effective delineation of the operational roles of FSA and Bank Indonesia (BI). This will aim to avoid unnecessary overlap of functions, and will identify areas and develop procedures for coordination and information sharing between FSA and BI consistent with their respective laws.

(Reference in text: page 5, para. 15)

- (vi) Support implementation of the information technology (IT) plan developed in Stage 1. This will include identification of the necessary hardware and software to meet the objectives of the IT plan, establishment of a realistic timetable for implementation, commencement of training to build the necessary skills to implement the plan, and oversight of equipment installation.
- (vii) Support the preparation of capital and operating budgets for FSA, and establishment of a scale of fees to be charged by FSA.
- (viii) Support implementation of the training program for staff appointed to FSA. The key elements of a training program for the longer-term needs of FSA were identified in Stage I, and the first stage of this program will be implemented during the proposed TA. In addition, consultants will provide further details to complete the longer-term training program.
- (ix) Support coordination of the ongoing legislative reform program in the existing regulatory agencies to ensure that any further changes to financial sector laws are made within the framework legislation and style of FSA.

2. The total consultant input will be 50 person-months, including international consultants (25 person-months) and domestic consultants (25 person-months).

B. Specific

1. Financial Regulatory Expert/Team Leader (9 person-months international consultant)

3. The team leader should be an experienced regulatory and supervisory expert with knowledge of the bank and onblank sectors and experience in developing or working in consolidated regulatory and supervisory bodies. The team leader will be responsible for coordinating and supervising the team of consultants to develop an appropriate approach for implementing the FSA reforms and for ensuring that this approach is implemented smoothly. The financial regulatory expert will be responsible for the delivery of TA outputs. Specific tasks include the following:

- (i) Prepare a paper that outlines the key milestones in the implementation process. This will be refined and updated on a quarterly basis throughout TA implementation.
- (ii) Coordinate with the legal expert to facilitate discussions on the FSA bill during the legislative process and the drafting of a coordinated set of FSA regulations.
- (iii) Coordinate with the IT expert to oversee the implementation of the IT plan.
- (iv) Work closely with the human resources expert to oversee the finalization and implementation of the organization plan and human resources plan.
- (v) Work closely with the human resources expert to oversee the implementation of the training plan.

- (vi) Support the preparation of the FSA capital and operating budgets, and the establishment of a scale of fees to be charged by FSA.
- (vii) Monitor developments in other areas of the Indonesian financial sector and ensure that there is adequate coordination among related projects and agencies.

2. Bank Regulation and Supervision Expert (2 person-months international consultant, 3 person-months domestic consultant)

4. In conjunction with the team leader, the bank regulation and supervision expert will oversee the implementation of the banking supervisory aspects of FSA. The bank regulation and supervision expert will

- (i) review the banking regulations that will transfer to FSA, and assist the team leader and implementation team to tailor these to the regulatory framework developed in Stage 1;
- (ii) coordinate with BI regarding refinements of banking regulations by BI during the transition phase;
- (iii) coordinate the banking component of the IT plan to ensure that the systems and procedures are appropriate to the stage of development of FSA; and
- (iv) review the practices and procedures for banking supervision to ensure their consistency with the new regulatory framework for FSA.

3. Capital Markets Regulation and Supervision Expert (2 person-months international consultant, 1 person-month domestic consultant)

5. In addition to assisting the team leader, the capital markets regulation and supervision expert will coordinate closely with the other experts to oversee the implementation of the capital markets supervisory aspects of FSA. The capital markets regulation and supervision expert will

- (i) review capital markets regulations that will transfer to FSA, and assist the team leader and implementation team to tailor these to the regulatory framework developed in Stage 1;
- (ii) work closely with the BAPEPAM to coordinate further refinements of capital markets regulations between BAPEPAM and FSA;
- (iii) coordinate the capital markets component of the IT plan to ensure that the systems and procedures are appropriate to the stage of development of FSA; and
- (iv) review the practices and procedures for capital markets supervision to ensure their consistency and necessary modification for the new regulatory framework for FSA.

4. Pension and Insurance Regulation and Supervision Expert (2 person-months international consultant, 1 person-month domestic consultant)

6. In conjunction with the team leader and the implementation team, the pension and insurance regulation and supervision expert will coordinate closely with the other experts to oversee the implementation of the pension and insurance supervisory aspects of FSA. The pension and insurance regulation and supervision expert will:

- (i) review the pensions and insurance regulations that will transfer to FSA, and assist the team leader and implementation team to tailor these to the regulatory framework developed in Stage 1;
- (ii) work closely with the Ministry of Finance to coordinate further refinements of pensions and insurance regulations between the Directorate General of Financial Institutions of the Ministry of Finance and FSA;
- (iii) coordinate the pensions and insurance component of the IT plan to ensure that the systems and procedures are appropriate to the stage of development of FSA; and
- (iv) review the practices and procedures for pensions and insurance supervision to ensure their consistency with the new regulatory framework for FSA.

5. Legal Expert (4 person-months international consultant, 7 person-months domestic consultant)

7. In conjunction with the team leader and the implementation team, the legal expert will

- (i) provide assistance to facilitate discussion on the FSA bill during the legislative process;
- (ii) draft a coordinated set of regulations for FSA consistent with the analyses of the banking, capital markets and insurance and pensions industry experts;
- (iii) coordinate legislative work in other related projects with the ongoing work associated with FSA.

6. Human Resources Expert (4 person-months international consultant, 7 person-months domestic consultant)

8. In conjunction with the team leader and the implementation team, the human resources expert will

- (i) develop details of the FSA organization plan and the detailed job descriptions and qualification levels for the entire FSA staffing structure;
- (ii) assess the one-off cost of different strategies for bringing staff from existing agencies into the new FSA structure;

- (iii) oversee the finalization and implementation of the human resources plan;
- (iv) oversee the installation of a suitable human resources management information system;
- (v) oversee the implementation of the initial training plan for the transition period; and
- (vi) oversee implementation of the longer-term staff development and training program.

7. Information Technology Expert (3 person-months international consultant, 5 person-months domestic consultant)

9. In conjunction with the team leader and the implementation team, the information technology expert will

- (i) assess the cost of the necessary IT resources, and draw up a suitable implementation timetable;
- (ii) oversee the implementation of the IT plan; and
- (iii) work closely with the human resources expert to oversee the implementation of the IT training plan.