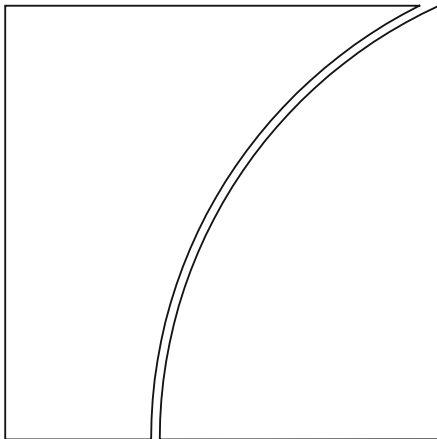


Basel Committee on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel large exposures regulations – Argentina

November 2019



BANK FOR INTERNATIONAL SETTLEMENTS

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Glossary

ARS	Argentinian peso
BIS	Bank for International Settlements
BCBS	Basel Committee on Banking Supervision
BCRA	Banco Central de la República Argentina (Central Bank of Argentina)
C	Compliant (grade)
CO	Charter of the Central Bank of Argentina
D-SIBs	Domestic systemically important banks
FAQs	Frequently asked questions
G-SIB	Global systemically important bank
LEF	Law on Financial Institutions
LC	Largely compliant (grade)
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
LEX	Large exposures
RCAP	Regulatory Consistency Assessment Programme
SEFyC	Superintendence of Financial and Exchange Institutions
SIG	Supervision and Implementation Group
SMEs	Small and medium-sized enterprises

Preface

The Basel Committee on Banking Supervision (Basel Committee or the Committee) places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented fully, consistently and in a timely manner by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report presents the findings of an RCAP Assessment Team on the domestic adoption of the Basel large exposures (LEX) standard in Argentina. The assessment focused on the completeness and consistency of the domestic regulations in force on 30 June 2019, as applied to all banks in Argentina, with the Basel LEX standard. Issues related to prudential outcomes, the resilience of the banking system or the supervisory effectiveness of the Argentinian authorities were not in the scope of this assessment. The assessment relied on translated regulations and other information and explanations provided by the Argentinian authorities and ultimately reflects the view of the Basel Committee.

The RCAP Assessment Team was led by Édouard Fernandez-Bollo, Secretary General of the French Prudential Supervisory and Resolution Authority. It comprised four technical experts, from Georgia, Norway, Singapore and the Financial Stability Institute (see Annex 1). The main counterpart for the assessment was the Banco Central de la República Argentina (BCRA). The work was coordinated by the Basel Committee Secretariat with support from staff from the French Prudential Supervisory and Resolution Authority.

Starting in late 2018, the assessment comprised (i) a self-assessment by the BCRA; (ii) an assessment phase (February to June 2019), including an on-site assessment involving discussions with the BCRA and some Argentinian banks; and (iii) a review phase (July to October 2019), including a technical review of the Assessment Team's findings by a separate RCAP Review Team, the Committee's Supervision and Implementation Group, the RCAP Peer Review Board and the Basel Committee. More information on the RCAP assessment process is available on the Committee's website.¹

The Assessment Team sincerely thanks the staff of the BCRA for playing an instrumental role in coordinating the RCAP exercise and for the cooperation extended during the assessment process.

¹ See www.bis.org/bcbs/implementation.htm.

Executive summary

In Argentina, the LEX framework applies to all banks on an individual and on a consolidated basis. The framework was published through Communication "A" 6599 on 22 November 2018 and has been in force since 1 January 2019.

Overall, as of 30 June 2019, the large exposures regulations in Argentina are assessed as compliant with the Basel LEX standard. This is the highest grade. Following the BCRA's rectifications to the scope and definitions component, all three components are assessed as compliant.

The Assessment Team recognises the efforts made by the BCRA throughout the assessment process to improve the consistency of its LEX regulations, in particular by issuing amendments to the scope and definitions prior to 30 June 2019, the cut-off date for the assessment. These amendments will become effective as of 1 January 2020 (see Annex 4 for a complete list of the amendments).

Response from the BCRA

The Central Bank of Argentina (BCRA) would like to express its gratitude to the RCAP Assessment Team for the dedication and proficiency revealed in the revision of our legislation and for the prudent judgment exercised in its assessment. The RCAP test has been a great opportunity to deepen our understanding of the Basel framework and enhance the effectiveness of our regulation.

We agree with the analysis and conclusions in the RCAP Assessment Reports. The only finding identified by the RCAP Team has been addressed, as requested. The correction was introduced through Communication "A" 6723 approved by the Board of the BCRA and published at the end of June 2019.

We would like to take the opportunity to confirm the commitment of the BCRA to the work of the BCBS and the proper implementation of its standards.

1 Assessment context

1.1 Status of implementation of the large exposures framework

The BCRA implemented the LEX framework on 1 January 2019 for all banks operating in Argentina. These include state-owned banks, private banks and non-bank financial institutions.

1.2 Regulatory system

The legal framework of the Argentinian financial system consists primarily in the Charter (“CO”) of the Central Bank of Argentina (“BCRA”) (as approved by Law No 24,144) and the Law on Financial Institutions (“LEF”) (Law No 21,526).

The CO provides that the purpose of the BCRA shall be “to promote – within the framework of its powers and the policies set by the National Government – monetary and financial stability, employment, and economic development with social equality”. One of the BCRA’s powers is to regulate the financial system and enforce the Law on Financial Institutions and such regulations as may be consequently adopted. Further, the BCRA is empowered to supervise all financial and foreign exchange activity through the Superintendence of Financial and Exchange Institutions (“SEFyC”). The LEF provides that the BCRA is also responsible for its enforcement with all such powers as are vested upon it by the LEF and the CO, and for issuing any regulations required to ensure its compliance.

All individuals or institutions – whether private, public or partly state-owned companies (at the national, provincial or municipal level) – that intermediate between the supply and demand of financial resources on a regular basis fall within the scope of the LEF and its regulatory rules. The provisions contained in the LEF may further be applied to individuals as well as public and private institutions not expressly mentioned therein, where the volume of their operations and reasons of monetary and lending policy so warrant, as determined by the BCRA.

The BCRA’s regulatory powers involve general administrative acts which are channelled by way of “communications” to which all financial institutions subject to the BCRA’s supervision are bound. There are several types of communication covering a wide range of issues. The most significant are Communications “A”, of a permanent regulatory nature, and Communications “B”, of a transient or circumstantial regulatory nature. Both these types of communication are legally binding.

Those communications are available on the BCRA’s web site along with consolidated texts – compiled by major regulatory topic – of the regulations relating to major aspects of the financial system. The LEF can impose sanctions on institutions and individuals when these are found to fail to comply with its provisions and relevant regulations, and with other resolutions issued by the BCRA in exercising its powers. Such sanctions include (i) a warning; (ii) official reprimand; (iii) fines; (iv) temporary or permanent disqualification from using a bank current account; (v) temporary or permanent disqualification from acting as a promoter, founder, director, administrator, member of the surveillance committee, comptroller, liquidator, manager, auditor, partner or shareholder of any institution under the LEF; and (vi) license revocation.

The following table provides an overview of the legal hierarchy of prudential regulations in Argentina:

Hierarchy of banking regulations in Argentina		Table 1
Laws and regulations	Federal laws are enacted by the National Congress. The legal framework for the banking system is provided mainly by the Charter of the BCRA ("CO", Law No 24,144) and the Law on Financial Institutions ("LEF", Law No 21,526).	
Regulation issued by BCRA	In the exercise of its legal powers, the BCRA issues prudential regulation by way of Communications "A". These communications are normally directed towards entities that are regulated and supervised by the BCRA, such as financial institutions and non-bank credit card issuers, and they are binding as of the day following their publication on the BCRA website, unless a different date is stated explicitly. The publication in the official gazette takes place a few days later.	
Internal regulation derived from the above laws and regulations	Regulation is always in the public domain. Internal documents are collated in the Supervisors' Handbook and texts providing guidance on supervisory procedures, such as staff regulations and internal circulars and manuals.	

More information is provided in Annex 2.

1.3 Structure of the banking sector

The financial system consists of 78 financial institutions (as of March 2019), including state-owned banks (13 banks), private banks (50 banks) and non-bank financial institutions (15). The main institutions are both state-owned banks and private banks. Among the former, Banco de la Nación Argentina is the largest institution, accounting for almost 17% of total private sector deposits and 15% of loans to the private sector (as of March 2019). Private banks are divided into those with foreign shareholders (16 foreign private banks) and those with a major domestic shareholder participation (34 "national private banks"). Each group of banks represents roughly one third of the Argentinian financial system. Private foreign banks originate 32% of total financial system credit to the private sector, 31% in the case of private national banks and 33% in the case of state-owned banks. The rest, about 4%, is originated by non-bank financial institutions. The seven largest banks represent more than 60% of the total assets of the financial system. These banks are part of the 18 banks classified as "Group A" banks.

Financial institutions have maintained a strategy based on deposit funding. In Argentina, domestic currency deposits are the most important funding source for the banking sector. Private sector deposits are the most relevant source of funding for all banks. These deposits represent about 59% of the total resources (liabilities plus equity) of the financial system. Credit to the private sector is the most important component of bank assets, at almost 40%. Nearly 70% of all private sector credit is denominated in domestic currency, therefore limiting the peso-US dollar exchange rate risk. Credit to corporates represents almost 54% of all credit to the private sector, with the rest channelled to households. Holdings of complex financial instruments are almost non-existent, a feature that helped to limit Argentinian banks' exposure to some of the risks and vulnerabilities seen during the global financial crisis of 2007–09.

As banks' cross-border activities remain limited, their collective exposure to foreign counterparties and markets represents only around 1.8% of total assets (as of March 2019). Only one bank,

which holds 0.27% of the financial system’s total assets, has such exposures, with these ranging between 10 and 15% of its assets.

1.4 Scope of the assessment

The Assessment Team considered the large exposures limits applicable to all banks operating in Argentina as of 30 June 2019. The assessment had two dimensions:

- a comparison of domestic regulations with the Basel large exposures framework to ascertain that all the required provisions have been adopted (*completeness* of the regulations); and
- whether there are any differences in substance between the domestic regulations and the Basel large exposures framework and, if so, their significance (*consistency* of the regulations).

In its assessment, the RCAP Assessment Team considered all binding documents that effectively implement the Basel large exposures framework in Argentina. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the adequacy of the national large exposures framework to the banking system, the resilience of the banking system in Argentina or the supervisory effectiveness of the BCRA.

The Assessment Team noted that, in some areas, Argentinian rules go beyond the minimum Basel standards. Although these elements (listed in Annex 5) provide for a more rigorous implementation of the Basel framework, they have not been taken into account for the assessment of compliance.

The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the three key components of the Basel large exposures framework and the overall assessment of compliance. The four grades are: compliant, largely compliant, materially non-compliant and non-compliant.

2 Assessment findings

2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the large exposures framework in Argentina to be compliant with the Basel LEX standard. Following the rectifications issued by the BCRA in June 2019 (see Annex 4), no findings remain.

Assessment grades		Table 1
Component of the Basel LEX framework		Grade
Overall grade		C
Scope and definitions		C
Minimum requirements and transitional arrangements		C
Value of exposures		C

Assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

2.1.1 Scope and definitions

Scope and definitions are compliant with the Basel standard. No findings were identified.

2.1.2 Minimum requirements and transitional arrangements

Minimum requirements and transitional arrangements are compliant with the Basel standard. No findings were identified.

2.1.3 Value of exposures

Value of exposures is compliant with the Basel standard. No findings were identified.

2.2 Detailed assessment findings

2.2.1 Scope and definitions

Following the rectifications introduced by the BCRA (see Annex 4), this component is judged to be compliant with the Basel standard. No findings were identified.

2.2.2 Minimum requirements and transitional arrangements

This component is judged to be compliant with the Basel standard. No findings were identified.

2.2.3 Value of exposures

This component is judged to be compliant with the Basel standard. No findings were identified.

2.3 Observations on the implementation of the large exposures framework in Argentina

The following observations highlight certain special features of the regulatory implementation of the Basel LEX standard in Argentina. They are presented here to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

Basel paragraph number	Paragraph 13
Reference in the domestic regulation	Sections 1.1 and 1.3
Observation	<p>Paragraph 13 of the Basel LEX standard mentions that a bank must consider exposures to any counterparty. The only counterparties exempted from the framework are defined in paragraph 61. Exempted exposures include “banks’ exposures to sovereigns and their central banks” and exposures to “public sector entities (PSEs) treated as sovereigns according to the risk-based capital requirement”. Section 1.1 of the consolidated text on large exposures to credit risk specifies that Argentina’s large exposures regulation applies to “a counterparty or group of connected counterparties that does not belong to the non-financial public sector (NFPS) of Argentina.”</p> <p>The Assessment Team observed that the exemption for sovereign exposures results in a dual regime. The non-financial public sector (NFPS) is subject to a specific regulation and therefore is excluded from the scope of the LEX standard. The NFPS comprises the national government, provincial governments, municipalities and the Autonomous City of Buenos Aires. These include the central government, ministries, secretaries</p>

	<p>and their decentralised and self-administered bodies and other entities controlled by them.</p> <p>As a general rule, financial institutions are prohibited from financing the NFPS. Exemptions can be granted on a case-to-case basis by the BCRA, subject to meeting certain requirements – such as prior approval by the Ministry of Public Finance and qualifying collateral (typically some kind of national government guarantee) being pledged to the exposure – and within prescribed limits set both by the Fiscal Responsibility Law and by the BCRA. Commercial undertakings owned by the national, provincial or municipal governments are generally part of the non-financial public sector. There are however two exceptions:</p> <p>(a) State companies constituted by the national, provincial or municipal governments to develop industrial and commercial activities or to exploit public services, within the framework of the Law 20,705 of state companies. State companies have no private sector capital, and these companies, in particular, do not require public funding to develop their activities, sell their goods/services at market prices and are operationally independent from their public sector shareholders.</p> <p>(b) Public sector companies not included in the previous paragraph whose corporate purpose is the exploitation of hydrocarbon deposits and/or their transport, distribution, commercialisation and industrialisation, or the generation and/or commercialisation of electric power.</p> <p>Exposures against both types of company above are treated as private sector exposures and are subject to the “Large exposures to credit risk” regulation and, in particular, to the 15% of Tier 1 capital limit, which can be increased to 25% subject to certain conditions.</p>
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Basel paragraph number	Paragraph 90
Reference in the domestic regulation	Not applied by national discretion
Observation	<p>A limit of 15% (instead of 25%) applies under the Basel LEX standard to exposures held by a G-SIB against another G-SIB. There are no G-SIBs in Argentina, although the BCRA has designated five institutions as D-SIBs. D-SIBs in Argentina are required to comply with a surcharge of 1% over and above the minimum capital standards when computing their capital conservation buffer. They are subject to more intensive supervision with two senior bank inspectors located at the bank’s premises at all times. The supervisory process also includes more intensive reporting requirements.</p> <p>Under the Basel LEX standard, jurisdictions are encouraged to consider applying a stricter limit (than 25%) to exposures between D-SIBs (and to exposures of smaller banks to G-SIBs). Indeed, the concern about contagion, which led the Committee to propose a relatively tighter limit</p>

	<p>on exposures between G-SIBs, applies, in principle, at the jurisdiction level to D-SIBs.</p> <p>However, the assessment team observes that the BCRA has not used its national discretion to set a tighter limit for an Argentinian D-SIB exposure to a foreign G-SIB or to another Argentinian D-SIB.</p>
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Annexes

Annex 1: RCAP Assessment Team and Review Team

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Mr Muhammet Salih Ağan Banking Regulation and Supervision Agency of the Republic of Turkey

Annex 2: List of Basel standards and implementing regulations issued by Argentinian authorities

The following Basel standards were used as the basis of this RCAP assessment:

- *Supervisory framework for measuring and controlling large exposures*, April 2014.
- *Frequently asked questions on the supervisory framework for measuring and controlling large exposures*, September 2016.

Table A.1 lists the regulations issued by the BCRA to implement the large exposures framework in Argentina. Previous RCAP assessments of Argentinian implementation of the Basel standards considered the binding nature of regulatory documents in Argentina.² This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous assessments' findings. Those assessments concluded that the types of instrument described in Table A.1 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

Overview of relevant Argentinian large exposures regulations		Table A.1
Domestic regulations	Type, version and date	
Consolidated text on "Large Exposures to Credit Risk"	Communication "A" 6599, published 22.11.2018: final rule, in force from 1.1.19.	
	Communication "A" 6620 (28.12.2018): final rule organised as the consolidated text on "Large exposures to credit risk".	
	Communication "A" 6639 (25.01.2019) introduced a minor clarification in section 3.3.2.1 of the consolidated text.	
Communication "A" 6723: Treatment of holding companies.	Communication "A" 6723, published on 27.06.2019, containing the agreed rectification.	

Source: BCRA.

² Annex 7 of the BCBS-Capital report for Argentina, www.bis.org/bcbs/publ/d382.pdf

Annex 3: RCAP sample of banks

RCAP sample banks		Table A.2
Banking group	Share of banks' assets in the total assets of the Argentinian banking system (per cent)	
Banco de la Nación Argentina	21.56%	
Banco de Galicia y Buenos Aires S.A.U.	9.79%	
Banco Santander Río S.A.	9.10%	
BBVA Banco Francés S.A.	6.34%	
Banco Macro S.A.	6.06%	
HSBC Bank Argentina S.A.	4.11%	
Industrial and Commercial Bank of China (Argentina) S.A.	3.47%	
Total	60.43%	

Source: BCRA. For this purpose, banking assets are based on the measure of total exposures used in the leverage ratio, which includes both on- and off-balance sheet exposures.

Annex 4: Rectifications made by the BCRA

List of rectifications by the BCRA

Table A.3

Basel paragraphs	Reference in Argentina regulations	Description of the rectification
10.11 and 12	Communication "A" 6723, Consolidated text on "Large Exposures to Credit Risk" – Section 6	Argentina's large exposures framework did not initially apply at every tier within a banking group to the extent that companies that held ownership of a bank (hereafter termed Bank Holding Companies or BHCs) were not included in the scope of application. A similar deviation was a finding of the 2016 assessment of the Basel III risk-based capital regulations. This issue has been addressed by the BCRA through the issuance of a new regulation (Communication "A" 6723), which explicitly requires that regulatory requirements (large exposures, but also capital and liquidity ratios) be determined on a fully consolidated basis that includes BHCs and all subsidiaries that have activities of a financial nature (except insurance). This rectification applies to all banks and banking groups that are part of Group A, including therefore both the two existing BHCs and any of the other banks belonging to this group should they become owned through a BHC. Group A banks are those that have to comply with Basel standards. In addition, the new regulation explicitly prohibits these banks from granting – directly or indirectly – any kind of financial assistance to their parent if it is a "holding company" and not a financial institution.

Source: BCRA.

Annex 5: Areas where Argentinian rules are stricter than the Basel standards

- a) While the Basel LEX standard applies to all internationally active banks, BCRA regulation applies to all banks in Argentina.
- b) The introduction of a stricter general limit of 15% of Tier 1 capital (instead of 25% for exposures to the private sector, whether corporate or retail). The limit can be expanded to 25%, provided that the exposure in excess of 15% is protected with risk mitigants as defined by the national regulation on acceptable guarantees.
- c) The introduction of specific sets of limits applying to counterparties related to the financial institutions if there is direct or indirect control. In addition, exposures to persons that are directly or indirectly related through personal or occupational ties to the financial institution (such as members of the Board, senior managers and relatives) are limited to between 0 and 5% of Tier 1 capital. In both cases, the limits vary according to the rating assigned by SEFyC to the lending institution. Moreover, the sum of all exposures to related counterparties cannot exceed 20% of Tier 1 capital.