

# ANNEX – Republic of Argentina

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## A. Overview of the Banking Sector

### Institutional and legal framework

1. The Central Bank of Argentina (BCRA) is the financial regulator, the supervisor, and the resolution authority for financial institutions. In its role as a central bank, it performs all the functions inherent to a monetary authority, pursuant to its Charter and the Law on Financial Institutions. The BCRA supervises all financial and foreign exchange activities through the Superintendence of Financial and Exchange Institutions (SEFyC) that reports directly to the Governor of the Bank.
2. The allocation of the mandates, jurisdictions, functions, and powers of the Central Bank are set forth in its Charter (approved by Law No. 24,144), and the Law on Financial Institutions (Law No. 21,526).
3. The BCRA's Board is empowered, among other things, to authorise the opening of new financial or foreign exchange institutions, and of subsidiaries or branches of foreign financial institutions (Central Bank's Charter, Section 14).
4. Additionally, the Law on Financial Institutions establishes that the institutions falling under its scope shall not start doing business without being licensed by the BCRA. The merger or transfer of a going concern shall also be subject to the Central Bank's prior authorisation (Law on Financial Institutions, Section 7).
5. Broadly speaking, the financial legal framework is binding and enforceable on all types of institutions falling under the scope of the Central Bank.
6. The Law on Financial Institutions applies to all financial institutions, as well as to local branches of foreign financial institutions located in Argentina.
7. However, as stipulated under the Law on Financial Institutions, Section 4, the BCRA shall lay down any necessary regulatory rules for the enforcement of such law through different regulations and requirements in terms of the type and legal nature of institutions, the amount and location of their branches, their operational size and the socioeconomic context of their customers. In particular, the Central Bank shall issue specific rules for credit unions.
8. Before granting a license to an applying institution, the Central Bank shall assess the suitability and features of the project; the general and particular market conditions; and the applicants' background, creditworthiness, and experience in the financial industry (Law on Financial Institutions, Section 8). The BCRA implements and applies, through the SEFyC, the Law on Financial Institutions and its regulatory rules to all such institutions falling under the scope of said law.

9. While the Law on Financial Institutions also applies to investment banks, non-bank investment institutions are subject to the National Securities Commission's (CNV) prudential regulations. The Law on Financial Institutions classifies institutions by i) source and ownership of capital, and ii) services rendered.

10. In the first case, institutions are grouped as follows:

- a. Public institutions.
- b. Partially state-owned institutions.
- c. Private institutions. In turn, they may be segmented into domestic or foreign institutions; or branches of foreign institutions.

11. In the second case, institutions are classified as follows:

- a. Commercial banks;
- b. Investment banks;
- c. Mortgage banks;
- d. Financial companies;
- e. Savings and loan associations; and
- f. Credit unions.

### **Overview of the Argentina's financial system**

12. One characteristic of the Argentine financial sector is its relative low depth and the fact that it is mainly bank-based. The total assets of financial entities and the main institutional investors represent roughly 50% of GDP, while the total assets of banks account for nearly 30% of GDP as of November 2017. Private sector deposits represent 16% of GDP.

13. There are currently 77 active financial entities under the central bank supervision and regulation, according to local laws:

- 13 state-owned banks that represent almost 39% of total financial system assets, 32% of total loans to the private sector and 35% of private sector deposits;
- 33 domestic private capital banks that reach 30% of total assets, 33% of total loans to the private sector and 32% of private sector deposits;
- 16 foreign private banks (7 branches and 9 subsidiaries of foreign banks), which manage 30% of total assets, 32% of total loans to the private sector and 33% of private sector deposits; more than half of assets of these banks are from Spanish investors, 13% from Brazil, 11.7% from United Kingdom, 10.6% from China and 8.2% from the USA.
- 15 non-banking financial institutions (5 of local capital and 9 foreign, and there is one domestic credit union), holding a small share of the total assets and liabilities.

14. The main business of state-owned and private banks (local and foreign) is quite similar, i.e. provision of credit to households and SMEs, albeit state-owned banks show a slightly lower share of private sector credit to assets ratio and a higher share of public sector deposits in total funding.

## Structure and performance of the Argentine banking sector

### Solvency and liquidity ratios

15. As of November 2017, the regulatory capital ratio of the financial system reached 16% of risk weighted assets (RWAs) (up 2.7% compared to 2015 year-end), with all groups of banks showing high solvency levels. Almost 14.6% of the capital ratio corresponded to Common Equity Tier 1 capital. The Basel III leverage ratio (Tier 1 capital relative to total exposures) stood at around 10.4% as of September 2017 for the biggest domestic banks.

**Table 1 - Solvency ratios of Argentinian banks - November 2017**

Group of entities	In % of risk weighted assets			Excess of capital in % of requirements
	Total	Regulatory capital tier 1	Regulatory capital tier 2 and compliance franchise	
State owned banks	17.7%	16.9%	0.8%	89.0%
Domestic private banks	16.2%	13.8%	2.4%	96.6%
Cooperatives	12.5%	11.8%	0.7%	52.9%
Foreign private banks	14.3%	13.0%	1.3%	74.0%
Branches	28.8%	28.4%	0.4%	241.0%
Subsidiaries	12.7%	11.3%	1.4%	55.0%
Non-Bank Financial Entities	14.1%	13.0%	1.1%	71.7%
Domestic	16.2%	15.1%	1.0%	95.6%
Credit unions	31.7%	30.9%	0.8%	269.4%
Foreign private banks	13.4%	12.3%	1.1%	63.9%
<b>Financial system</b>	<b>16.0%</b>	<b>14.6%</b>	<b>1.5%</b>	<b>86.1%</b>

16. The stock of liquid assets (defined in a broad sense, including local and foreign currency assets as well as holdings of bills and notes issued by the BCRA) reached 41% of deposits as of November 2017, and 45% of liabilities with a term shorter than one month as of September 2017. The holdings of BCRA bills and repos with the BCRA accounted for 39% of total liquid assets, followed by cash and cash equivalents in pesos – mainly the stock of sight deposits at the BCRA – that accounted for 61%.

17. The Liquidity Coverage Ratio (LCR) for institutions that are subject to this ratio (accounting for 87% of financial system assets) reached 2.0 by September 2017, well above the 0.8 requirement.

### Profitability

18. High inflation levels have been an important source of profitability for the financial system, given the fact that banks have been able to obtain low-cost funds (at negative real rates) and channel those resources to higher-yield assets.

19. In the period January-November 2017 the return on assets of financial entities reached 3% annualized, decreasing by 0.7 percentage points year over year. The aggregate results of banks in terms of assets or net worth have declined in recent quarters. This performance mirrors a drop in margins, prompted in part by the decline in inflation.

### Systemic Risk

20. Systemic risk is relatively small given the banking sector's size, low-complexity products and interconnectedness among entities, relatively high solvency of D-SIBs and limited concentration of risk factors.

### NPLs

21. Non-performing loans to the private sector stood at 1.9% of total financing by November 2017, below the levels seen, on average, over the last twenty years; and also below levels in many emerging and developed economies

### Implementation of Basel III standards

22. Pillars 1 and 2 of the capital framework (Basel II as amended by Basel 2.5 and Basel III) came into force on 1 January 2013 and the Pillar 3 on 31 December 2013. Only the standardised approaches have been implemented (for credit; market; operational; and, counterparty credit risk).

23. Further improvements were introduced in July 2016 as a result of the RCAP findings and observations (Communications "A" 6004 and 6006). Since then, a suite of adjustments have been introduced: equity investments in funds (Communication "A" 6108), SA-CCR and requirements for CCPs (Communications "A" 6146 and 6147), eligible ECAIs (Communications "A" 6343 and 6344) and a treatment for other comprehensive income, due to the convergence of the BCRA accounting standards with IFRSs (Communications "A" 5541 and 6396).

24. The capital conservation, D-SIB and countercyclical buffers took effect on 1 January 2016. The rate of the CCyB has been set at 0% since April 2016 (Communication "A" 5938).

25. During the period 2014-2017, the Leverage Ratio was a reporting and disclosure requirement to migrate to a Pillar 1 treatment on 1 January 2018 (Communication "A" 6431).

26. The LCR entered into force in January 2015 (Communication “A” 5693) and the liquidity monitoring tools in March 2015 (Communication “A” 5733 and “A” 6107). The NSFR was published on 25 August 2017, to take effect in January 2018 (Communication “A” 6306).
27. The latest incorporations are the revised Interest Rate Risk principles and standardised framework (Communication “A” 6397, to take effect in July 2018) and the revisions to the securitisation framework (Communication “A” 6433, entered into force in March 2018).
28. The BCRA requirements apply to all financial institutions, whether state-owned (13 banks), domestic and foreign privately-owned (33 and 16 banks respectively) or non-bank financial institutions (15, as at January 2018). In the last two years, a more proportional approach was preferred in the case of certain Basel standards, though still applying the complete set of rules to a wider set of institutions than that required by the standard (i.e., internationally active banks).

## B. Detailed Assessment of Republic of Argentina

Country: Republic of Argentina		
Assessment of particular topics and sections		
Topic I	Supervisory Framework	Topic Assessment
		Largely Equivalent
<b>Rationale for overall topic assessment</b>	<p>The supervisory framework has been assessed as "largely equivalent" to the EU framework. The Basel III framework was introduced into the legislation in 2013. In 2015, the BCRA updated regulations to implement capital conservation and countercyclical buffers. The Central Bank of Argentina (BCRA) is the authority responsible for banks' prudential regulation and supervision. Clear provisions are in place establishing the independence, autonomy and supervisory rights and powers of BCRA. In particular, the BCRA is legally empowered to impose a set of administrative measures and penalties towards institutions including the right to withdraw the operating licence. The supervisory review process is risk-based and considered prudential, robust and proportionate to the scale and complexity of supervised institutions.</p> <p>While the Law on Financial Institutions is applicable to all institutions falling under its scope, it is limited to the supervision and regulation of deposit taking institutions and other financial institutions such as investment and mortgage banks, financial corporations, savings and loan associations. Thus investment firms falling under this would have a more limited license than that of a commercial bank. Non-Bank investment firms are subject to the rules and supervision of the National Securities Commission (CNV).</p>	
	<b>Section 1</b>	<b>Section Assessment</b>
	<b>General questions</b>	Equivalent
<b>Rationale for section assessment</b>	<p><b>Prudential supervision</b></p> <p>Supervisory activities in the financial sector are performed by the BCRA and by the National Securities Commission. The BCRA, as a central bank, performs all the tasks inherent to a monetary authority. In addition it has the powers and rights to issue regulatory rules and supervise institutions in its role as:</p> <ol style="list-style-type: none"> <li>Financial Regulator</li> <li>Supervisor</li> <li>Resolution Authority</li> </ol> <p><b>Prudential regulation</b></p> <p>The Argentine financial legal framework is legally binding and enforceable upon all types of institutions falling under the scope of the BCRA. The Charter of the BCRA vests power in the BCRA to regulate and operate the financial system and to enforce the Law on Financial Institutions. The legal framework provides the BCRA with powers regarding both micro-prudential and macro-prudential decisions within the scope of its regulatory perimeter.</p> <p>The BCRA's Board of Directors has the power to issue regulations associated with the BCRA's mandate and to perform supervisory duties such as license authorisation, exchange and revocation. The BCRA also supervises all financial and foreign exchange activities through the Superintendence of Financial and Exchange Institutions (SEFyC)</p> <p>The Supervisory Powers of the SEFyC includes, among other duties:</p> <ul style="list-style-type: none"> <li>- Implementing and applying regulations of the Law on Financial Institutions</li> <li>- Approving of regularization and recovery plans</li> <li>- Financial institutions ratings</li> </ul>	

		<p>- License revocation for foreign exchange institutions</p> <p>- Establishing requirements for auditors of financial and exchange institutions</p> <p><b>Recent developments</b></p> <p>As part of its new regulation process, there is cooperation required by various departments of the BCRA which facilitates information gathering and impact analysis of financial regulations.</p>
	<b>Section 2</b>	<p><b>Competencies of supervisory authorities</b></p> <p style="text-align: right;">Section Assessment</p> <p style="text-align: center; background-color: #00b050; color: white;">Equivalent</p>
	<b>Rationale for section assessment</b>	<p><b>Supervisory rights and powers</b></p> <p>The BCRA is the financial regulator; the supervisor; and the resolution authority, with clear provisions on functions and powers established in its Charter. The Superintendence of Financial and Exchange Institutions (SEFyC) is in charge of the supervisory functions and reports directly to the Governor of the Bank.</p> <p>Supervision functions include, oversight, sanctions and regularization and stabilisation powers.</p> <p><b>Licensing of credit institutions</b></p> <p>The BCRA's board has the power to issue and revoke banking licenses of new financial or foreign exchange institutions and of subsidiaries or branched of foreign financial institutions. Moreover, the authorisation process sets out several clear requirements and conditions for granting and withdrawing the license. Financial institutions cannot start any business or activity before it has been granted by the Central Bank. The provisions for the authorisation of credit institutions has similar features to those of the CRD. These include initial minimum capital requirements; suitability of largest shareholders, location of headquarters, information on operations and activities, structural organisation as well as license revocation procedures similar to those of the CRD.</p> <p><b>Fit and Proper</b></p> <p>Overall the fit and proper regime is on a par with that of the EU. The legal basis for authorisation and fit and proper assessments is enshrined in the law. All institutions are subject to the rules on corporate governance, which must be implemented taking into account proportionality criteria on size, complexity, economic relevance and risk profile. There are some slight divergences in that time commitment is not subscribed in the legislation nor any limitation of the number of simultaneous directorships, however one of the aspects which the BCRA takes into account when making a fit and proper assessment, in line with the Guideline on Corporate Governance, is whether members of the management or supervisory bodies may commit sufficient time to perform their duties for the entire period they hold such a position.</p> <p><b>Qualifying shareholder participations</b></p> <p>There are requirements in place for the suitability of shareholders. The criteria used for assessing shareholders are the same as those established under CRD. At least 25% of shareholders must have had previous financial experience with competence and experience demonstrated through proof of holding similar roles or proof of ownership. Significant interest in a bank is forbidden in cases where the person is a beneficial owner of business relating to the gambling sector or whose main income is dependent upon public contracts. The BCRA has several Memoranda of Understanding in place with different third country supervisory authorities to share information about natural and legal persons who wish to hold interest in the capital stock of financial institutions located in Argentina.</p>

	<b>Section 3</b>	<b>Prudential Supervision</b>	<b>Section Assessment</b>
			<b>Largely Equivalent</b>
	<b>Rationale for section assessment</b>	<p><b>Supervisory scope</b></p> <p>The BCRA supervision is exercised at both the consolidated level and at the level of the individual institution. The types of institutions within scope include deposit taking institutions as well as other financial entities that are involved in activities ancillary to banking. Holding companies are not subject to the Banking law unless they are banks themselves.</p> <p><b>Supervisory powers</b></p> <p>The Superintendent is responsible for:</p> <ul style="list-style-type: none"> <li>• rating financial institutions in compliance with the Law on Financial Institutions,</li> <li>• revoking any license granted for carrying out foreign exchange transactions,</li> <li>• approving regularization and/or recovery plans of financial institutions,</li> <li>• implementing and applying the regulations of the Law on Financial Institutions adopted by the Board of the Bank, and</li> <li>• establishing requirements for auditors of financial and foreign exchange institutions,</li> </ul> <p>External auditors are obliged to issue a report on financial statements on a yearly basis as well as a limited quarterly review. In addition, the external auditors must assess rules on compliance with the BCRA rules on AML, terrorist financing, monetary regulations and minimum capital requirements. In the EU the supervisor may request the auditors to perform different kind of collaborations, including the specific tasks that go beyond the standard audit report. Argentina’s regulations on external audits are under review in order to oblige external auditors to immediately inform the financial institution and the Central Bank of Argentina (BCRA) about any material issues in advance of the required periods for submitting reporting regimes</p> <p>The BCRA is legally empowered to issue sanctions. Penalties apply to both natural and legal persons. The penalties imposed are similar to those envisaged in Articles 66-67 CRR. The law also grants the BCRA the power to regulate the application of fines, taking into account some aspects, such as the significance of the breach, damage to third parties, benefit for the offender, volume operated by the offender and regulatory capital of the institution. SEFyC regularly oversees compliance with the minimum regulations on external audits by external auditors. They may be called to appear before the Central Bank on a given date and time for them to submit working papers in support of their reports, and to provide any necessary information or clarification along with an assessment on specific transactions.</p>	
	<b>Section 4</b>	<b>Supervisory Review Process</b>	<b>Section Assessment</b>
			<b>Equivalent</b>
	<b>Rationale for section assessment</b>	<p><b>ICAAP</b></p> <p>Banks operating in Argentina are obliged to carry out an Internal Capital Adequacy Assessment Process (ICAAP) on a yearly basis. The ICAAP should assess the adequacy of their economic capital, with the level of capital determined according to the risk profile, adequacy of risk management and internal controls, as well as taking into account economic cycles and current economic scenarios.</p> <p><b>Governance</b></p> <p>There are provisions in place in the Argentine legislation covering governance arrangements, including clear organisation structures; consistent lines of responsibility, effective processes to identify, manage and monitor and report risks, adequate internal control mechanisms, and remuneration practices.</p> <p>Institutions must have risk practices approved by the board of Directors. Moreover institutions are required to have one or more units responsible for the identification, assessment, monitoring and</p>	



		<p>control and mitigation of risks, e.g. an independent Risk Management Department / function depending on the size and economic importance of each institution.</p> <p>While there is no legislative cap on bonuses in Argentina, the BCRA maintains oversight practices with regard to remuneration practices. In 2011 the BCRA incorporated remuneration practices into the Consolidated Text on Corporate Governance. This is evaluated during comprehensive on-site inspections for all banks, in particular for Group A banks (institutions that have 1% or more of the financial system deposits).</p> <p><b>SREP</b></p> <p>The BCRA has been applying a risk-based methodology since 2000. The supervisory process is a continuous cycle of supervision, combining on-site comprehensive examinations with off-site follow-ups during the period between inspections. The BCRA conduct a CAMELBIG (Capital, Assets, Market, Profitability, Liquidity, Business, Internal Controls and Management) assessment. Stemming from this assessment, ratings are assigned to each institution which can result in an increase in Pillar 1 capital requirements. Coupled with this the BCRA uses a Supervisory Risk Matrix which reflects a more granular classification of risks. This is updated every month.</p> <p><b>Supervisory powers to levy higher capital/liquidity requirements</b></p> <p>There are a wide range of supervisory powers at the BCRA’s disposal. The legislation empowers the BCRA to establish liquidity and solvency ratios. In addition to the Pillar 1 charges described above the supervisory measures also includes requiring institutions to adopt corrective measures including strengthening supervision, restraining payments of dividend, preparing plans to restore capital adequacy and requiring additional paid in capital.</p> <p>Moreover the Superintendent has the power to order institutions to discontinue or refrain from implementing lending or financial aid policies that can jeopardise their solvency.</p> <p>There are specific liquidity requirements contained in the Consolidated Text on Minimum Cash Requirements. In addition there are rules on non-compliance with minimum capital requirements, risk management and dividend distributions, describing that distributions should not affect the solvency or liquidity of an institution.</p> <p><b>Supervisory review of internal models</b></p> <p>There is no supervisory review of internal models in Argentina as this jurisdiction has adopted only the standardised approach.</p>
<b>Section 5</b>	<b>Professional Secrecy and International Cooperation</b>	<p style="text-align: center;">Section Assessment</p> <p style="text-align: center; background-color: yellow;"><b>Largely Equivalent</b></p>
<b>Rationale for section assessment</b>	<b>Professional secrecy</b>	<p>The Code of Ethics of BCRA assigns the duty of confidentiality to employees on an express basis, emphasising that such duty shall survive the termination of the labour relation. It is applicable to all employees, regardless of their rank, position, and type of labour contract—either for a fixed term or an indefinite period. Therefore, employees shall maintain secrecy about any confidential information to which they have access during the course of their work, even after ceasing to hold their positions.</p> <p>BCRA supervisory activities have never been delegated to any external auditor or expert. However, the Law on Financial Institutions expressly provides for the duty of confidentiality for all personnel of the external audit firms that the supervisory authority may outsource to perform auditing functions. The duty of confidentiality shall remain in effect even after the auditor no longer works for the audit firm and/or the financial institution.</p>

		<p>The BCRA's Internal Rule No. 5160 protects confidentiality of the information provided by and agreements entered into with foreign supervisory authorities in relation to information required by Courts and other organisations. There is no detailed list of duties for which the BCRA can use the confidential information, nor a list of authorities or bodies that can use the confidential information obtained by the BCRA in the course of their duties. However, specific agreements have been signed to share information between the BCRA and the Superintendence of Insurance, and also with the National Securities Commission; in both cases observing the obligation to maintain the confidentiality of the information shared. Moreover, and most importantly, BCRA has recently introduced an "express consent provision", so that it is binding to inform to the relevant foreign supervisory authority not only the scope of the requirement of information but also to ask for the prior consent to the foreign authorities before disclosing the confidential information.</p> <p>Failure to respect the confidentiality obligations will lead to pertinent administrative and disciplinary sanctions, in the form of caution, warning, suspension or dismissal with just cause.</p> <p><b>International cooperation</b></p> <p>The BCRA is member of the Basel Committee on Banking Supervision (BCBS). The BCRA adheres to BCBS's Core Principles for Effective Banking Supervision as to the execution of MoUs with other banking supervisors. To this extent, the BCRA has entered into MoUs with a number of EU (e.g. Bank of Spain, Bank of Italy) and non-EU (e.g. Central Bank of Brazil, the Federal Reserve System, Superintendence of Chile, Central Bank of Uruguay) authorities. Generally, these MoUs involve the agreement of supervisory authorities of home and host countries to share information, and detail the level of interaction among them, as well as guidelines to carry out on-site inspections of branches and subsidiaries. These MoUs also contain provisions requiring the consent of foreign authorities before providing information to other national or foreign authorities and require the obligation of professional secrecy by all employees receiving confidential information.</p>
<b>Topic II</b>	<b>Own Funds</b>	<b>Topic Assessment</b>
		Largely Equivalent
<b>Rationale for overall topic assessment</b>	There is a large degree of similarity between the EU and Argentine regimes. However, the inclusion of non-capitalised shares into own funds, albeit for a fraction of the financial system, deems the assessment as largely equivalent.	
	<b>Section 6</b>	<b>Section Assessment</b>
		Largely Equivalent
<b>Rationale for section assessment</b>	<p><b>Own funds requirements</b></p> <p>The own funds requirements are structured as follows:</p> <ul style="list-style-type: none"> <li>• 4.5% CET1</li> <li>• 6% T1</li> <li>• 8% Total Capital</li> </ul> <p>In terms of the eligibility criteria for CET 1 all the treatment is similar to the CRR, however the Argentinian framework allows for the recognition of an additional component in the form of non-capitalised shares, which demonstrate a difference to the EU regime. Nonetheless, there is only a limited market for these types of shares that represents an immaterial fraction of the financial system (0.1%).</p> <p><b>Adjustments and deductions</b></p> <p>The provisions in relation to deductions closely match those of the CRR. However there are no deductions for pension obligations, as there are no defined pension assets in the jurisdiction.</p>	

		<p><b>Other provisions</b></p> <p>The treatment for AT1 and T2 instruments are similar to those contained in the CRR. AT1 instruments have been implemented into law and the with eligibility criteria and deductions, consistent with that of the CRR, similarly the trigger of 5.125% is also applied in Argentina The Tier 2 items and criteria are analogous to the provisions of the CRR.</p> <p>Minority interests are treated similarly to the CRR.</p>	
	<b>Section 7</b>	General requirements	Section Assessment Equivalent
	<b>Rationale for section assessment</b>	<p>Own funds requirements cover credit, market and operational risk.</p> <p>The provisions on reporting are similar to those applied in the CRR</p>	
<b>Topic III</b>		<b>Credit Risk Requirements</b>	Topic Assessment Equivalent
<b>Rationale for overall topic assessment</b>	<p>Argentina’s regulations on credit risk, credit risk mitigation and securitisation are considered “Equivalent” to the EU framework. On the back of a very simple banking sector, the only approach allowed by BCRA is the Standardised one, which is implemented in a very similar way as in the EU. There are some differences in the risk-weights adopted, but they are tilted towards a more conservative direction, while some other difference from the qualitative point of view and can be considered to be addressed by the BCRA current practice. Notably, credit risk mitigation is an area of super-equivalence, due to the narrower list of eligible collaterals, guarantees and eligible guarantors. The framework on securitization can also be considered super-equivalent because risk weighted assets under Argentina’s rules are higher than under CRR, while the absence of a fixed percentage of risk retention makes the framework for transferred credit risk largely equivalent. Taking into account the areas of equivalence, of super-equivalence and of large equivalence, the framework can be considered overall “equivalent”.</p>		
	<b>Section 8</b>	Capital requirements for credit risk	Section Assessment Equivalent
	<b>Rationale for section assessment</b>	<p><b>Regulatory framework for credit risk – Standardised approach</b></p> <p>The consolidated text on Minimum capital requirements implements <u>only the Standardised Approach</u> for credit risk in its sections 2, 3, 4 and 5. The IRB Approach is not implemented in Argentina.</p> <p>Exposures to obligors (on and off-balance) are classified into the same exposure classes of the CRR (sovereigns, PSEs, MDBs, banks, corporates, retails, residential, commercial real estate, past due loans, higher-risk classes and others). In the case of sovereigns, PSEs, MDBs and banks also on the basis of the obligor’s ability to meet its obligations, as evidenced by their CRA ratings. External credit ratings provide only a floor for RWs, since financial institutions are not exempted from carrying out their due diligence.</p> <p>Off-balance sheet transactions—including commitments to finance and correspondent credit lines to foreign banks, guarantees provided, endorsements of deferred payment checks, documentary credits and acceptances, securities rediscounted with other banks and other credit arrangements— are converted into credit equivalents through the use of credit conversion factors (CCFs), which are aligned o those in the CRR.</p> <p>Most of the risk weights for each class of exposure are also identical to the ones envisaged in the CRR, with some exceptions, where the treatment is notably more conservative:</p> <ul style="list-style-type: none"> <li>- <u>Public Sector Entities</u>: No reduced risk-weights for original maturity less than 3m</li> <li>- <u>Institutions</u>: No reduced risk-weights for residual maturities less than 3m</li> </ul>	

		<ul style="list-style-type: none"> <li>- <u>Retail</u>: To be eligible for 75% risk weight, exposures to individuals must be lower than €28500 and the debt/income ratio cannot exceed 30%, while the limit for SME exposures is around €400.000 (at current exchange rates). This is more conservative than in CRR, as <ul style="list-style-type: none"> <li>i) there are limits for exposures to individuals (not present in CRR)</li> <li>ii) the limit for SME exposures (except for livestock sector) is lower</li> <li>iii) there is a limit on debt/income ratio</li> </ul> </li> <li>- <u>Mortgage on residential properties</u>: More prudential values for LTV on residential property (75% v. 80% in CRR) and on residential property not occupied by the owner (35% vs. 50% in CRR)</li> </ul> <p>There are also some qualitative differences, which at face value could be seen as less conservative, even though the explanation provided by BCRA showed that these gaps are actually closed in practice:</p> <ul style="list-style-type: none"> <li>- No explicit conditions on <u>cross-dependence</u> between the value of the property and the credit quality of the borrower, like Art. 125(2) of CRR. The BCRA explained that such conditions are not in place formally, but it is observed in practice when granting a mortgage; moreover, the size of the exposures secured to residential property is relatively small.</li> <li>- <u>The definition of default</u> only refers to exposures that are 90-days past due. Exposures whose obligor is considered unlikely to pay are not directly stated in Argentina's regulations. However, both 90-day past due loans and debtors in a weak financial situation are exposures that receive a 150% RW. Debtors in a weak financial situation are classified as exposures whose obligor is unlikely to pay, and are treated as exposures that are 90-days past due (i.e. in default)</li> <li>- <u>Loans to public employees</u> are weighted at 0% if the instalments are &lt;30% of income. However, this class of exposure could be considered as an exposure to the central government as instalments are deducted automatically from wage/pension (i.e. direct transfer from government to lender). Moreover, the relevance of this category is quite negligible, as it amounts to 0.3% of total banks' exposures.</li> </ul>	
	<b>Section 9</b>	Credit Risk Mitigation	Section Assessment
			Super-Equivalent
	<b>Rationale for section assessment</b>	<p>Overall, the framework for credit risk mitigation can be considered super-equivalent, i.e. it is more prudential than the one currently in place in the EU, for the following reasons:</p> <ul style="list-style-type: none"> <li>- <u>Eligibility of collateral</u>: the list of eligible financial instruments for CRM is narrower than the one envisaged in the CRR, as it is restricted to those issued in pesos by the non-financial public sector and by the BCRA. CIU are admissible as long as they invest in eligible instruments. Life insurance, physical collateral, receivables and equities are not admitted as eligible collateral (equities are admitted only in the comprehensive approach).</li> <li>- <u>Eligible guarantors</u>: the list of eligible guarantors in Art. 5.3.4 is narrower than the ones in Art.201 and 214 CRR since there are only domestic institutions, there are no corporates and no central counterparties</li> <li>- <u>Estimation of H (volatility coefficient)</u>: own estimations are not admitted</li> </ul> <p>Banks must have adequate collateral management policies in place to control, monitor and report a number of issues of the collateral posted by borrowers. The same formulae are also applied for MNAs, currency and maturity mismatches, and for comprehensive (exposure reducing) approach.</p>	
	<b>Section 10</b>	Securitisation	Section Assessment
			Super-Equivalent
	<b>Rationale for section assessment</b>	<p>Argentina's regulation on securitisation includes the same definitions for securitisations as set out in the CRR. The provisions on structural features (liquidity facility, clean up call options and credit enhancement, and early amortisation) are aligned with the CRR. A more conservative approach was</p>	

		<p>observed on the treatment of excess spread where Argentinean regulation does not include the concept but instead opts for the highest CCFs for uncommitted retail credit lines.</p> <p>STS (“Simple, Transparent, and Standardised”) securitisations are recognised in the Law. This includes the requirement for originator/sponsor retention of material net economic exposure but they have not established a specific percentage.</p> <p>Risk weighted assets under Argentina’s rules go beyond CRR. The supervisory approach for securitisation exposures renders only three outcomes: i) the “look-through” for the (unrated) most senior exposures and when the underlying pool of exposures is known at all times, ii) the higher between 100% and the underlying RW for the second loss position in ABCP programmes, and iii) 1250% for other positions. The use of CRM techniques (including treatment for proportional cover, tranching protection, maturity mismatches) is stricter than the rules under the CRR.</p> <p>Their framework includes a cap for regulatory capital of securitisation exposures for originators and there are floors for resecuritisations, which are aligned with the treatment under the CRR. The originator/trustee must disclose to investors all necessary information at the transaction level.</p> <p>Given the alignment with the CRR and some provisions that are even more conservative, mainly those related to risk weights, the Argentine law on securitisation is super equivalent to the CRR.</p>				
	<b>Section 15</b>	<table border="1"> <tr> <td>Exposure to transferred credit risk</td> <td>Section Assessment</td> </tr> <tr> <td></td> <td>Largely Equivalent</td> </tr> </table>	Exposure to transferred credit risk	Section Assessment		Largely Equivalent
Exposure to transferred credit risk	Section Assessment					
	Largely Equivalent					
	<b>Rationale for section assessment</b>	<p>Significant credit risk transfer is granted on the basis of a transaction-by-transaction assessment under Argentine framework. Originator may exclude underlying exposures from capital requirements and may apply securitisation framework only if conditions (operational requirements) are met. The conditions established in Argentina’s legislation are aligned with the treatment under the CRR.</p> <p>There is not a fixed percentage of risk retention established. However, the originator/trustee must disclose to investors all necessary information at the transaction level. If the information is unavailable or there is a failure to meet due diligence requirement, then 1250% RW shall be applied.</p> <p>The Argentine framework on credit risk transfer is largely equivalent to the CRR.</p>				
<b>Topic IV</b>	<b>Market Risk</b>	<table border="1"> <tr> <td></td> <td>Topic Assessment</td> </tr> <tr> <td></td> <td>Largely Equivalent</td> </tr> </table>		Topic Assessment		Largely Equivalent
	Topic Assessment					
	Largely Equivalent					
<b>Rationale for overall topic assessment</b>		<p>Argentina’s capital adequacy regulation takes into account both the counterparty credit risk and most risks under market risk. They have provisions in place also for settlement risk and CVA risk but not for commodities risk. The Argentine framework does not allow for internal models for any risk type.</p> <p>In general, the legal provisions are based on the same ideas and principles (building block approach) as the CRR provisions for these types of risks and their regulation is identical to the CRR; however they do not have any capital requirements for commodities risk. Argentina has implemented the Basel Committee’s recent changes to the counterparty credit risk and CVA risk frameworks (except for internal models), which are already considered in the CRR.</p> <p>Market risk and counterparty credit risk regulations are largely equivalent to the CRR.</p>				
	<b>Section 11</b>	<table border="1"> <tr> <td>Counterparty Credit Risk</td> <td>Section Assessment</td> </tr> <tr> <td></td> <td>Equivalent</td> </tr> </table>	Counterparty Credit Risk	Section Assessment		Equivalent
Counterparty Credit Risk	Section Assessment					
	Equivalent					
	<b>Rationale for section assessment</b>	<p>In general, Argentina’s rules for the treatment of counterparty credit risk (CCR) are aligned with the respective rules of the CRR. Two of the CCR models that are in the Basel standards, Current Exposure Method (CEM) and Standardised Method, have been implemented in Argentine regulation; but not internal model method (IMM). As a minor finding, it should be mentioned that the Argentine framework does not include the Original Exposure Method (OEM) that is only permitted for institutions with small trading book businesses under CRR and is not part of the Basel framework.</p>				

		<p>The CCR framework in Argentina is identical to the CRR in terms of scope and definitions. Both CCR methods eligible to calculate own funds requirements are identical to the CRR with regard to the calculation methodology. Some non-material differences were observed, for example CCR in Securities Financing Transactions (SFTs) can be calculated using only Credit Risk Mitigation (CRM) under Standardised Approach for credit risk because the internal model method is not allowed.</p> <p>The Argentine framework allows for bilateral netting agreements but there was no law on contractual “cross-product” netting agreements at the time of the assessment. The changes to the relevant law were in Parliament and expected to be adopted soon.</p> <p>The Argentine regulation on CCR is considered equivalent to the CRR. BCRA does not consider counterparty credit risk relevant in Argentina due to its small proportion under capital requirements.</p>	
	<b>Section 13</b>	Own funds requirement for market risk, settlement risk and CVA risk	Section Assessment
			Largely Equivalent
	<b>Rationale for section assessment</b>	<p>Argentina has a trading book concept in place, which is similar to CRR’s trading book concept with regard to the instruments assigned to it, the requirements for its management and principles of prudent valuation. Their framework does not have any derogation for the small trading book.</p> <p>Argentina's market risk provisions are based on a building block approach taking account of position risk for trading book activities, foreign exchange risk and risk of options for all business activities. Regarding the approaches to calculate own funds requirements, Argentina’s regulation allows only for the application of the standardised approach (SA) and not internal models (IM). The calculation of capital requirements are, however, identical to the CRR. Own fund requirements for general market risk can be calculated using the maturity method only; the duration method has not been implemented. The Argentine regulation does not include OF specific requirements to cover commodities risk because the positions are insignificant and the OTC market is minimal.</p> <p>The calculations for the settlement risk includes a different factor of 8% in period from 5 to 15 working days after due settlement date and 1250% for free delivery exposures until the extension of the contract – these are identical with the CRR provisions.</p> <p>Argentina’s capital adequacy regulation imposes an own funds requirement for CVA risk but only a standardised method with simplified risk weights has been introduced in their framework. Unlike the CRR, Argentina’s framework does not allow for exemptions for certain counterparties.</p> <p>Considering the fact that Argentina’s regulation on own funds requirements for market and related risks is based on the same principles and calculations as the CRR market risk rules but does not include any capital requirements for commodities risk, the provisions are considered largely equivalent to those of the CRR.</p>	
<b>Topic V</b>	<b>Operational Risk</b>	Topic Assessment	
		Largely Equivalent	
<b>Rationale for overall topic assessment</b>	<p>The Argentine framework for operational risk can be assessed as "largely equivalent" to the EU one. In general, the regulations are driven by the same principles and follow the same direction but the framework differs from the European regulation significantly by providing only one approach (Basic Indicator Approach=BIA) to determining the OpRisk capital requirement. Nevertheless, the regulation is adequate for the size and complexity of the Argentinian market and banks. Furthermore, due to the high inflation environment, which increases the P&amp;L-based indicator, the share of operational risk capital requirements is higher than the global average and could be assessed as conservative (about 18% of own funds requirement are dedicated to cover OpRisk). The assessment of conservative capital levels is valid for all Group A Banks. For some group-B banks the Pillar I capital requirement can be capped by 7, 11 or 17% of the credit risk exposure based on the qualitative CAMELBIG assessment. A</p>		

		cap based on a different risk exposure class (credit risk) is not reasonable but because of the prior qualitative assessment and the general risk sensitivity weaknesses of the BIA is acceptable.	
	<b>Section 12</b>	Operational Risk	Section Assessment
			Largely Equivalent
	<b>Rationale for section assessment</b>	<p><b>Definition</b></p> <p>Operational risk is defined in the Argentine legislation as the risk of losses resulting from inadequate or faulty internal processes, staff performance or systems, or those that are the result of external events. The scope of operational risk includes legal risk and excludes strategic and reputational risks.</p> <p><b>Regulation</b></p> <p>According to Argentine law, a bank can only calculate the capital requirement for operational risk by using the simplest available approach of the Basel Framework - the Basic Indicator Approach (BIA). The indicator will be calculated as the three-year average of the P&amp;L based “gross income” (GI) multiplied by 15%.</p> <p>For Group-B Banks the OpRisk own funds requirement may be capped at a certain level of the credit risk exposure based on the CAMELBIG assessment of BCRA for each bank. The following caps are possible:</p> <ol style="list-style-type: none"> <li>1) Rating score 1 – 7% cap of credit risk exposure (max. 6.5 % share on total capital)</li> <li>2) Rating score 2 – 11% cap of credit risk exposure (max. 10 % share on total capital)</li> <li>3) Rating score 3 – 17% cap of credit risk exposure (max. 15 % share on total capital)</li> <li>4) Rating score 4 &amp; 5 – no cap possible.</li> </ol> <p>BCRA justifies the introduction of the cap for Group B banks by the conservative level of capital compared to the low exposed operational risk level for only in Argentina active and small banks.</p> <p>Instead of the non-Basel compliant cap solution, the Argentine regulator could have done to implement the Alternative standardised approach (ASA) but due to the increasing complexity (business lines necessary) and only slightly capital decreases by using the ASA BCRA refrained from doing that. The ASA coefficient from the Basel II framework of a standardised net interest margin of <math>m=0.035</math> was assessed as not adequate to address the high NIM issue.</p> <p>Finally and of note is the requirement that all Argentine banks have to deliver an annual report of their OpRisk losses of the past 12 months. Nevertheless, these data are still seen as less reliable.</p> <p><b>Supervision</b></p> <p>The BCRA has practical experience with the supervision of only one approach but BCRA has established a comprehensive supervisory practice with the emphasis on basic principles for the implementation of all elements of the supervisory process.</p> <p>Operational risk is an integral part of the SREP. At least every two years OpRisk is assessed during the comprehensive assessment and can lead to additional capital requirements (not directly communicated to banks). Furthermore, the CAMELBIG assessment (this is communicated to the banks) which comprises the quality of the management process can lead to direct Pillar I capital additions and for group B banks to the loss of the use of the cap.</p> <p>During their assessment process the gathered loss data play only a supplemental but not a major role due to the concerns in the reliability of the data. Nevertheless, for banks which use their internal losses for the OpRisk internal capital calculation, the comprehensiveness of data will be checked more carefully during the periodically on-site visits.</p>	



<b>Topic VI</b>	<b>Liquidity</b>	<b>Topic Assessment</b>	
		<b>Equivalent</b>	
<b>Rationale for section assessment</b>	<p>The framework for liquidity in Argentina can be assessed, on an outcomes based basis, as equivalent to the EU. While the LCR and NSFR frameworks are not applicable to Group B banks, the approach taken is proportional. Moreover a more conservative approach is taken towards the types of assets that can be included in the LCR and NSFR ratios.</p>		
<b>Section 16</b>	<b>Liquidity</b>	<b>Section Assessment</b>	
		<b>Equivalent</b>	
	<p>There is both a Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR) requirement in Argentine law. These requirements, however only extend to Group A banks with Group B banks subject to minimum cash requirements</p> <p><b>Short-term liquidity</b></p> <p>The LCR is currently phased in at 90%. While the requirements are treated similarly to the CRR there is a more conservative approach applied in this jurisdiction to High Quality Liquid Assets (HQLA) with only level 1 assets permitted for inclusion in the LCR.</p> <p>There is more stringent stress scenario prescribed in the BCRA’s LCR, Banks must have an adequate stock of unencumbered assets which can be monetized to meet their liquidity needs in a 30 calendar day liquidity stress scenario. Given the uncertain timing of outflows and inflows, banks are also expected to be aware of an potential mismatches within the 30 day period and to ensure that sufficient HQLA are available to meet any cash flow gaps throughout the period.</p> <p>The LCR requirement must be met at all times, and be reported to the SEFyC on a monthly basis. In times of stress the SEFyC may request a more frequent reporting.</p> <p><b>Long-term liquidity</b></p> <p>The NSFR is an established requirement in Argentina. It is a well-developed and prescriptive framework. It takes a conservative approach with only level 1 assets accepted for inclusion. The NSFR requires that long term (or short-term illiquid) assets be financed with stable resources i.e. capital and long-term liabilities (each weighted according to a function of their liquidity/maturity profile).</p> <p>Group A banks report their positions on a quarterly basis. The SEFyC may require an institution to adopt more stringent standards reflecting its funding risk profile.</p> <p><b>Minimum Cash Requirements (MCR)</b></p> <p>The MCR is an alternative approach for Group B banks. It is essential a different type of requirement than the LCR however it contains features which when they overlap with the LCR is more rigorous, i.e. 5% retail deposit outflow under the LCR v 20% under the MCR. It may be considered to be a proportionate backstop.</p>		
<b>Topic VII</b>	<b>Capital buffers and macroprudential tools</b>	<b>Topic Assessment</b>	
		<b>Largely Equivalent</b>	
<b>Rationale for overall topic assessment</b>	<p>The framework for capital buffers and macroprudential tools implemented in Argentina can be regarded as “largely equivalent” to the EU one. All the capital buffers applied in the EU regime are currently implemented and mandatory in Argentina, except for the systemic risk buffer, although BCRA may request financial institutions to hold capital in excess of the minimum requirements. In case a bank does not comply with the buffers’ requirement, it will be subject to payment restrictions and required to submit BCRA a suitable capital conservation plan.</p>		



		The BCRA, the Ministry of Treasury (MoT) and the Ministry of Finance (MoF) share responsibilities over macroprudential instruments available to control systemic risks, the detection of any increase in systemic risk and the decision making regarding adoption, implementation and enforcement of macroprudential policies. However, in practice only the BCRA has an explicit financial stability mandate and a broad range of tools for macroprudential purposes such as those connected with FX-exposure, regulations regarding exposures secured by mortgages, the use of internal approaches, liquidity requirements, the settlement of capital buffers.	
	<b>Section 18</b>	Capital Buffers	Section Assessment Largely Equivalent
	<b>Rationale for section assessment</b>	<p><b>Capital buffers</b></p> <p>Three capital buffers are currently implemented in Argentina:</p> <ul style="list-style-type: none"> <li>- Capital conservation buffer, set at 2.5%</li> <li>- Countercyclical capital buffer, currently set at 0%</li> <li>- Capital buffer for systemically important banks (D-SII)</li> </ul> <p>The D-SIB buffer framework follows the methodology suggested by the BCBS to identify the institutions that are required to hold it (size, interconnectedness substitutability and complexity). Local subsidiaries of global systemically important banks (G-SIBs) are also subject to this buffer. Currently, the D-SIB buffer is set at 1%.</p> <p>While no systemic risk buffer is envisaged in the Argentine framework, Section 14(d) of the Charter of the BCRA states that the Central Bank has the power to establish liquidity and solvency ratios for financial institutions, while Section 1.3.2 of the consolidated text on Guidelines of risk management states that the SEFyC may request financial institutions to hold capital in excess of the minimum requirements if so warranted.</p> <p>The buffers consist only of CET1 capital and cannot be used to maintain other capital adequacy ratios.</p> <p><b>Capital conservation measures-MDA</b></p> <p>When capital ratios fall below a threshold (P1+Combined Buffers), then the distribution of capital is restricted according to progressive percentages. However, the calculation of MDA is different from the one in CRD, as theoretically, it would imply a consumption of CET1 in the combined buffer.</p> <p>BCRA imposes P2 requirement as a scale-up of RWAs, which in turn feeds into the P1 requirement, which sits below the combined buffer. Therefore, MDA kicks in taking into account both P1, P2 and combined buffer.</p> <p>Capital conservation plan and timeframe established for banks submitting the “stabilization plan” in case of non-compliance with legal provisions seems to be longer in Argentina (in 30 days following the day the breach) than in CRD for the conservation buffer (5-maximum 10 days, art. 142 of CRD).</p>	
	<b>Section 19</b>	Macroprudential Tools	Section Assessment Equivalent
		<p><b>Macroprudential authority</b></p> <p>The BCRA has an explicit legal mandate to promote financial stability. As provided under Section 3 of its Charter, “the purpose of the Central Bank is to promote – within the framework of its powers and the policies set by the National Government – monetary stability, financial stability, [...]” The BCRA has also the statutory powers “to regulate the operation of the financial system and enforce the Law on Financial Institutions and such regulations as may be consequently adopted.” The legal framework provides the BCRA with powers to adopt both microprudential and macroprudential decisions within the scope of its regulatory perimeter.</p>	

		<p><b>Macroprudential framework</b></p> <p>The BCRA, the Ministry of Treasury (MoT) and the Ministry of Finance (MoF) share responsibilities over macroprudential instruments available to control systemic risks, the detection of any increase in systemic risk and the decision making regarding adoption, implementation and enforcement of macroprudential policies. However, in practice <u>only the BCRA has an explicit financial stability mandate and a broad range of tools for macroprudential purposes</u>. The MoT is responsible inter alia for designing, preparing and proposing the strategic guidelines for economic policy and development planning. The MoF is responsible for the design of policies to develop financial services and foster capital market transparency and consumer protection. In this regard, the MoF, through the Secretariat of Financial Services, plays a coordinating role between the National Securities Commission (CNV)</p> <p><b>Macroprudential tools</b></p> <p>In addition to capital buffers, BCRA actively implements a number of macroprudential tools</p> <ol style="list-style-type: none"> <li>1. Tools aimed at mitigating the build-up of foreign currency mismatches <ol style="list-style-type: none"> <li>a. <u>Limits on banks' currency mismatches</u>: This tool was implemented in 2003 to limit banks' exposure to exchange rate volatility. The maximum mismatch—Net Global Position (NGP) in foreign currency—is set currently at 30% of banks' regulatory capital. The NGP is the difference between total financial assets and total financial liabilities in foreign currency</li> <li>b. <u>Restrictions on banks' lending in foreign currency</u>: Building on the lessons of the 2001/2002 financial crisis - when debtors' currency mismatches proved to be an important source of vulnerability - since 2002 banks' foreign currency resources (deposits) can only be used to the provision of loans in the same currency to clients whose income are directly or indirectly linked to international trade.</li> </ol> </li> <li>2. Limits to exposures to the public sector: in order to avoid the feedback loop between sovereign debt and banks' balance sheets, total credit exposure to the public sector cannot exceed 35% of a financial institution's assets, on a monthly basis</li> <li>3. Cash reserve requirements: Cash reserve requirements are set for both local and foreign currency denominated liabilities. Requirements are calculated on the monthly weighted average of daily balances of sight and time deposits. Requirement ratios vary according to the currency and pending maturity of the liability, with foreign currency deposits being subject to a higher requirement</li> <li>4. Capital requirements on residential mortgages: To reduce the risk of real state bubbles and foster a prudent approach to lending, first mortgage loans on residential property whose loan-to-value ratio is below 75% are subject to a risk weight of 35%, compared to risk weights of 100% for mortgage loans whose loan-to-value ratio exceed 75%.</li> </ol>
<b>Topic VIII</b>	<b>Other regulatory requirements</b>	<p>Topic Assessment</p> <p style="text-align: center;"><b>Largely Equivalent</b></p>
<b>Rationale for overall topic assessment</b>	<p>This overall section is deemed largely equivalent. The Large Exposures framework, while albeit being more conservative in some areas, there were some areas of divergence which misaligns with the EU framework. The Leverage Ratio regime is quite similar in approach, with the disclosure framework distinguishing itself from the EU by applying a proportional approach to the Group B banks.</p>	
	<b>Section 14</b>	<p>Large Exposures</p> <p style="text-align: center;">Section Assessment</p> <p style="text-align: center;"><b>Largely Equivalent</b></p>
	<b>Rationale for section assessment</b>	<p>The Argentine framework has been in place for decades, however this regime will be replaced on 1 January 2019 when the new BCBS framework will be implemented.</p>

		<p><b>Large exposure definition</b></p> <p>The principle of control is a key aspect of the Argentine legislation. It pertains to both natural and legal persons. Limits to large exposures are applicable to all institutions. Large exposures limits in Argentina are defined as a percentage of regulatory capital, while in the EU, it is a percentage of eligible capital. The eligible capital is always lower than the regulatory capital because the amount of T2 capital is capped at 1/3 of T1 capital. Thus, the Argentine definition of eligible capital is less conservative than the CRR definition (Actual figures for the banking system, as of end-September 2017: T2 represents 10% of T1).</p> <p><b>Large Exposure limits</b></p> <p>The limits to large exposure depends on the counterparty, instead of applying a fixed 25% as envisaged Article 395 of the CRR. Thus there are differing limits for related clients and non-related clients. However, 25% is the maximum possible exposure in Argentina (with the exception of sovereign exposures that can amount to 75% in aggregate). Only the exposures to the BCRA and the Deposit Insurance Corporation (SEDESA) are excluded in Argentina. In addition, the sum of all individual credits (to financial and non-financial clients) that exceed 10% of a bank's capital cannot be greater than: (i) three times the regulatory capital (without including exposures to local financial institutions); and (ii) five times the capital, including all these large credits</p> <p><b>Calculation of the exposure value</b></p> <p>The use of CRM techniques seems to be limited compared to the EU framework. Generally, guaranteed exposures are assigned to the guarantors and not to the first debtors. Eligible collaterals raise the large exposure limit or the limit for related clients. Certain banking intragroup exposures may be automatically exempted or automatically exempted under certain conditions.</p> <p><b>Breaches to the Large Exposures regime</b></p> <p>Any breaches to the regime must be reported by all credit institutions on a monthly basis, in compliance with the reporting regime of minimum capital and own funds requirements; indicating who the customer is, amount in excess of the limits and the section on the consolidated text on credit risk diversification that has been breached.</p> <p><b>Connected clients</b></p> <p>The principle of control is a key aspect of the Argentine legislation. It pertains to both natural and legal persons.</p> <p><b>Monitoring and reporting</b></p> <p>There appears to be no particular regime for Large Exposures as all exposures should be reported in a disaggregated way, however all institutions are required to report all outstanding debts of ARS\$1000 on an unconsolidated basis. This is notwithstanding that breaches have to be reported on a monthly and aggregated basis according to the text on credit risk diversification. Institutions shall inform, on a monthly basis, any non-compliance with the limits on "large exposures", locally subject to the consolidated text on Diversification of credit risk.</p>	
	<b>Section 17</b>	Leverage	Section Assessment
	<b>Rationale for section assessment</b>	Equivalent	
		<p>The leverage ratio is applicable to all banks, with a minimum requirement of 3%. It is defined as ratio of between Tier 1 capital and total exposures.</p> <p>The total exposure amount is the sum of the following values:</p> <ul style="list-style-type: none"> <li>- on-balance sheet exposure</li> <li>- derivative exposures</li> </ul>	

		<ul style="list-style-type: none"> <li>- SFT exposures</li> <li>- Off balance sheet exposures</li> </ul> <p>Banks may not net assets and liabilities. On-balance sheet assets are included in the LR exposure measure at their accounting value less deductions for specific provisions. Derivatives are treated similarly to the treatment provided in Articles 274 and 298 of the LCR.</p> <p>The reporting requirements are stringent, with reporting on a quarterly basis.</p>				
	<b>Section 21</b>	<table border="1"> <tr> <td>Disclosure</td> <td>Section Assessment</td> </tr> <tr> <td></td> <td style="background-color: #008000; color: white; text-align: center;">Equivalent</td> </tr> </table>	Disclosure	Section Assessment		Equivalent
Disclosure	Section Assessment					
	Equivalent					
	<b>Rationale for section assessment</b>	<p>The BCRA requirements for disclosure differ in that not all entities are subject to disclosure requirements, rather disclosure is limited to Group A Banks. The disclosure framework aims for a transparent and harmonised disclosure system, with a frequency of disclosure similar to that of the Article 433 of the CRR. There are provisions contained for non-material, proprietary or confidential information as that of Article 432(2) of the CRR.</p> <p>However, since all financial institutions (i.e., regardless of being Group A or not) have to comply with the original market discipline regulation issued in 2013, most of Group B financial institutions are still releasing some of this information on their websites.</p> <p>In addition, all financial institutions have to comply with the requirements of the consolidated text of the Guidelines on Risk Management, which include provisions on transparency for each section (credit risk, liquidity risk, market risk, interest rate risk, securitisation risk, concentration risk, reputational risk and strategic risk).</p> <p>The BCRA applies qualitative and quantitative disclosure elements which are largely comparable to the EU requirements, with features such as minimum capital requirements, RWAs, financial statements and regulatory exposure linkages, Credit, Counterparty Credit, Market, Operational and Interest Risk included as well as Securitisations, Remuneration, Information on capital and risk based capital requirements, features of capital instruments, leverage and liquidity ratios. Quantitative disclosure is required for Own Funds and Capital instruments.</p> <p>The purpose of transparency is to encourage market discipline, allowing market participants to assess any data related to financial institutions' capital, risk exposures, risk assessment process and capital adequacy.</p> <p>The disclosure requirement for qualitative information is on an annual basis with quantitative data having a higher frequency of half yearly or quarterly. In addition to the reporting requirements contained in regulations, financial institutions must disclose additional information that they deem relevant to ensure transparency in risk management and measurement as well as capital adequacy. Moreover the SEFyC, for compliance purposes, can request financial institutions to disclose additional information to that in the regulation, or to correct information already disclosed.</p>				