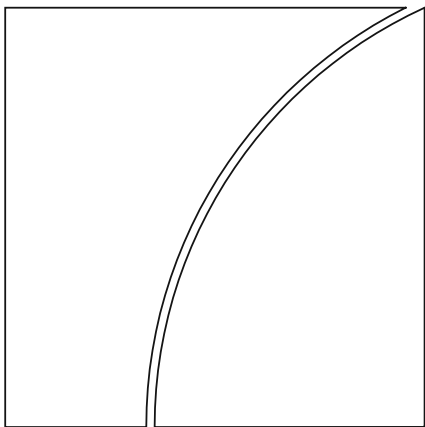


Basel Committee on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel III LCR regulations – Argentina



BANK FOR INTERNATIONAL SETTLEMENTS

Note that this report refers to the RCAP grades prior to October 2025. The grade 'materially non-compliant (MNC)', ie one notch above the lowest grade, has since been renamed to 'partially non-compliant (PNC)' for greater clarity

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Glossary

ALA	Alternative Liquidity Approaches
ARS	Argentine peso
BCBS	Basel Committee on Banking Supervision
BCRA	Central Bank of Argentina (Banco Central de la República Argentina)
CO	Charter of the Central Bank of Argentina
D-SIBs	Domestic systemically important banks
FAQs	Frequently asked questions
FSAP	Financial Sector Assessment Program
FX	Foreign exchange
HQLA	High-quality liquid assets
LCR	Liquidity Coverage Ratio
LEF	Law on Financial Institutions
RCAP	Regulatory Consistency Assessment Programme
SEFyC	Superintendence of Financial and Exchange Institutions
SMEs	Small and medium-sized enterprises
SREP	Supervisory Review and Evaluation Process

Preface

The Basel Committee on Banking Supervision sets 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 appropriately and consistently 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 the RCAP Assessment Team (the Assessment Team) on the domestic adoption of the Basel Liquidity Coverage Ratio (LCR) standards in Argentina.¹ The assessment focuses on the regulatory adoption of Basel LCR standards as applied to Argentinian banks that are internationally or regionally active and of significance to its domestic financial stability.

The RCAP LCR assessment was based primarily on the LCR rules that were issued by the Central Bank of Argentina (BCRA) in 2015. In the course of the assessment, the BCRA made a number of minor revisions to the rules based on issues identified by the Assessment Team. This report has been updated where relevant, to reflect the progress made by the BCRA to further align the regulations with the Basel LCR standards.

The Assessment Team was led by Mr Edouard Fernandez-Bollo, Secretary General of the French Prudential Supervisory and Resolution Authority (Autorité de Contrôle Prudentiel et de Résolution, ACPR). The Assessment Team comprised seven technical experts drawn from Indonesia, France, Germany, Spain, United Kingdom and United States (Annex 1). The main counterparty for the assessment was the BCRA.

The assessment relied upon the data, information and materiality computations provided by the BCRA. The assessment findings are based primarily on an understanding of the current processes in the BCRA as explained by the counterparty's staff and the expert view of the Assessment Team on the documents and data reviewed. The overall work was coordinated by the Basel Committee Secretariat.

The assessment began in November 2015 and comprised: (i) completion of an RCAP questionnaire (a self-assessment) by the BCRA; (ii) an off- and on-site assessment phase (November 2015 to June 2016); and (iii) a post-assessment review phase (July to September 2016). The off- and on-site phases included an on-site visit for discussions with the BCRA and representatives of Argentinian banks (which were used as the RCAP sample banks for the purpose of impact assessment) and external audit firms. These exchanges provided the Assessment Team with a deeper understanding of the implementation of the Basel LCR standards in Argentina. The third phase consisted of a two-stage technical review of the assessment findings: first, by a separate RCAP Review Team and feedback from the Basel Committee's Supervision and Implementation Group; and, second, by the RCAP Peer Review Board and the Basel Committee. This two-step review process is a key instrument of the RCAP process to provide quality control and ensure integrity of the assessment findings.

The focus of the assessment was on the consistency and completeness of the domestic regulations in Argentina with the Basel minimum requirements. Issues relating to prudential outcomes, adequacy of liquidity ratios at individual banks or the effectiveness of the BCRA's liquidity risk management supervision were not in the scope of this RCAP assessment exercise.²

¹ The report complements the RCAP assessment report of Argentina's adoption of the Basel risk-based capital standards.

² The most recent assessment of Argentina's financial system under the IMF-World Bank Financial Sector Assessment Program (FSAP) was published in February 2016. A detailed assessment of Argentina's compliance with Basel core principles on supervisory issues was carried out as part of the FSAP assessment and published in September 2012.

Where domestic regulations and provisions were identified as not aligned with the Basel LCR framework, those deviations were evaluated for their current and potential impact (or non-impact) on the reported liquidity ratios for a sample of internationally and regionally active Argentinian banks. Some findings were evaluated on a qualitative basis. The overall assessment outcome was based on the materiality of findings and the use of expert judgment.

The report has two sections and a set of annexes: (i) an executive summary with a statement from the BCRA on the material findings; (ii) the context, scope and methodology and the main set of assessment findings; and (iii) details of the deviations and their materiality along with other assessment-related observations.

The RCAP Assessment Team sincerely thanks BCRA President Federico Adolfo Sturzenegger, Vice President Lucas Llach, all relevant directors of the BCRA, and also especially Delia Novello and the staff of the BCRA for the professional and efficient cooperation throughout the assessment process. The series of comprehensive briefings and clarifications provided by the BCRA enabled the RCAP assessors to arrive at their expert assessment. The Assessment Team is hopeful that the RCAP assessment exercise will contribute towards strengthening prudential effectiveness and full implementation of the recent reform measures in Argentina.

Executive summary

The Argentinian LCR standard and the LCR disclosure standard were published by the BCRA on 8 January 2015 (Communication "A" 5693) and 30 March 2015 (Communication "A" 5734), respectively. The LCR requirements were subsequently amended and updated in March 2015 (Communication "A" 5724) and July 2016 (Communication "A" 6004). The disclosure rule was amended in March 2016 (Communication "A" 5936). The LCR is applied to all internationally and regionally active banks, which are defined as "Group A" banks in Argentina.

In November 2015, the BCRA completed an extensive self-assessment of the domestic LCR rules as part of its preparation for the RCAP exercise. The RCAP Assessment Team (Assessment Team) identified a small number of deviations from the Basel LCR framework, all of which were rectified. The BCRA used the discipline of the RCAP exercise to further reform and enhance its LCR rules – to the extent consistent with Argentinian national interests. In all, Argentinian's LCR framework benefited during the course of the RCAP assessment work from seven rectifications.

Overall, as of the cut-off date for the RCAP assessment, the Assessment Team finds Argentina's LCR rules to be compliant with the standards prescribed under the Basel LCR framework. All graded components of the LCR framework, including the high-quality liquid assets, the liquidity inflows and outflows and disclosure requirements, are assessed as compliant.

An observation was made on the BCRA's regulation requiring banks to apply a run-off rate of 3% for court-ordered deposits. Given that these deposits do not have a beneficiary with a legal right of withdrawal until there is a court ruling, outflows are contingent on the court's ruling and in no way linked to beneficiaries' behaviour under stressed conditions. For this reason, the Assessment Team opined that despite its appellation, this instrument should not be treated as a deposit under the LCR but rather as a contingent funding obligation. The BCRA exercises its national discretion provided by the Basel LCR standard for the treatment on contingent funding obligations and applies the most conservative historical outflow rate observed as the run-off rates for contingent funding obligations (ie a 3% outflow rate). To add clarity to the regulation, a minor amendment was made to the classification of the requirement in BCRA's regulation (see Annex 5).

A few additional findings resulted in minor modifications to the BCRA's LCR regulation. These included further specifications of stable deposits, treatment of brokerage balances and LCR disclosure requirements.

In addition to the formal assessment of the LCR standard and disclosure requirements, this report also summarises the BCRA's self-reporting of its implementation of the Basel *Principles for sound liquidity risk management and supervision* and the LCR monitoring tools (Annexes 9 and 10). Further, a summary is provided of the key national discretions and approaches that the BCRA has adopted in its implementation of the LCR standard (Annex 14). These annexes help to clarify how national authorities implement certain aspects of the Basel standards that are not in the scope of the formal RCAP-LCR assessment. Over time, the information detailed in these annexes will provide a basis for designing best practice and additional supervisory guidance that will benefit the regulatory community and the banking industry to raise consistency and effectiveness of the implementation of the LCR.

The Assessment Team recognises the efforts made by the BCRA to further strengthen and align its LCR rules to the Basel LCR framework throughout the course of the assessment process.

Response from the Central Bank of Argentina

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, including the main findings by component and the detailed assessment findings contained in the report. All findings identified by the RCAP Team as material have been modified, as requested, in the guidelines for the domestic implementation of the Basel liquidity framework. The vast majority of the corrections were introduced through Communication "A" 6004 approved by the Board of the BCRA and published in early July 2016.

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 and main findings

1.1 Context

Status of implementation

The BCRA is responsible for the regulation and supervision of the banking sector in Argentina. The BCRA is empowered by the Charter of the Central Bank of Argentina (CO) and the Law on Financial Institutions (LEF) to issue banking regulations, rules and guidance to licensed banks in Argentina. Specifically, the BCRA is empowered to issue prudential regulation through Communications "A", which are binding on financial institutions in Argentina after their publication in the official gazette. The LCR standard and the LCR disclosure standard were published on the BCRA's web site on 8 January 2015 and 30 March 2015, respectively. These regulations came into force on 30 January 2015 and 31 March 2015, respectively (see Annex 3 for a complete timeline). Regulations are published in Spanish. For the purpose of the RCAP assessment, the regulations were translated into English.

Along with the LCR regulations, the BCRA has also implemented the LCR monitoring tools (Communication "A" 5733, March 2015 and Communication "A" 5790, August 2015) and the Basel *Principles for sound liquidity risk management and supervision* (Guidelines for Risk Management in Banks, Communication "A" 5203, May 2011). A factual description of how each of these frameworks has been implemented is provided by the BCRA in Annexes 9 and 10 respectively.

Regulatory system and model of supervision

In Argentina, all internationally and regionally active banks, which are defined as "Group A" banks, are subject to the Basel III LCR standards. The BCRA is responsible for issuing and enforcing the LCR regulation in Argentina.

In case of breaches of the LCR regulation, the BCRA has powers to impose corrective measures, as detailed in the LCR regulation, LEF and CO. In periods of systemic stress, the BCRA may also determine whether to relax or lower the LCR requirements on a case-by-case basis.

Further, the BCRA has issued a data collection template with the information required to calculate the LCR for each bank. The submitted LCR and accompanying data are reviewed monthly. Given the amount of information requested, and the need for homogeneous and consistent reporting, banks are provided with technical guidance on completing the data template and computing the LCR. This technical guidance is explicitly referenced in Argentina's LCR regulation.

1.2 Structure, enforceability and binding nature of prudential regulations

The liquidity regulation is subject to the same well defined regulatory process as for capital regulation. The following table provides an overview of the legal hierarchy of prudential regulations in Argentina (details on the structure and binding nature of prudential regulations in Argentina are outlined in the RCAP assessment report on Argentina's risk-based capital requirements for banks).³ The LCR requirements, as issued in final form in January 2015 (and subsequent revision in March 2015), meet the RCAP criterion of being enforceable and binding in nature.

³ Available at www.bis.org/bcbs/implementation/l2.htm.

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", which are binding on all financial institutions after publication in the official gazette. Communications "A" and their compilations by major regulatory topic are also available on the BCRA's website.
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.

1.3 Structure of the banking sector and financial soundness

After experiencing a strong shock during the 2000–02 macroeconomic crisis, Argentina's financial sector has recovered. Capital markets play only a limited role – due to their relatively small size – in supplementing the banking sector as a source of financing for the economy.

The financial system consists of 78 financial institutions (as at December 2015), including 12 state-owned banks and 50 private banks (17 foreign private banks and 33 national private banks) and 16 non-bank financial institutions. The main institutions are either state-owned or private banks. Among the former, Banco de la Nación Argentina is the principal institution, accounting for 28% of total deposits and 17% of loans in the banking system, as of December 2015. While state-owned banks have a prominent position in terms of market share, private banks have proved increasingly active over the past few years. Private foreign banks originate 34% of total financial system credit, 33% in the case of private national banks and 31% in the case of state-owned banks (the rest comes from non-bank financial institutions).

The number of financial institutions fell from 114 to 84 between 1999 and 2008 due to the exit of medium-sized foreign banks, reflecting the regional strategy of their parent companies, and the mergers of private banks. Since 2008, this number has remained mostly stable. In terms of concentration, the combined market share of the top five and 10 banks in Argentina in terms of assets is almost 55% and 73% respectively (December 2015). While the financial system has been gradually consolidating in recent years, it remains less concentrated than those of other emerging and developed economies.

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 of all groups of banks, accounting for around 59% of total resources (liabilities plus equity) for the whole financial system. Credit to the private sector is the most significant component of total bank assets, at almost 45%. Nearly 95% of the total stock of private sector credit is denominated in domestic currency, mitigating the peso-US dollar exchange rate risk. Credit to the corporate sector represents almost 57% of total credit to the private sector, with the rest channelled to households. The almost non-existent holding of complex financial instruments helped to limit Argentinian banks' exposure to some of the risks and vulnerabilities seen during the Global Financial Crisis of 2007–08.

1.4 Scope of the assessment

The assessment was made of the LCR requirements as applicable to all internationally and regionally active banks, which are defined as "Group A" banks in Argentina. In evaluating the materiality of the findings, the

quantification was limited to the agreed eight banks subject to the RCAP review (see Annex 8). These banks hold more than 62% of the assets in the Argentinian banking system.

Assessment grading and methodology

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale: compliant, largely compliant, materially non-compliant and non-compliant. The assessment is at the level of the subcomponents of the Basel LCR framework (HQLA, Outflows, Inflows and LCR disclosure requirements) and at the overall LCR level.⁴

The materiality of the deviations was assessed in terms of their current or, where applicable, potential future impact (or non-impact) on the banks' LCRs. Wherever relevant and feasible, the Assessment Team, together with the BCRA, attempted to quantify the impact based on data collected from Argentinian banks in the agreed sample of banks. The non-quantifiable aspects of identified deviations were discussed and reviewed with the BCRA, in the context of the prevailing regulatory practices and processes.

Ultimately, the assignment of the assessment grades was guided by the collective expert judgment of the Assessment Team. In doing so, the Assessment Team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. A summary of the materiality analysis is given in Section 2 and Annex 8.

In a few cases, Argentina's liquidity requirements go beyond the minimum Basel standards. Although these elements provide for a more rigorous implementation of the Basel framework in some aspects, they have not been taken into account for the assessment of compliance under the RCAP methodology as per the agreed assessment methodology (see Annex 13 for a listing of areas of super-equivalence).

1.5 Main findings

A summary of the main findings is given below. Overall, the Assessment Team considers the LCR regulation issued by BCRA as compliant with the Basel LCR framework. All components assessed by the Assessment Team are assessed as compliant with the minimum Basel liquidity standard. More detail is provided below.

Summary assessment grading

Table 2

Key components of the Basel LCR framework	Grade
Overall grade	C
LCR subcomponents	
High-quality liquid assets (numerator)	C
Outflows (denominator)	C
Inflows (denominator)	C
LCR disclosure requirements	C

⁴ This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. In addition, components of the Basel framework that are not relevant to an individual jurisdiction may be assessed as not applicable. For further details, see www.bis.org/publ/bcbs264.htm.

Definition of the grades: **compliant (C)**: all minimum Basel provisions have been satisfied and no material differences have been found that would give rise to prudential concerns or provide a competitive advantage to internationally active banks; **largely compliant (LC)**: only minor provisions have not been satisfied and differences that have a limited impact on financial stability or the international level playing field have been identified; **materially non-compliant (MNC)**: key provisions of the framework have not been satisfied or differences that could materially impact the LCR; **non-compliant (NC)**: the regulation has not been adopted or differences that could severely impact the LCR and financial stability or international level playing field have been identified.

Colour code:

Compliant	C
Largely compliant	LC
Materially non-compliant	MNC
Non-compliant	NC

Main findings by component

General comments – scope of application and transitional arrangements

The BCRA applies the LCR to all internationally and regionally active banks, which comprise the 18 “Group A” banks. The level of application is at individual legal entities (banks including domestic branches) as well as at the highest level of banking consolidation. This level of application does not include the holding company level.

The LCR has been introduced in accordance with the phase-in allowed by the Basel standard, beginning with a 60% minimum rate from 30 January 2015 up to a 100% minimum rate from January 2019 onwards.

High-quality liquid assets (numerator)

Argentina was found to be compliant with the LCR requirements for high-quality liquid assets (HQLA). In a number of cases, the BCRA has adopted a stricter approach than the minimum standards prescribed by the Basel LCR framework. The Assessment Team did not identify any deviation from the Basel standard.

Outflows (denominator)

The implementation of the regulation of outflows under the LCR is assessed as compliant with the Basel LCR standard. In a number of cases, the implementation chosen by the BCRA resulted in a more rigorous treatment.

Inflows (denominator)

The implementation of the regulation of inflows under the LCR is assessed as compliant with the Basel LCR standard. The Assessment Team did not identify any deviation allowing a less conservative treatment than the Basel LCR standard.

Disclosure requirements

The Basel standard requires disclosure of the LCR at a consolidated level and at the same frequency, and concurrently with, the publication of financial statements. The implementation of disclosure requirements by the BCRA is assessed as compliant with the Basel standard.

2 Detailed assessment findings

The component-by-component details of the assessment of compliance with the LCR standards of the Basel framework are detailed below. The focus of Sections 2.1 to 2.3 is on findings that were assessed as deviating from the Basel minimum standards and their materiality. Section 2.4 lists some observations and other findings specific to implementation practices in Argentina.

2.1 Scope of application and transitional arrangements

Summary	Overall, the Assessment Team finds the implementation of the scope of application and transitional arrangements of the LCR to be largely in line with the Basel LCR standard. Similar to the finding raised in the RCAP risk-based capital report, there is no requirement on the scope of application at the holding company level. The level of application is at individual legal entities (banks including domestic branches) as well as at the highest level of banking consolidation.
Basel paragraph no	Basel III LCR paragraph 164 – Scope of application
Reference in domestic regulation	BCRA Communication on the liquidity coverage ratio “A” 5724 as per 12/03/2015, Sections 1.1 & 8.1, 8.2 (first paragraph)
Findings	<p>As a general matter, the application of the Basel LCR requirements follows the existing scope of application set out in Part I (Scope of Application) of the Basel II Framework. In this regard, the LCR framework should also apply on a fully consolidated basis to all internationally active banks at every tier within a banking group, and to any bank holding company that is the parent entity within a banking group, to ensure that the requirements capture the risk of the whole banking group.</p> <p>In Argentina, the LCR needs to be applied at the solo level (individual legal entities) and at the level of the “parents subject to consolidated supervision” but the application at the holding company level is not explicitly required by the Argentinian regulation.</p>
Materiality	<p>Not material.</p> <p>The Assessment is of the view that this finding does not result in the risk of significantly underestimating the liquidity risk of the bank. The LCR framework requires the bank to take into account any contractual and non-contractual funding obligation under stressed conditions for the calculation of its LCR. Hence, if significant short-term liquidity risk is incurred at the level of the holding company,⁵ the bank would have to take any implication into account for the calculation of its potential outflows under stressed conditions in the LCR.</p> <p>Furthermore, only one bank out of eight banks in the RCAP sample is currently owned by a parent company, and two banks out of 78 banks in Argentina.</p>

2.2 LCR

2.2.1 High-quality liquid assets (numerator)

Section grade	Compliant
Summary	The Assessment Team finds the BCRA’s regulatory implementation to be compliant with the Basel LCR requirements for high-quality liquid assets (HQLA).

2.2.2 Outflows (denominator)

Section grade	Compliant
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⁵ Note that a holding company is not allowed to operate a banking business, otherwise it would be a fully fledged bank.

Summary	The principles regarding the liquidity outflows under the Argentinian regulation are assessed as compliant with the Basel LCR standard. In the course of the assessment, the BCRA made six rectifications to further align with the Basel LCR standard (see Annex 5).
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2.2.3 Inflows (denominator)

Section grade	Compliant
Summary	The principles regarding the liquidity inflows under the Argentinian regulation are compliant with the Basel LCR standard. No deviations were found.

2.3 LCR disclosure requirements

Section grade	Compliant
Summary	<p>The Argentinian regulation is compliant with the Basel LCR disclosure requirements. The Assessment Team noted a non-material deviation on LCR disclosure requirements on derivative exposures, where the BCRA has subsequently rectified the deviation (see Annex 5).</p> <p>The BCRA's regulation (Communication on market discipline, minimum disclosure requirements "A" 5734) entered into force in the first quarter of 2015. In line with the Basel regulation, the data will be presented by banks as simple averages of end-of month observations up to 1 January 2017. Following the RCAP review, the Assessment Team noted the BCRA's intention to revise the regulation and impose daily observations with effect from 1 January 2017, as required by the Basel regulation.</p>

2.4 Observations and other findings specific to the implementation practices in Argentina

The following observations highlight certain special features of the regulatory implementation of the Basel standards in Argentina. These are presented for contextual and informational purposes. Observations are considered compliant with the Basel standard and do not have a bearing on the assessment outcome.

2.4.1 High-quality liquid assets and outflows

Basel paragraph no	Basel III LCR paragraph 50(b) – Central bank reserves
Reference in domestic regulation	BCRA Communication on the liquidity coverage ratio "A" 5724 as per 12 March 2015, Section 2.2.2
Observation	<p>According to paragraph 50(b) of the Basel LCR standard, central bank reserves, including required reserves, are eligible to be recognised as Level 1 HQLA to the extent that the central bank policies allow them to be drawn down in times of stress. Further, footnote 13 of the Basel LCR standard stipulates that local supervisors should discuss and agree with the relevant central bank the extent to which central bank reserves should count towards the stock of liquid assets, ie the extent to which reserves are able to be drawn down in times of stress.</p> <p>The Argentinian regulation does not specify which portion of central bank reserves should be considered as withdrawable in times of stress, thus allowing banks to account for the full amount of required reserves, with the exception of the amounts placed in special accounts for payment guarantees.</p> <p>The Assessment Team is of the view that the Basel LCR standard allows for national discretion to include central bank reserves in Level 1 HQLA under the condition that the central bank and the local supervisor agree on the extent to which central bank reserves should be eligible. The BCRA exercises both its central bank and supervisory powers, and consequently has full powers to regulate on the required reserves, according to the Argentinian national legislation (LEF). Further, the BCRA has confirmed that the full amount of the required reserves in Argentina should be</p>

	<p>considered as withdrawable in times of stress and accounted for as HQLA (with the exception of payment system guarantees, which are explicitly excluded in the regulation).</p> <p>Against this background, the Assessment Team concluded that this issue should be treated as an observation (instead of a finding) so as to ensure a proper consideration by the Basel Committee that can be of relevance in different jurisdictions.</p>
Basel paragraph no	Basel III LCR paragraph 136
Reference in domestic regulation	BCRA Communication on the LCR "A" 5724, as per "A" 6008 07/07/2016, Section 4.4.6.3.iii) and 6.1.4.11.iii.c)
Observation	<p>The BCRA allows banks to apply a 3% outflow rate for court-ordered deposits ("cuentas a la vista y a plazo para uso judicial"). Court-ordered deposits are deposits that are opened in connection with a juridical case and with no identifiable beneficiary but under the reference number of a particular case. No natural person or legal entity has the right to withdraw these deposits until the court has ruled who is the beneficiary and permits payout from the deposited amount. The timing of the outflows is therefore contingent on the timing of the court's decision and is under no circumstances related to the behavioural assumptions with respect to the (unknown) beneficiary or related to financial stress. For this reason, the Assessment Team opined that despite its appellation, this type of instrument should not be treated as a deposit under the LCR but rather as a contingent funding obligation.</p> <p>In Argentina, court-ordered deposits need to be deposited with specially designated banks, as required by law or by a decision of the supreme court of justice of the respective province. This has led to concentrated holdings of such deposits in a few state-owned banks. At present, the court-ordered deposits correspond to less than 2% of total deposits in the banking system. Banks do not actively sell the product and are prohibited to charge any fees or commissions for these deposits. Banks do not have any active influence on the amount of court-ordered deposits placed with them.</p> <p>Paragraph 136 of the Basel LCR standard stipulates specific requirements on contingent funding obligations, which allow supervisors to determine the extent to which these contingent outflows are to be included in the LCR. At a minimum, supervisors should use historical behaviour to determine the appropriate outflows. Some of these contingent funding obligations are explicitly contingent upon a credit or other event that is not always related to the liquidity events simulated in the stress scenario, but may nevertheless have the potential to cause significant liquidity drains in times of stress.</p> <p>In line with paragraph 136, the approach taken by the BCRA is based on the application of the most conservative historically observed net run-off rate within the time period of 30 days (during 2001–02). The Assessment Team believes this treatment to be appropriate to measure liquidity outflows that occur from court-ordered deposits. To further clarify the treatment under the Basel LCR standard, a minor amendment was made concerning the classification of the requirement in the BCRA's regulation.</p> <p>Against this background, the Assessment Team concluded that this issue should be treated as an observation (instead of a finding) to ensure a proper consideration by the Basel Committee that can be of relevance in other jurisdictions.</p>

Annexes

Annex 1: RCAP Assessment Team and Review Team⁶

Assessment Team

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Mr Jack Jennings	Board of Governors of the Federal Reserve System
Mr Stefan Blochwitz	Deutsche Bundesbank

⁶ The RCAP Assessment has benefited from the feedback of the RCAP Review team and the Peer Review Board. The Review Team is separate from the Assessment Team, and provides an additional level of quality assurance for the report's findings and conclusions.

Annex 2: List of LCR standards under the Basel framework used for the assessment

Basel documents in scope of the assessment

- (i) *The Liquidity Coverage Ratio (January 2013), including the frequently asked questions on Basel III's January 2013 Liquidity Coverage Ratio*, April 2014
- (ii) *Liquidity Coverage Ratio disclosure standards*, January 2014

Basel documents reviewed for information purposes

- (iii) *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (part of liquidity risk monitoring tools), January 2013
- (iv) *Monitoring tools for intraday liquidity management*, April 2013
- (iv) *Principles for sound liquidity risk management and supervision*, September 2008

Annex 3: Local regulations issued by the BCRA for implementing Basel LCR standards

Overview of issuance dates of important Argentinian liquidity rules

Table 3

Domestic regulations	Document name, version and date
Banking law	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).
Regulations	<p><u>Implementation of the LCR</u></p> <p>The "Liquidity Coverage Ratio" was first published in January 2015 (Communication "A" 5693). Text subsequently revised in March 2015 (through Communication "A" 5724.)</p> <p>The "Market Discipline – Minimum Disclosure Requirements" were published in March 2015 (Communication "A" 5734).</p> <p><u>Liquidity monitoring tools (see Annex 9)</u></p> <p>Quarterly/annual reporting requirements for supervision. Section 20: Tools for monitoring liquidity risk. First published in March 2015 (Communication "A" 5733) and revised in August 2015 (through Communication "A" 5790).</p>
Guidelines	<p><i>Principles for sound liquidity risk management and supervision</i> (see Annex 10)</p> <p>The Principles were published within Section 3 of the Guidelines for Risk Management in Banks, in May 2011 (Communication "A" 5203).</p>

Hierarchy of Argentinian laws and regulatory instruments

Table 4

Level of rules (in legal terms)	Type
Laws	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", which are binding on all financial institutions after publication in the official gazette. Communications "A" and their compilations by major regulatory topics are also available on the BCRA's web site.
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.

Annex 4: Details of the RCAP assessment process

A. Off-site evaluation

- (i) Completion of a self-assessment questionnaire by the BCRA
- (ii) Evaluation of the self-assessment by the RCAP Assessment Team
- (iii) Independent comparison and evaluation of the domestic regulations issued by the BCRA with corresponding Basel III standards issued by the BCBS
- (iv) Identification of observations
- (v) Refinement of the list of observations based on clarifications provided by the BCRA
- (vi) Assessment of materiality of deviations for all quantifiable deviations based on data and non-quantifiable deviations based on expert judgment
- (vii) Forwarding of the list of observations to the BCRA

B. On-site assessment

- (viii) Discussion of individual observations with the BCRA
- (ix) Meeting with selected Argentinian banks, accounting firms
- (x) Discussion with the BCRA and revision of findings to reflect additional information received
- (xi) Assignment of component grades and overall grade
- (xii) Submission of the detailed findings to the BCRA with grades
- (xiii) Receipt of comments on the detailed findings from the BCRA

C. Review and finalisation of the RCAP report

- (xiv) Review of comments by the RCAP Assessment Team, finalisation of the draft report and forwarding to the BCRA for comments
- (xv) Review of the BCRA's comments by the RCAP Assessment Team
- (xvi) Review of the draft report by the RCAP Review Team
- (xvii) Review of the draft report by the Peer Review Board
- (xviii) Reporting of findings to SIG by the team leader

Annex 5: List of rectifications by the BCRA

Basel paragraph	Reference to Argentinian document and paragraph	Brief description of the forthcoming correction
Outflows		
75	Communication "A" 6004, Sections 4.1.1 & 6.1.1.1 of LCR consolidated text	Introduction of a list of standardised products that are classified as stable retail deposits and fulfil the requirements "established relationship" or "transactional".
111	Communication "A" 6004, Section 4.2.4	Enrichment of the regulation by the requirement that cash balances arising from the provision of prime brokerage services to be treated as inflows and not as HQLA.
118	Communication "A" 6004, Section 4.4.2.1 & 6.1.4.2 of LCR consolidated text	Enrichment of the regulation by the requirement to apply a 100% outflow on the amount of collateral that would have to be posted for derivatives and other contracts in case of a three-notch credit rating downgrade.
133	Communication "A" 6004, Section 4.4.5 of LCR consolidated text	Enrichment of the regulation by the requirement to apply a 100% outflow for obligations for natural persons exceeding the 50% of the contractual inflows.
136	Communication "A" 6004, sections 4.4.6.3 and 6.1.4.11 of LCR consolidated text	For better transparency, the outflow requirements for court-ordered deposits are moved to the part on contingent funding obligations.
137	Communication "A" 6004, Sections 4.4.6.1 and 6.1.11 of LCR consolidated text	Enrichment of the regulation by the requirement for banks to have a methodology adopted and approved by the supervisor to identify outflow amounts on contractual contingent obligations where banks are providers of liquidity to joint ventures or minority investments.
Disclosure		
	Communication on market discipline, minimum disclosure requirements "A" 5936, Section 3.3. and 3.5	Enrichment of the regulation by providing a complete list of explanatory details to the LCR information. Enrichment of the regulation by providing details on additional quantitative information that banks may provide.

Annex 6: Assessment of bindingness of regulatory documents

The following table summarises the assessment of the seven criteria used by the Assessment Team to determine the eligibility of Argentinian regulatory documents.

Criterion	Assessment
(1) The instruments used are part of a well defined, clear and transparent hierarchy of legal and regulatory framework.	<p>The requirements are compiled in the ordered text on the "Liquidity Coverage Ratio". The requirements are binding for banks and other deposit-taking institutions by virtue of the powers conferred on the BCRA by Sections 4 and 14 of its Charter ("CO", Law No 24,144) and Sections 4, 30 and 36 of the Law on Financial Institutions ("LEF", Law No 21,526).</p> <p>Section 30 of the LEF establishes that deposit-taking institutions must comply with the regulatory ratios required by the BCRA between, among other issues, the institutions' capital and their assets and liabilities. Section 31 of the LEF establishes that they must also meet the cash reserves required by the BCRA against deposits, obligations and other financial liabilities.</p>
(2) They are public and easily accessible	<p>The domestic regulation on the "Liquidity Coverage Ratio" is available on the BCRA's website: www.bcra.gov.ar/Pdfs/Texord/t-ratio.pdf.</p>
(3) They are properly communicated and viewed as binding by banks as well as by the supervisors.	<p>In exercising the regulatory power vested in the BCRA by law, the Board of Directors of the Central Bank specify the regulation for the financial system with due regard to the Administrative Law and the CO. In particular, the opinion of the legal department has to be sought where the regulation might affect subjective rights and legitimate interests, as required in the Section 7 of the Law on Administrative Procedures (Law 19,549).</p> <p>New rules and their amendments are published in the Official Gazette (www.boletinoficial.gob.ar). They are also available on the BCRA's website. On a daily basis, counselling agencies and the specialised media comment on the regulation issued by the BCRA. As a result, banking regulations issued by the BCRA are communicated and viewed as binding by banks, the supervisors and the general public.</p>
(4) They would generally be expected to be legally upheld if challenged and are supported by precedent.	<p>Regulations issued by the BCRA, like any administrative act, are presumed to be legal and valid and thus enforceable. Rules and other administrative provisions adopted by the BCRA have usually been upheld when challenged in court.</p>
(5) Consequences of failure to comply are properly understood and carry the same practical effect as for the primary law or regulation.	<p>The CO and the LEF not only vest regulatory powers in the BCRA but also appoint the BCRA as the enforcement authority of the LEF. Section 43 of the CO confers powers on the BCRA to supervise the financial and foreign exchange activity through its Superintendence of Financial and Exchange Institutions ("SEFyC"). Section 4 of the LEF makes the BCRA the authority responsible for the enforcement of the law, with all the powers conferred on it by the LEF and the CO.</p> <p>Individuals and institutions – whether private, public or part state-owned – that habitually intermediate between the supply and demand of financial resources fall, by virtue of Section 1 of the LEF, under the regulatory power of the BCRA.</p> <p>Section 41 of the LEF explicitly states that the BCRA has the power to impose sanctions on institutions and individuals that fail to comply with the provisions of the LEF or with regulation issued by the BCRA. Sanctions may range from warnings or fines, to license revocation or a prohibition on serving as a bank director, senior officer, auditor or shareholder. Sanctions have been effectively enforced in cases of failure to comply with the BCRA rules, with the same effect as if they had been a primary law.</p>

(6) The regulatory provisions are expressed in clear language that complies with the Basel provisions in both substance and spirit.	The text on the LCR is written in clear language in order to specify the required actions and avoid misinterpretations. The format of the document follows the regulatory style of the BCRA and preserves the substance and spirit of the Basel provisions.
(7) The substance of the instrument is expected to remain in force for the foreseeable future	The BCRA, the only authority in banking regulation and supervision, is committed to preserving the substance of the LCR rule.

Annex 7: Key liquidity indicators of Argentinian banking system

Data as of December 2015		Table 5
Size of banking sector (ARS million)		
1. Total assets of all banks operating in the jurisdiction	2,051,754	
2. Total assets of all major locally incorporated banks	1,080,187 (major locally incorporated banks = D-SIBs)	
3. Total assets of locally incorporated banks to which liquidity standards under the Basel framework are applied	1,839,305	
Number of banks		
4. Number of banks operating in the jurisdiction (excl. local representative offices)	78	
5. Number of global systemically important banks (G-SIBs) ⁷	10	
6. Number of domestic systemically important banks (D-SIBs)	5	
7. Number of banks which are internationally active banks	5 (major locally banks – D-SIBs)	
8. Number of banks required to implement Basel III liquidity standards	18	
9. Number of banks required to implement domestic liquidity standards	78	
Breakdown of LCR for five RCAP sample banks	Unweighted	Weighted
10. Total HQLA	577,723	522,614
11. Level 1 HQLA	577,723	522,614
12. Level 2A HQLA	0	0
13. Level 2B HQLA	0	0
14. ALA HQLA	0	0
15. Total cash outflows	1,556,699	328,059
16. Retail and small business stable deposits	297,803	14,112
17. Retail and small business less stable deposits	244,858	36,294
18. Wholesale unsecured operational deposits	200,956	50,239
19. Wholesale unsecured non-operational funding	400,927	197,740
20. Secured funding	3,584	0
21. Debt issued instruments (incl. credit and liquidity facilities)	1,151	264
22. Other contractual outflows	151,475	10,391
23. Contingent funding obligations	255,945	19,019
22. Total cash inflows	208,684	94,693
23. Secured lending	22,919	1,890
24. Fully performing unsecured loans	145,522	76,808
25. Other cash inflows	40,243	15,995
26. Liquidity Coverage Ratio	224%	

⁷ Subsidiaries include HSBC Bank Argentina, Deutsche Bank, Industrial and Commercial Bank of China, Banco Santander Río and BBVA Banco Francés. Branches include JPMorgan Chase Bank, BNP Paribas, Citibank, Bank of America and The Bank of Tokyo-Mitsubishi UFJ.

Annex 8: Materiality assessment

As a general principle, and mirroring the established RCAP assessment methodology for risk-based capital standards, the RCAP-LCR materiality assessment is based on both quantitative and qualitative information with an overlay of expert judgment. Where possible, teams also take into account the dynamic nature of liquidity risks and seek to assess the materiality of deviation at different points in time.

In line with underlying RCAP principles, the quantitative materiality assessment for the LCR is based on a determination of the cumulative impact of all identified deviations (both quantifiable and non-quantifiable deviations). Where deviations are quantifiable, the Assessment Team will generally base the assessment on the highest impact that has been reported across three data points. The collection of data across different dates is agreed upon between the team leader and the assessed jurisdiction.

In the case of the Argentina LCR assessment, no quantifiable or non-quantifiable gaps remain following the amendments published on 1 July 2016 by the BCRA. The following table summarises the number of deviations according to their materiality.

Number of gaps/differences by component			Table 6
Component	Non-material	Material	Potentially material
Definition of HQLA (numerator)	0	0	0
Outflows (denominator)	0	0	0
Inflows (denominator)	0	0	0
LCR disclosure requirements	0	0	0

Note: materiality is defined based on quantitative benchmark thresholds (for the quantifiable gaps) and expert judgment (for the non-quantifiable gaps). See Section 2 with the detailed assessment findings for further information.

RCAP sample of banks

The following Argentinian banks were selected for materiality testing of the quantifiable deviations. Together these banks hold about 62% of the total assets of the Argentinian banking system. The sample covers internationally and regionally active banks, and is a fair representation of the various types of banks operating in Argentina. The basis of materiality assessment is the impact on the reported liquidity ratio of the banks constituting the sample agreed between the Assessment Team and the assessed jurisdiction.

Banking group	Share of the banking groups' assets in total Argentinian banking sector assets as of 31 December 2015
1. Nación	27%
2. Galicia	7%
3. Santander	7%
4. Francés	6%
5. Macro	5%
6. Ciudad	3%
7. HSBC	4%
8. Credicoop	3%
Total	62%

Annex 9: Argentina's implementation of the liquidity monitoring tools

In addition to the minimum standard for the LCR, the Basel LCR framework also outlines the metrics to be used to monitor liquidity risks ("the monitoring tools"). The monitoring tools capture specific information related to a bank's cash flows, balance sheet structure, available unencumbered collateral and certain market indicators. The monitoring tools supplement the LCR standard and are a cornerstone for supervisors in assessing the liquidity risk of a bank. This annex provides a qualitative overview of the implementation of the monitoring tools in Argentina. The monitoring tools are not part of the formal RCAP assessment and no grade is assigned. This annex is provided by the BCRA and serves for information purposes only.

The liquidity monitoring tools were implemented in Argentina in the first quarter of 2015 through Communication "A" 5733. On a quarterly basis, banks report metrics that are similar or identical to the Basel monitoring tools: (i) contractual maturity mismatch; (ii) concentration of funding; and (iii) available unencumbered assets. The LCR can be calculated in each significant foreign currency with the data reported by banks. In August 2015, some clarifications and amendments were made through Communication "A" 5790.

Given the novelty of these tools, their use by supervisors is still at an early stage. At present, each supervisor has access to screens with the values of the monitoring tools for each bank.

I. Contractual maturity mismatch

Banks must report cash and security inflows and outflows from all on- and off-balance sheet items, mapped to the following time bands based on their respective maturities: the overnight, first four statistical weeks, second to sixth months, second semester, second to fifth years, more than five years and instruments with no specific maturity. Banks are not allowed to make assumptions on the rollover of their existing liabilities. For assets, banks are assumed not to enter into any new contracts.

Only contractual flows must be reported, with no reflection of future forecasted flows under current or future plans.

No assumptions can be made on the instruments with no specific contractual maturity. Banks must report them separately, providing the supervisors with the identification and details of such instruments.

II. Concentration of funding

The metric is meant to identify sources of wholesale funding that are of such significance that withdrawal of this funding could trigger liquidity problems. For this metric, banks must identify funding concentrations by counterparty and funding instrument as well as mismatches in assets and liabilities by significant currency.

Banks are required to record their funding liabilities sourced from each significant counterparty in a database that is available to supervisors on request. A significant counterparty is defined as a single counterparty or economic group (connected or affiliated counterparties) accounting in aggregate for more than 1% of the bank's total liabilities.

Banks are further required to break down their liabilities by significant funding instrument/product, which are defined as those instruments/products with an aggregated amount of more than 1% of the bank's total liabilities.

Banks are also required to report and group assets and liabilities by currency, if significant. A currency is considered significant if the aggregate liabilities denominated in that currency represent more than 5% of the institution's liabilities.

III. Available unencumbered assets

The metric is meant to provide supervisors with data on the quantity and key characteristics, including currency denomination and location, of banks' available unencumbered assets that could potentially be used as collateral to raise additional HQLA.

Banks are required to report the amount, type, currency and location of available unencumbered assets that could serve as collateral for: (a) secured borrowing in secondary markets; and (b) secured financing with the BCRA and, in the case of branches and/or subsidiaries abroad, other central banks.

Customer collateral that the bank is permitted to deliver or re-pledge must be reported separately, with information on the part of such collateral that the bank has effectively used at each reporting date.

Annex 10: Argentina's implementation of the *Principles for sound liquidity risk management and supervision*

This annex provides a qualitative description of the implementation of the Basel *Principles for sound liquidity risk management and supervision* in Argentina's regulation. The principles are not part of the formal RCAP assessment and no grade is assigned. This annex is provided by the BCRA for information purposes only.

Principles 1–13 are implemented in Argentina's regulation through the *Guidelines for Risk Management in Banks* (the Guidelines), particularly in Section 3 – Liquidity Management. These principles are applicable to all banks. Notwithstanding, the LCR is applicable only to Group A banks, which, according to the BCRA's provisions, are those banks whose deposits represent not less than 1% of the aggregate deposits of the financial system. Principles 14–17 give guidance for supervisors assessing banks' liquidity risk management. They are implemented through a risk-based supervisory methodology that is outlined in the SEFyC's Supervision Manual.

Fundamental principle for the management and supervision of liquidity risk – Principle 1

The first principle states the overall purpose: banks are responsible for having processes in place to actively monitor and manage liquidity risk.

The provisions for liquidity risk management are laid down in the Guidelines. The Guidelines set out the requirements and expectations for sound risk management in general as well as the specific requirements concerning liquidity risk. In particular, banks are expected to have a comprehensive process for managing risks that should include surveillance by the Board and Senior Management to identify, assess, monitor, control and mitigate all significant risks. The process is expected to be proportional to the size and economic importance of each bank and to the nature and complexity of its business, according to the terms and provisions contained in the Guidelines.

The comprehensive process for managing liquidity risks must be adequate, well established and duly documented. It must be periodically reviewed, with a frequency appropriate to the changes in the market and in the bank's risk profile.

Governance of liquidity risk management – Principles 2–4

These principles give guidance on the division of responsibility for liquidity risk management and controls within banks. Their aim is to clearly articulate a liquidity risk management process through which the senior management and the board of directors actively participate in defining a liquidity risk tolerance that is appropriate for the organisation's business strategy. For this purpose, the above-mentioned process should incorporate liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval process for all significant business activities (both on- and off-balance sheet), thereby aligning the risk-taking incentives of individual business lines with the liquidity risk exposures their activities create for the bank as a whole.

Argentina's regulation makes the Board responsible for approving the level of risk tolerance. Risk tolerance must be related to the business strategy of the bank, its financial condition and funding capacity

and, more generally, to its importance in the financial system. Additionally, the Board is responsible for ensuring that the liquidity risk management framework, policies, practices, procedures and organisational structure of the bank are adequate for a proper management of the risk. Such a framework must ensure the maintenance of sufficient liquidity, including unencumbered high-quality liquid assets, in order to allow the bank to cope with a range of stress events, including the loss of traditional funding sources.

Senior management is responsible for the proper communication of the Board's decisions as regards the liquidity strategy and risk tolerance through clear and operational guidelines. Senior management is also responsible for managing the liquidity risk according to the accepted level of risk tolerance and the bank's policies and practices, as well as for developing written procedures for the identification, assessment, monitoring, control and mitigation of the risk. Senior management has to ensure that costs, revenues and liquidity risks are appropriately incorporated in the internal pricing system, in the performance measurement and in the approval of new products and activities, on- or off-balance sheet, by aligning the risk-taking incentives of each business line with the exposure to the overall liquidity risk these activities generate to the bank.

Measurement and management of liquidity risk – Principles 5–12

The aim of these Basel principles is that banks have a cushion of unencumbered high-quality liquid assets to be held as insurance against a range of liquidity stress scenarios, including those that involve the loss or impairment of unsecured and typically available secured funding sources. For these purposes, banks are required to have a sound process and tools for identifying, measuring, monitoring and controlling liquidity risk and additionally to have a formal contingency funding plan (CFP) as a backstop measure for addressing liquidity shortfalls in emergency situations.

The Guidelines require banks to keep at all times a sufficient amount of high-quality liquid assets, unencumbered and unpledged as collateral for other transactions, to ensure fundraising in stressed scenarios including those involving the loss of typical funding sources.

In this sense, banks must have an adequate process for identifying, assessing, monitoring, controlling and mitigating liquidity risk, which must include an effective, viable and consistent framework that allows a comprehensive projection of the cash flows of the assets, liabilities and off-balance sheet transactions for an appropriate set of time horizons.

For these purposes, the guidelines require that banks use sets of tools and/or ratios appropriate to their profiles and apply measures to assess the structure of the balance sheet, the projected cash flows and the future liquidity positions, also taking into account the risks from off-balance sheet transactions.

Banks must perform regular tests for different stress scenarios related to specific or market variables, both individually and in a combined manner, for the short and long term. Stress tests must allow banks to identify sources of potential liquidity shortages and ensure that the current exposure remains within the established tolerance level. Test results should prompt adjustments to strategies and policies, actions to limit exposure, the search for liquidity support and the development of effective contingency plans.

Contingency funding plans must clearly establish a strategy for overcoming insufficient cash flows during emergencies, containing policies to manage a range of possible stress scenarios and establishing clear lines of responsibility with the appropriate procedures for each situation.

Public disclosure – Principle 13

Principle 13 requires regular public disclosure of liquidity-related information that enables market participants to make an informed judgment about the soundness of institutions' liquidity risk management frameworks and liquidity positions.

The BCRA disclosure framework requires that banks make public through reports or websites the key elements of their methodologies for the management of the liquidity risk, including:

- information that enables market participants to assess the robustness of the framework for liquidity risk management;
- a description of the system implemented for that purpose; and
- information that enables market participants to understand the way the risk is managed.

The role of supervisors – Principles 14–17

Under these principles, the supervisor should regularly perform a comprehensive assessment of a bank's overall liquidity risk management framework and liquidity position to determine whether an adequate level of resilience to liquidity stress is assured, given the bank's role in the financial system. This comprehensive assessment should be supplemented by monitoring a combination of internal reports, prudential reports and market information. It should be noted that, in the case of deficiencies in a bank's liquidity risk management processes, the supervisor should intervene to require effective and timely remedial action by the bank.

As established in the Supervision Manual, the supervision exerted by the SEFyC is risk-based supervision and oriented to the assessment of a bank's overall liquidity management framework. The supervision process is tailored to each institution and takes into account the quality of the management, the reliability of the internal controls and information systems and the bank's size, complexity and risk profile. The process has been designed as a continuous cycle that combines on-site inspections with off-site monitoring during the period in between inspections.

Annex 11: Areas for further guidance from the Basel Committee

The Assessment Team did not identify any specific issues for further guidance from the Basel Committee.

Annex 12: List of issues for follow-up RCAP assessments

The Assessment Team did not identify any specific issues for a future follow-up RCAP assessments of Argentina.

Annex 13: Areas where Argentinian LCR rules are stricter than the Basel standards

In several places, the BCRA has adopted a stricter approach than the minimum standards prescribed by Basel or has simplified or generalised an approach in a way that does not necessarily result in stricter requirements under all circumstances but never results in less rigorous requirements than the Basel standards. The following list provides an overview of these areas. It should be noted that these areas have not been taken into account as mitigants for the overall assessment of compliance.

1. Level 1 HQLA under Basel paragraph 49

The Argentinian rule requires a 20% haircut for the securities issued by the government of Argentina and the central bank or by other sovereigns and their central banks. No haircut is prescribed under the Basel LCR standard.

2. Level 1 HQLA under Basel paragraph 50

Only Level 1 assets can be computed in the stock of HQLA. The use of debt securities issued by foreign sovereigns or their central banks is limited to covering net cash outflows in the corresponding currencies and jurisdictions independently of the risk weight of the jurisdiction. Such a restriction is not prescribed by the Basel LCR standard.

3. Definition of “stable deposit” under Basel paragraph 75

The definition of stable retail deposit is stricter than the one prescribed by Basel. The BCRA prescribed additional criteria for a retail deposit to be considered as stable: the depositor’s total balance must not exceed ARS 2 million (EUR 0.1 million).

4. Definition of “small business customer” under paragraph 90

The total aggregated funding from a small business must be less than ARS 6 million (EUR 0.4 million). The Basel LCR standard defines small business customers in line with the definition of loans extended to small businesses in paragraph 231 of the Basel II framework. These are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts, provided that the total aggregated funding raised from one small business customer is less than EUR 1 million (on a consolidated basis, where applicable). Additionally, the BCRA has also prescribed additional criteria, ie for a small business to be considered as small business customer, its total annual sales must not exceed ARS 650 million (EUR 39.2 million).

5. Definition of unsecured wholesale funding under paragraphs 107–109

Non-operational deposits and unsecured funding from corporate customers, sovereigns and central banks receive a 40% run-off factor, whether or not they are covered by the insurance scheme. Non-operational funding from public sector entities (other than the central government) receives a 100% run-off factor. The Basel LCR standard stipulates that unsecured wholesale funding provided by these depositors can receive a 20% run-off factor if the entire amount of the deposit is fully covered by an effective deposit insurance scheme or by a public guarantee that provides equivalent protection.

6. Definition of unsecured wholesale funding under paragraph 110

Debt securities issued by the bank receive a 100% run-off factor irrespective of the holder and the BCRA does not allow special treatment to be applied to bonds sold exclusively in the retail market. The Basel LCR requirement allows a preferential run-off factor for bonds sold exclusively in the retail market and held in retail accounts.

7. Definition of secured funding under paragraphs 113–114

Only securities financing transactions backed by Level 1 assets are assumed to be renewed in a stress scenario unless the counterparty is the central bank. The Basel LCR standard also allows Level 2 HQLA instead of only Level 1.

8. Run-off factor for committed facilities under paragraph 131

Committed credit facilities to public sector entities (other than the central government) are assumed to have a 100% drawdown (Basel: 30% drawdown).

Annex 14: Implementation of LCR elements subject to prudential judgment or discretion in Argentina

The following tables provide information on elements of LCR implementation that are subject to prudential judgment and national discretion (provided by the BCRA). The information provided helps the Basel Committee to identify implementation issues where clarifications and (additional) FAQs could improve the quality and consistency of implementation. It should also inform the preliminary design of any peer comparison of consistency across the membership that the Committee may decide to conduct, in similar fashion to the studies on risk-weighted asset variation for the capital standards.

Elements requiring judgment (non-comprehensive list)

Table 7

Basel paragraph	Description	Implementation by the BCRA
24(f)	Treatment of the concept of "large, deep and active markets"	The BCRA restricts the HQLA to solely the assets listed in Section 2.2 of the domestic text on the "Liquidity Coverage Ratio": notes and coins, reserves at the central bank and sovereign bonds. The regulation requires that these assets be traded in large, deep and active repo or cash markets characterised by a low level of concentration. Liquidity needs are purely domestic. The eligibility of assets is limited to the most liquid debt securities in the Argentinian market.
50	Treatment of the concept of "reliable source of liquidity"	See above.
52	Treatment of the concept of "relevant period of significant liquidity stress"	N/A
74–84	Retail deposits are divided into "stable" and "less stable"	Stable retail deposits are those meeting three conditions: (i) denominated in pesos; (ii) covered by insurance; and (iii) of a relationship/transactional nature. The Argentinian regulation makes concrete reference to the products that, following the assessment of the BCRA, meet the conditions for being either transactional or stable. Only these products are recognised as stable retail deposits. The aggregate amount (in demand and time deposits) held by a retail customer cannot exceed ARS 2,000,000 for a deposit to be considered stable (up to the insurance ceiling: ie ARS 450,000).
83, 86	Treatment of the possibility of early withdrawal of funding with maturity above 30 days (para 83 – retail deposits; para 86 – wholesale funding)	No risk of early withdrawal. Compiled text on Depósitos e inversiones a plazo, Section 1.13.2: Banks cannot repay non-transferable CDs (the majority of retail term deposits) before maturity. Options for early withdrawal are not a common practice in the Argentinian market, especially during times of stress. However, the Argentinian regulation requires that, if the bank decides to pay out for reputational reasons, the whole category of term deposits should be treated as demand deposits, regardless of the remaining term.
90–91	Definition of exposure to small business customers is based on nominal euro amount (EUR 1 million)	Funding raised must be less than ARS 6 million.

94–103	Deposits subject to “operational” relationships”	The definition of “operational” relationship is the same as that of Basel: (i) substantive dependency with the bank; and (ii) deposit needed for clearing, custody or cash management activities that meet Basel criteria.
131(f)	Definition of other financial institutions and other legal entities	“Other financial institutions” is a category that comprises exchange institutions (under the supervision of the BCRA), insurance companies (under the supervision of the SSN), agents regulated by the CNV and the fiduciaries of non-financial trust funds. Other types of non-banking financial institution and correspondent bank are captured in the residual category “other legal entities”, also subject to a 100% outflow rate.

Elements left to national discretion (non-comprehensive list)

Table 8

Basel paragraph	Description	Implementation by the BCRA
5	These two standards [the LCR and NSFR] comprise mainly specific parameters which are internationally “harmonised” with prescribed values. <i>Certain parameters, however, contain elements of national discretion to reflect jurisdiction-specific conditions. In these cases, the parameters should be transparent and clearly outlined in the regulations of each jurisdiction to provide clarity both within the jurisdiction and internationally.</i>	More rigorous requirements were implemented for: <ul style="list-style-type: none"> • haircuts for the securities issued by sovereigns and central banks. • retail deposit run-off rates: term deposits in pesos, 15%; term and sight deposits in foreign currencies, 20%. • definition of small business customers. • run-off rates for funding and committed credit facilities to public sector entities other than the central government and the central bank.
8	Use of phase-in options	The phase-in arrangement is the same as in Basel.
11	The Committee also reaffirms its view that, during periods of stress, it would be entirely appropriate for banks to use their stock of HQLA, thereby falling below the minimum. Supervisors will subsequently assess this situation and will give guidance on usability according to circumstances. <i>Furthermore, individual countries that are receiving financial support for macroeconomic and structural reform purposes may choose a different implementation schedule for their national banking systems, consistent with the design of their broader economic restructuring programme.</i>	The LCR rule states that, during periods of financial stress, banks may use their stock of HQLA, thereby allowing the LCR to fall below the regulatory requirement. In such a case, the Superintendence of Financial and Exchange Institutions (SEFyC) shall assess the context and adjust the response according to the circumstances.
50(b)	Eligibility of central bank reserves	The BCRA is the only authority (monetary authority, regulator and supervisor) and has full powers to regulate on cash reserves (Section 31, LEF, see par 24); ie the BCRA has powers to adjust the level of requirements for the entire banking system. The same law, Section 34, empowers the BCRA to grant temporary exemptions to limits and technical relationships in order to facilitate the implementation of regularisation plans by distressed banks, which means that the BCRA has the legal power to reduce the requirements for any individual bank or group of banks, if needed. Reserves in the BCRA are deposited

		in current accounts with no operational limits on drawing funds, with the exception of the amounts placed in special accounts for payment guarantees. The BCRA has historically lowered general reserve requirements in times of generalised stress or granted individual exemptions when a particular bank was under a regularisation plan.
50(c)	Marketable securities that are assigned a 0% risk weight under the Basel II Standardised Approach for credit risk	The eligibility of marketable securities receiving a 0% risk weight is admitted only for securities issued by the BIS, IMF, ECB, EU and BMDs.
53–54	Eligible Level 2B assets	Level 2 assets are not eligible.
54a	Provision relating to the use of restricted contractual committed liquidity facilities (RCLF) ⁸	No use of RCLF.
55(f)	Treatment for jurisdictions with insufficient HQLA (subject to separate peer review process)	Not applicable.
68	Treatment of Shariah-compliant banks	Not applicable.
78	Treatment of deposit insurance	No use is made of the preferential run-off rate of 3%.
79(f)	Categories and run-off rates for less stable deposits	The category “other retail deposits” includes retail deposits that do not meet the definition of stable deposits. The run-off rate range is 10% for demand deposits in pesos that do not meet any one of the requirements to be considered stable, 15% for term deposits in pesos and 20% for demand and term deposits in foreign currencies.
123	Market valuation changes on derivative transactions	The exposure of Argentinian banks to OTC derivatives is minimal. Outflows generated by market valuation changes must be calculated, as in Basel, by identifying the largest absolute net 30-day collateral flow realised during the preceding 24 months. Master netting agreements are not enforceable in Argentina. They are mentioned in the regulation to provide guidance for agreements entered into in jurisdictions where netting is enforceable.
134–140	Run-off rates for other contingent funding liabilities	Run-off rates for other contingent funding obligations range from 0% for uncommitted facilities, 3% for court-ordered deposits and 5% for foreign trade finance instruments to 50% for non-contractual obligations where customers’ short positions are covered by other customers’ collateral.
160	Weight assigned to other contractual inflows	Argentinian banks’ usual transactions are captured in the LCR definition of cash inflows. The BCRA did not identify other items that would deserve specific buckets and inflow rates. The “other contractual cash inflows” bucket is maintained as a residual category, with an inflow rate of 50%.

⁸ See www.bis.org/publ/bcbs274.htm.

164–165	Determination of scope of application of LCR (whether to apply beyond “internationally active banks” etc) and scope of consolidation of entities within a banking group	The LCR applies to the 18 Group A banks (Communication “A” 5703), on a solo and consolidated basis: www.bcra.gov.ar/pdfs/comytexord/A5703.pdf .
168–170	Differences in home/host liquidity requirements due to national discretions	For practical purposes, Argentinian banks do not operate in foreign markets. The Argentinian regulation nevertheless fully implements the respective Basel provisions.
Annex 2	Principles for assessing eligibility for Alternative Liquidity Approaches (ALA)	NA