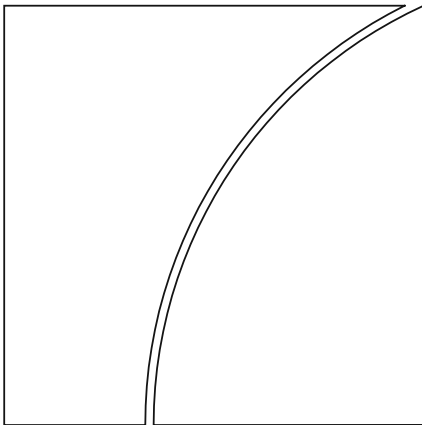


# Basel Committee on Banking Supervision



Regulatory Consistency  
Assessment Programme  
(RCAP)

Assessment of Basel III  
risk-based capital  
regulations – Argentina



BANK FOR INTERNATIONAL SETTLEMENTS

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## Glossary

ADI	Authorised deposit-taking institution
AMA	Advanced Measurement Approach
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CCB	Capital conservation buffer
CCyB	Countercyclical buffer
CCP	Central counterparty
CCR	Counterparty credit risk
CET1	Common Equity Tier 1
ECAI	External Credit Assessment Institution
FAQ	Frequently asked question
G-SIB	Global systemically important bank
IAA	Internal Assessment Approach
IMM	Internal Models Method
IRB	Internal Ratings-Based
PON	Point of non-viability
RCAP	Regulatory Consistency Assessment Programme
RWA	Risk-weighted asset
SA	Standardised Approach
SM	Standardised Method
SREP	Supervisory Review and Evaluation Process
T2	Tier 2

## Preface

The Basel Committee on Banking Supervision (Basel Committee) sets a high priority on the implementation of the regulatory standards underpinning the Basel Framework. The benefits of the agreed global reforms can only accrue if these standards are incorporated in the member countries' regulatory frameworks and applied appropriately. In 2011, the Basel Committee therefore established the Regulatory Consistency Assessment Programme (RCAP) to monitor and assess its members' implementation of the Basel Framework. The RCAP assessments aim to ensure that each jurisdiction adopts the Basel Framework in a manner consistent with the Framework's letter and spirit. The intention is that prudential requirements based on a sound and transparent set of regulations will help strengthen the international banking system, improve market confidence in regulatory ratios, and ensure a level playing field.

This report presents the findings of the RCAP Assessment Team (the Assessment Team) on the domestic adoption of the Basel risk-based capital standards in Argentina and their consistency with the Basel Committee standards. The team was led by Édouard Fernandez-Bollo, Secretary General of the French Prudential Supervisory and Resolution Authority, and comprised five technical experts. The assessment was carried out in 2016 using information available as of 30 December 2015. The counterparty for the assessment was the Central Bank of Argentina (BCRA), which published Basel III risk-based capital regulations in November 2013 and brought them into force on 1 February 2013. The BCRA published additional regulations in November 2015 to implement the capital conservation and countercyclical buffers that came into force on 1 January 2016.

The assessment work comprised (i) a self-assessment by the BCRA; (ii) an off- and on-site assessment phase; and (iii) a post-assessment review phase. The assessment phase included a visit to Buenos Aires during which the Assessment Team held discussions with the BCRA, Argentinian authorised deposit-taking institutions (ADIs) and one audit firm. These discussions provided the Assessment Team with a comprehensive overview and a deeper understanding of the implementation of the Basel risk-based capital standards in Argentina. The third phase consisted of a technical review of the findings of the Assessment Team by a separate review team. This is a key quality control mechanism to ensure the comprehensiveness of the assessment. The work of the Assessment Team and its interactions with the BCRA were coordinated by the Basel Committee Secretariat.

The scope of the assessment was limited to the consistency and completeness of domestic regulations in Argentina with the Basel Framework. Issues relating to the functioning of the regulatory framework and prudential outcomes were not part of the assessment exercise. Where domestic regulations and provisions were identified to be inconsistent with the Basel Framework, those deviations were evaluated for their current and potential impact on the capital ratios and the international level playing field for ADIs. The Assessment Team did not evaluate the capital levels of individual ADIs, the adequacy of loan classification practices, or the way ADIs currently calculate risk-weighted assets and regulatory capital ratios. As such, the assessment covers neither the soundness nor stability of the banking sector in Argentina, nor the BCRA's supervisory effectiveness.

The 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 their professional and efficient cooperation throughout the assessment process.

## Executive summary

The BCRA implemented Pillar 1 and Pillar 2 of the Basel capital framework on 1 January 2013 and Pillar 3 on 31 December 2013. They apply to all banks operating in Argentina.

In late 2015, the BCRA completed an extensive self-assessment of its capital regime as part of its preparation for the RCAP exercise. Based on the self-assessment and the Argentinian regulations, the Assessment Team identified certain material variations from the Basel framework, which the BCRA resolved to rectify. The BCRA used the discipline of the RCAP exercise to undertake reform and upgrade its prudential capital framework – to the extent feasible and consistent with Argentinian national interests. The amendments undertaken by the BCRA include, among others, the Standardised Approach for credit risk, where the BCRA has amended its regulation to allow the use of external credit ratings to determine the risk weights for claims on sovereigns, public sector entities and banks, instead of applying national discretions and fixed risk weights. Under the previous regulatory regime, the application of fixed risk weights for these exposures have led to risk weights that differ from those prescribed by the Basel standards, and, given the ratings of the obligors, generate lower capital requirements.

As of the cut-off date for the RCAP assessment, and based on the amended risk-based capital requirements issued in July 2016,<sup>1</sup> Argentina is considered compliant with the minimum Basel capital standards. Ten of the 11 assessed components<sup>2</sup> of the Basel framework are assessed as compliant. The Argentinian capital framework benefited from a number of amendments during the course of the RCAP assessment, most of which became effective on 1 July 2016 (see Annex 6). The additional regulatory initiatives undertaken by the BCRA significantly improved the level of compliance with the Basel minimum standards. In the absence of these reforms, the RCAP assessment would have generated a considerably less positive result.

The scope of application was assessed as largely compliant. This component grade was driven mainly by one potentially material finding. Under the Argentinian regulation, companies with an ownership stake in a bank (ie holding companies) are not part of the scope of application and thus the Basel framework is not applied at the consolidated holding company level. The main focus of the scope of application is that the capital framework should apply on a fully consolidated basis to all internationally active banks at every tier within the banking group. This includes, on a fully consolidated basis, any holding company that is the parent entity within a banking group with the aim of ensuring that the risk of the whole banking group is captured. While only one bank out of eight banks in the RCAP sample is owned by a parent holding company, and only two banks out of 78 in Argentina, the possibility that other banks might adopt a holding company structure in the future cannot be ruled out. Hence, this finding is assessed as potentially material. Further, this finding is listed as an area for a follow-up by a future RCAP assessment of Argentina to review progress made and steps taken to further improve consistency with the Basel standards (Annex 12).

The Assessment Team compliments the BCRA for its substantial reforms and alignment with the Basel capital framework. It should be noted that the implementation of the Pillar 2 framework (supervisory review process) is still recent and its effectiveness will therefore require the BCRA and the banks to build up further experience. However this component is assessed as compliant, on the basis that the BCRA regulation is considered already binding.

<sup>1</sup> See [www.bcra.gob.ar/Pdfs/comytexord/A6004.pdf](http://www.bcra.gob.ar/Pdfs/comytexord/A6004.pdf).

<sup>2</sup> The BCRA does not allow the Internal Ratings-Based Approach for credit risk, the Internal Models Approach for market risk and the Advanced Measurement Approach for operational risk. These approaches are therefore out of scope for this RCAP assessment.

## Response from the BCRA

The BCRA would like to express gratitude to the 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, in particular, with the main findings by component and the detailed assessment findings contained in the report – the only exception being that which refers to the scope of the application of the risk-based capital regulations to holding companies.

It has been noted that companies that hold ownership of an Argentinian bank are not included in the consolidation basis of the capital requirement. In the course of the RCAP visit, the Assessment Team clearly explained the mechanisms by which a holding company could leverage the risk of its banking group without it being perceived by the supervisor unless such company is included within the scope of application via full consolidation.

Even if the technical basis for the observation is unquestionable, the BCRA would like to stress that banking activity in Argentina is not carried out by complex structures such as those described in the paragraphs 20–23 of Basel II. Rather, controlling shareholders are either natural persons or diversified groups. In fact, only two institutions were identified as being controlled by parents that could be assimilated to holding companies. On such grounds, we have reasons to believe that the risks that could be overlooked by not including the parent in the scope of the application of the capital rule are immaterial.

All the other findings identified by the Assessment Team as having certain materiality have been modified, as requested, in the guidelines concerning the domestic implementation of the Basel capital framework. The vast majority of the corrections were introduced through Communication “A” 6004 and “A” 6006 approved by the Board of the BCRA and published in early July 2016.

We would like to take the opportunity to confirm the BCRA’s commitment 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 implemented Basel II, Basel 2.5 and Basel III in Argentina in 2013. Pillar 1 and Pillar 2 rules came into force on 1 January 2013 while Pillar 3 requirements came into force on 31 December 2013. In 2015, the BCRA introduced regulations that implemented capital conservation and countercyclical buffers with effect from 1 January 2016, in line with the globally agreed timeline. The regulations cover all financial institutions, including the state-owned banks (12 banks) and both the domestic and foreign private banks operating in Argentina (33 and 19 banks respectively as at August 2015).

### Regulatory system, model of supervision and binding nature of prudential regulations

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

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

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

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

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

### Status of adopting the Basel approaches

The implementation of the Basel framework in Argentina has focused on the standardised approaches to credit, market and operational risk. The BCRA has not made available to its banks the internal ratings-based (IRB) approaches for credit risk and the internal models approach (IMA) for market risk. With regard

to operational risk, the BCRA has implemented only the basic indicator approach (BIA). Also, the internal models method (IMM) and standardised method (SM) for counterparty credit risk and the advanced Credit Valuation Adjustment (CVA) capital charge have not been adopted. Further, the standardised approaches for credit and market risk adopted by the BCRA differ from those existing in the Basel standards mainly as a result of Argentina's decision not to make reference to external credit ratings in its regulation.

## 1.2 Structure of the banking sector and financial soundness

After experiencing a strong shock during the economic crisis of the early 2000s, Argentina's financial sector has recovered and remains bank-based. 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 of December 2015), including state-owned banks (12 banks) and private banks (50 banks) and non-bank financial institutions (16). The main institutions are both state-owned banks and private banks. Among the former, Banco de la Nación Argentina stands as the principal institution, accounting for almost 28% of total deposits and 17% of loans (as of December 2015). Private banks are divided into those with foreign shareholders (17 foreign private banks) and those with a major domestic local shareholder participation (33 "national private banks"). 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 is originated by 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.

As banks' cross-border activities remain limited, their exposure to foreign counterparties and markets represents only around 1.7% of total assets (as of December 2015). Only one bank, which holds 0.23% of the financial system's total assets, has such exposures in a range of 10–15% of its assets.

## 1.3 Scope of the assessment

### Scope

The Assessment Team considered all documents that effectively implement the risk-based Basel capital framework in Argentina as of 8 July 2016, the cut-off date for the assessment (Annex 4).

The assessment focused on two dimensions:

- A comparison of domestic regulations with the capital standards under the Basel framework to ascertain that all the required provisions have been adopted (*completeness* of the Argentinian domestic regulation); and
- Whether there are any differences in substance between the domestic regulations and the capital standards under the Basel framework and their significance (*consistency* of the Argentinian regulation).

In carrying out the above, the Assessment Team considered all binding documents that effectively implement the Basel framework in Argentina as discussed above. Importantly, the Assessment Team did not evaluate the adequacy of capital or resilience of Argentina's banking system or the supervisory effectiveness of the Argentinian regulatory authorities.

Any identified deviation was assessed for its materiality (current and potential, or having an insignificant impact) by using both quantitative and qualitative information. For potential materiality, in addition to the available data, the Assessment Team used expert judgment to determine whether the domestic regulations met the Basel framework in letter and spirit (see Section 1.4).

### Bank coverage

The Assessment Team looked at bank-level capital ratio and exposure data for eight banks covering approximately 62% of banking system assets (as at August 2015). The selection of banks was based on their domestic significance, regional and international activities.

The assessment of the materiality of areas where the Basel standards were not consistently applied has been guided by the methodology approved by the Basel Committee and included quantitative and qualitative elements. In making the assessment, the Assessment Team evaluated the current and the potential future materiality of the gaps identified and applied their expert judgment based on the local structure, appropriateness of the regulations and consistency across other assessments under the RCAP.

### 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, both at the level of each of the 14 key components of the Basel framework and overall assessment of compliance: compliant, largely compliant, materially non-compliant and non-compliant.<sup>3</sup>

The materiality of the deviations was assessed in terms of their current or, where applicable, potential future impact (or no-impact) on capital ratios of the banks. The quantification was, however, limited to the agreed population of internationally active banks. 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 (see Annex 9). The non-quantifiable aspects of identified deviations were discussed and reviewed in the context of the prevailing regulatory practices and processes with the BCRA.

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 9.

<sup>3</sup> 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 (N/A). See [www.bis.org/publ/bcbs264.htm](http://www.bis.org/publ/bcbs264.htm) for further details.

In a number of areas, the Argentinian rules 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 10 for a listing of areas of super-equivalence).

## 1.4 Main findings

A summary of the main findings is given below.

Summary assessment grading		Table 1
Key components of the Basel capital framework		Grade
Overall grade:	C	
Scope of application	LC	
Transitional arrangements	C	
Pillar 1: Minimum capital requirements		
Definition of capital	C	
Credit Risk: Standardised Approach	C	
Credit risk: Internal Ratings-Based Approach	N/A	
Securitisation framework	C	
Counterparty credit risk framework	C	
Market risk: Standardised Measurement Method	C	
Market risk: Internal Models Approach	N/A	
Operational risk: Basic Indicator Approach and Standardised Approach	C	
Operational risk: Advanced Measurement Approaches	N/A	
Capital buffers (conservation and countercyclical)	C	
Pillar 2: Supervisory review process		
Legal and regulatory framework for the Supervisory Review Process and for taking supervisory action	C	
Pillar 3: Market discipline		
Disclosure requirements	C	

Definition of the grades: **Compliant (C)**: all minimum Basel provisions have been satisfied and no material deviations 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 capital ratios have been identified; **Non-compliant (NC)**: the regulation has not been adopted or differences that could severely impact capital ratios 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

### *Scope of application*

The main finding in the scope of application for the Argentinian regulation is the fact that companies that hold ownership of a bank are not included in the consolidation basis, whereas the Basel capital framework should apply on a fully consolidated basis also to any holding company that is the parent entity within a banking group. If the holding company is excluded, the risk of the whole banking group may not be fully captured.

While only one bank out of eight banks in the RCAP sample is owned by a parent holding company, and two banks out of 78 banks in Argentina, the possibility that other banks might adopt such a structure in the future cannot be ruled out. The finding has therefore been assessed as potentially material and this component as largely compliant.

### *Transitional arrangements*

The transitional arrangement for implementing the capital framework according to Basel III standards have all been implemented in the Argentinian regulations and this component is assessed as compliant.

### *Definition of capital*

The BCRA's framework for the definition of capital requirements is assessed as compliant with the Basel Framework.

### *Capital buffers (conservation and countercyclical)*

No finding is noted in this section. The BCRA rule is considered as compliant with the Basel standards.

### *Credit Risk: Standardised Approach*

The Assessment Team considers the implementation by the BCRA of the Standardised Approach for credit risk to be compliant with the Basel framework. A number of rectifications were made by the BCRA which left no material deviation but only a few "not material" findings in this section. In the initial RCAP assessment, the Assessment Team raised several findings related to the use of fixed risk weights instead of external credit assessment ratings for determining the risk weights for claims on sovereigns, public sector entities and banks, as prescribed by the Basel standards. However, these findings were resolved following the amendments of the rules carried out by the BCRA that include the introduction of external credit assessment ratings in the Argentinian capital regulation, in line with the Basel standards.

### *Credit risk: Securitisation framework*

The BCRA capital rules for securitisations are, in general, a faithful implementation of the securitisation framework and are therefore assessed as compliant. The BCRA implements only the standardised approach for securitisations, in some aspects going beyond the Basel rules and implementing them in a more rigorous way. There is, nevertheless, a deviation that arises from the BCRA's implementation that applies to all securitisation exposures of the Basel rules for unrated positions, whether or not the securitisation exposures have an external credit rating, but this deviation is assessed as not material in terms of its capital impact on the banks within the RCAP sample. A few other minor findings are also considered as not material.

During the initial assessment, a potentially material finding was identified regarding the securitisation of exposures to the non-financial public sector, which was originally excluded from the capital treatment of securitisations and allocated a 0% risk weight. This was subsequently rectified by the BCRA.

### *Counterparty credit risk framework*

Argentina has implemented only the Current Exposure Method (CEM) for the calculation of counterparty credit risk in the Basel framework. Its implementation is mostly aligned with the Basel standards, except that no prescribed counterparty weights based on credit ratings are used in the standardised approach for CVA. Data provided by the BCRA show the deviation is not material; thus, the counterparty credit risk framework is assessed as compliant with the Basel standard.

### *Market risk: Standardised Approach*

The standardised measurement method for market risk is assessed as compliant with the Basel framework with no material deviations identified. A few findings were assessed as not material given the very limited trading activities in Argentinian banks.

### *Operational risk: Basic Indicator Approach*

There is no finding noted in this section. The BCRA rule is considered as compliant with the Basel standards.

### *Supervisory review process*

Only minor findings were raised and this component has been assessed compliant. However, the Assessment Team noted that the actual implementation of Pillar 2 is recent and its effectiveness will therefore require the BCRA and the banks to build up further experience with this part of the Basel framework.

### *Disclosure requirements*

The implementation of Pillar 3 disclosure requirements is assessed as compliant with the Basel framework.

## 2 Detailed assessment findings

The component-by-component details of the assessment of compliance with the risk-based capital standards of the Basel framework are detailed below. The focus of Sections 2.1 to 2.5 is on findings that were assessed as deviations from the Basel minimum standards and their materiality. Section 2.6 lists some observations and other findings specific to the implementation practices in Argentina.

### 2.1 Scope of application

Section grade	Largely compliant
Summary	In general, consolidated supervision has been implemented in the Argentinian regulation. However, the scope of consolidation does not include the holding company, which may prevent the capture of all banking group risks.
Basel paragraph no	Basel II paragraphs 20–23
Reference in domestic regulation	Section 9: 9.1 & 9.2. "Consolidated Supervision": 2.3, 3.1, 3.2, 3.4, 4.2, 5.2.1.1, 5.2.2.1 & "Supplementary services to financial activities and other qualifying activities": 2.2.
Findings	As a general matter, the Basel III capital framework should 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.  Under the Argentinian regulation, companies that hold ownership of a bank are not included as part of the scope of application and thus not consolidated at the holding company level. As a result, the risk of the whole banking group may not be fully captured.
Materiality	Potentially material.  While only one bank out of eight banks in the RCAP sample is owned by a parent holding company, and two banks out of 78 banks in Argentina, the possibility that other banks might adopt a holding company structure in the future cannot be ruled out.

### 2.2 Calculation of minimum capital requirements and transitional arrangements

Section grade	Compliant
Summary	The calculation of minimum capital requirements under the Argentinian regulations is in line with the requirements of the Basel II framework.

### 2.3 Pillar 1: Minimum capital requirements

#### 2.3.1 Definition of capital

Section grade	Compliant
Summary	In general, the definition of capital according to Basel III framework has been implemented in the Argentinian regulation.
Basel paragraph no	Minimum requirements to ensure loss absorbency at the point of non-viability (PON): paragraphs 1–7 and Transitional Arrangements
Reference in domestic regulation	"Minimum Capital": 10.3 (for Transitional Arrangements)
Findings	The Basel framework requires that, where an issuing bank is part of a wider banking group and if the issuing bank wishes the instrument to be included in the consolidated group's capital in addition to its solo capital, the terms and conditions must specify an additional trigger event. This trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by

	<p>the relevant authority in the home jurisdiction; and (2) the decision to make a public sector injection of capital, or equivalent support, in the jurisdiction of the consolidated supervisor, without which the firm receiving the support would have become non-viable, as determined by the relevant authority in that jurisdiction.</p> <p>The domestic regulation in Argentina does not include this requirement. The BCRA is of the view that this requirement is not necessary as the group treatment is only applicable if an issuing bank wishes the instrument to be included by its (cross-border) group. To date, no bank in Argentina has applied for such treatment.</p>
Materiality	<p>Not material.</p> <p>No bank has applied for the treatment described in paragraphs 6–7.</p>

### 2.3.2 Capital buffers (conservation and countercyclical)

Section grade	Compliant
Summary	CCyB was implemented on 1 April 2016.

### 2.3.3 Credit risk: Standardised Approach

Section grade	Compliant
Summary	The Assessment Team considers the implementation by the BCRA of the Standardised Approach for credit risk to be compliant with the Basel framework. Following the amendments to the Argentinian regulations undertaken by the BCRA, only a few not material findings remain.
Basel paragraph no	Basel II paragraph 59: Claims on multilateral development banks (MDBs)
Reference in domestic regulation	4.3
Findings	<p>Claims on multilateral development banks (MDBs) are not allowed to be risk-weighted according to external credit assessments.</p> <p>However, BCRA affirms that this provision is included in the regulation for reasons of completeness given that there is no exposures to MDBs.</p>
Materiality	Not material.
Basel paragraph no	Basel II paragraph 65: Claims on securities firms
Reference in domestic regulation	4.6 Securities firms treated as corporates.
Findings	<p>Claims on securities firms are not allowed to be risk-weighted according to external credit assessments.</p> <p>Securities firms are included as claims on corporations or other legal entities:</p> <ul style="list-style-type: none"> <li>▪ Treated as banks under Option 2, securities firms would most probably receive a 20–50% RW (due to the fact that they are unrated).</li> <li>▪ Treated as corporations, securities firms receive a 100% RW.</li> </ul> <p>BCRA states that the permission of external credit ratings would turn out non-operational, since most Argentinian securities firms are unrated.</p> <p>According to the figures provided by the BCRA, in December 2015 total exposure to securities firms is ARS 0.2 billion (EUR 0.01 billion), representing roughly 0.02% of total banking credit.</p>
Materiality	Not material.
Basel paragraph no	Basel II paragraph 74: Claims secured by commercial real estate
Reference in domestic regulation	4.10
Findings	<p>Under Basel paragraph 74, mortgages on commercial real estate shall be assigned a 100% weighting of the loans secured. However, the following preferential treatment is established in the footnote 29: "The Committee, however, recognises that, in exceptional circumstances for well-developed and long established markets,</p>



	<p>mortgages on office and/or multi-purpose commercial premises and/or multi-tenanted commercial premises may have the potential to receive a preferential risk weight of 50% for the tranche of the loan that does not exceed the lower of 50% of the market value or 60% of the mortgage lending value of the property securing the loan. Any exposure beyond these limits will receive a 100% risk weight. This exceptional treatment will be subject to very strict conditions. In particular, two tests must be fulfilled, namely that (i) losses stemming from commercial real estate lending up to the lower of 50% of the market value or 60% of loan-to-value (LTV) based on mortgage-lending-value (MLV) must not exceed 0.3% of the outstanding loans in any given year; and that (ii) overall losses stemming from commercial real estate lending must not exceed 0.5% of the outstanding loans in any given year. This is, if either of these tests is not satisfied in a given year, the eligibility to use this treatment will cease and the original eligibility criteria would need to be satisfied again before it could be applied in the future. Countries applying such a treatment must publicly disclose that these and other additional conditions (that are available from the Basel Committee Secretariat) are met. When claims benefiting from such an exceptional treatment have fallen past due, they will be risk-weighted at 100%.”</p> <p>Although the above-mentioned discretion of footnote 29 is adopted under the Argentinian capital rules, the strict conditions required by the Basel text have not been implemented in the local regulation. Therefore, neither the two tests nor the public disclosure have been implemented.</p> <p>BCRA justifies that the requirements established in footnote 29 have not been implemented given the lack of significance of this segment (mortgages on commercial real estate amounted to ARS 28.5 billion at December 2015).</p>
Materiality	Not material.
Basel paragraph no	Basel II paragraphs 206–210 : Other items related to the treatment of CRM techniques
Reference in domestic regulation	5.5 to 5.7
Findings	<p>Paragraphs 208 and 210 of the Basel II text state that, with regard to the bank providing credit protection through first and second-to-default credit derivatives, if the product has an external credit assessment from an eligible credit assessment institution, the risk weight in paragraph 567 applied to securitisation tranches will be applied.</p> <p>In the Argentinian capital rules, first-to-default and second-to-default credit derivatives are not allowed to be risk-weighted according to external credit assessment.</p> <p>BCRA affirms that this provision is included in the regulation for reasons of completeness given that credit derivatives are non-existent in Argentinian market.</p>
Materiality	Not material. No exposure to credit derivatives.

### 2.3.4 Securitisation framework

Section grade	Compliant.
Summary	The Assessment Team considers the BCRA's implementation of the securitisation framework to be compliant with the Basel framework. Following the amendments to the Argentinian regulations undertaken by the BCRA, only a few not material findings remain.
Basel paragraph no	Basel II paragraph 567: Standardised approach for securitisation exposure – Risk weights
Reference in domestic regulation	BCRA CRT items 3.6.5, 3.6.6, 3.6.7 and 3.6.10
Findings	<p>Pursuant to Basel paragraph 567, banks must compute the risk-weighted asset amount of a securitisation exposure under the standardised approach by multiplying the amount of the position by the risk weight corresponding to the external credit assessment of the exposure, according to the tables included in the same paragraph. Basel includes in the same paragraph and in paragraphs 571 to 575 the provisions applicable to unrated securitisation exposures.</p> <p>The BCRA regulation disregards the external credit assessment as the parameter for</p>

	determining the risk weight of a securitisation exposure. The domestic legal text implements only the Basel provisions applicable to unrated positions, leading to risk weights that, in general, are at least as high as the Basel provisions. However, the deviations are not material.
Materiality	Not material.
Basel paragraph no	Basel II paragraph 547: Credit-enhancing interest-only strip
Reference in domestic regulation	No reference in domestic regulations
Findings	Unlike the Basel framework, the domestic regulation does not include any reference or definition of credit-enhancing interest-only strips. While Basel includes this concept in paragraph 547 and refers to credit-enhancing I/O strips when setting the Pillar 3 disclosure requirements on securitisations, it does not envisage any specific capital treatment for this type of exposure other than the capital treatment applicable to the credit enhancements. The domestic regulation includes the latter. The deviation has therefore no impact in terms of capital requirements.
Materiality	Not material.
Basel paragraph no	Basel II paragraph 550: Excess spread
Reference in domestic regulation	No reference in domestic regulations
Findings	Unlike the Basel framework, the domestic regulation does not include any reference or definition of excess spread. After introducing the concept of excess spread in paragraph 550, the Basel framework makes use of it in order to determine the credit conversion factors applicable under the standardised approach to uncommitted retail exposures in securitisations containing both controlled and non-controlled early amortisation features. The rigorousness of the CCF depends on the level of the excess spread. The domestic regulation does not include the concept of excess spread and it opts instead for the highest CCFs envisaged in the Basel framework for uncommitted retail credit lines.
Materiality	Not material.
Basel paragraph no	Basel II paragraph 552: Special purpose entity (SPE)
Reference in domestic regulation	No reference in domestic regulations
Findings	The Basel framework introduces the concept of SPEs and refers to them when setting the operational requirements for the exclusion of the securitised exposures from the calculation of risk-weighted assets. The domestic regulation refers to SPEs when establishing the operational requirements to exclude the securitisation exposures from the banks' capital requirements and, although it does not include a proper definition of an SPE, it specifies that the SPE can take the form only of a trust as defined in the domestic Law No 24,441. Law No 24,441 in turn introduces the concept of "Fideicomiso financiero", where the trust in the framework of a fiduciary relationship must meet requirements similar to those of an SPE under the Basel framework.
Materiality	Not material.

### 2.3.5 Counterparty credit risk framework

Section grade	Compliant
Summary	Argentina has implemented the current exposure method (CME) for the treatment of counterparty credit risk. Currently, there is no use of complex derivatives in the Argentinian market and the OTC market is minimal. CCR is almost non-existent. The reporting regime requires only data on the total CCR capital charge. As of June 2015, the total capital charge for the sample banks (includes EAD+CVA) was ARS 40 million.
Basel paragraph no	Basel II paragraphs 3–9 of Annex 4
Reference in domestic regulation	3.9, 3.10

Findings	There is no corresponding reference in the domestic regulation to Basel paragraphs 4–5 on the characteristics of instruments (SFTs and OTC derivatives) and transactions, and paragraph 6 text on exemptions.
Materiality	Not material. This is not considered to represent a specific requirement of the Basel framework and therefore is not considered to be a material deviation.
Basel paragraph no	Basel II paragraphs 91–96 of Annex 4
Reference in domestic regulation	3.9.1, 3.9.2, 3.9.5, 5.2.3
Findings	There is no corresponding reference in the domestic regulation to Basel paragraph 95 hedged banking book exposures capital requirements.
Materiality	Not material. Domestic regulation section 5.3 on credit protection appears to substantively address the operational criteria and other requirements for recognising the risk-reducing effects of credit derivatives more generally. Further, Argentina explained that credit derivatives do not currently exist in this market.
Basel paragraph no	Basel II paragraphs 104–105 of Annex 4 as amended by Basel III
Reference in domestic regulation	3.9.3, 3.9.5
Findings	For Basel paragraph 104, on the external rating of the counterparty, and paragraph 105, on the aggregate CCR and CVA risk capital charges, the Basel framework prescribes counterparty weights that should be used in the SA for CVA, which are based on credit ratings. As per Argentina’s self-assessment, external credit assessments are not used in their regulations.
Materiality	Not material. Argentina explained that the OTC derivatives market is minimal. Therefore the reporting regime only requests data on the total CCR capital charge (formula in Section 3.9.5). As of June 2015, the total capital charge for the sample banks (includes EAD+CVA) was ARS 40 million.

### 2.3.6 Market risk: the Standardised Measurement Method

Section grade	Compliant
Summary	Domestic regulation only allows the use of the standardised method with no reference to external credit ratings. Exposures to commodities are minimal, and there are open positions only in a few major currencies. Credit derivatives are non-existent. In addition, there are no internal hedges, market-makers in financial entities’ eligible capital instruments, term trading-related repo-style transactions, correlation trading or positions in composite currencies.
Basel paragraph no	Basel II paragraphs 683(i)–689(iv)
Reference in domestic regulation	6.1, 6.7, 6.8
Findings	Besides the capital charge for exposures to commodities in 683(i) and 683(iii), referenced domestic regulation is missing for paragraphs 686, 689(i), 689(ii), 689(iii), and 689(iv) and the corresponding text on financial terms.
Materiality	Not material. Argentina explained that exposures to commodities are practically non-existent. Also, in Argentina’s style of regulation, the principles and glossaries of terms frequently used are not included. Definitions presumed known by banks are omitted. Such definitions are published for educational purposes only, for example, on the educational websites of the Central Bank of Argentina and the National Securities Commission: <a href="http://www.clientebancario.bcra.gob.ar/">www.clientebancario.bcra.gob.ar/</a> and <a href="http://www.invertir.gob.ar/secciones/inversiones/instrumentosdeinversion.aspx">www.invertir.gob.ar/secciones/inversiones/instrumentosdeinversion.aspx</a> .

	In the Argentina market there are no: 689(i): Internal hedges. 689(ii): Market-makers in financial entities' eligible capital instruments. 689(iii): Term trading-related repo-style transactions. 689(iv): Correlation trading.
Basel paragraph no	Basel II paragraphs 701(i)–708(i)
Reference in domestic regulation	6.1.3, 6.1.4
Findings	Basel paragraphs 707–708 credit derivatives and 708(i) transitional arrangements text are not in the referenced domestic regulation.
Materiality	Not material. Argentina explained that credit derivatives are non-existent (no exposure) in its market. 708(i) was not included because domestic regulation only allows the use of the standardised method.
Basel paragraph no	Basel II paragraphs 710–711(ii)
Reference in domestic regulation	6.2.1.1
Findings	Domestic regulation does not utilise external credit assessment and no qualifying category.
Materiality	Not material. Argentina explained that references to external ratings would turn out non-operational since their use is not widespread in its market. Only the sovereign and few corporations have an international rating. Others have a national rating. Most securities firms are not rated in Argentina. Due to the impossibility of referring to external ratings, the qualifying category includes only the institutions mentioned in the table of Section 6.2.1.1. The mention is for illustrative purposes only. There are no exposures to those entities.
Basel paragraph no	Basel II paragraphs 712–712(ii)
Reference in domestic regulation	No corresponding provision.
Findings	Domestic regulation does not include specific risk rules for unrated debt securities and non-qualifying issuers,
Materiality	Not material. Same explanation as for Basel II paragraphs 710–711(ii).
Basel paragraph no	Basel II paragraphs 712(iii)–712(viii)
Reference in domestic regulation	6.2.1
Findings	Specific risk charges based on external credit ratings and unrated are not in the specified domestic regulation. Domestic regulation defaults to the calculation in 712(vi)c.
Materiality	Not material. Argentina explained that securitisations are not externally rated. The only choice available is 712(vi) implemented in Section 6.2.1.2.
Basel paragraph no	Basel II paragraphs 713–718
Reference in domestic regulation	6.2.1.4
Findings	Basel paragraph 718, covering if a first or other n-th-to-default credit derivative is externally rated, is not in the specified domestic regulation.
Materiality	Not material. Argentina explained that credit derivatives are non-existent (no exposure) in its market and domestic regulation does not make reference to external credit ratings.

Basel paragraph no	Basel II paragraphs 718(i)–718(viii)
Reference in domestic regulation	6.2.2
Findings	In Basel paragraph 718(vi), horizontal disallowances 4–5 years time band is in zone 2, whereas the domestic regulation has the 4–5 years time band in zone 3. Nevertheless, the disallowance in percentage is similar between the Basel requirement and the domestic regulation. Also, 718(vii) covering the duration method is not in the specified domestic regulation.
Materiality	Not material. Argentina acknowledged there was a typing error in table 718(vi). Regarding 718(vii): Argentina explained the duration method was not implemented. It noted that, to meet the RCAP requirement, the rule on market risk entered into force at very short public notice. The duration method requires the express consent of supervisors after banks' capabilities have been assessed.
Basel paragraph no	Basel II paragraphs 718(xxxii)–718(xxxix)
Reference in domestic regulation	6.4.2
Findings	Positions in composite currencies in Basel paragraph 718(xxxiii) are not in the specified domestic regulation. Also, treatment of structural positions (718(xxxii)–718(xxxix)) is not in the specified domestic regulation.
Materiality	Not material. Argentina explained there are open positions in only a few major currencies. There are no existing positions in composite currencies as described in 718(xxxiii). The supervisor has the option to allow the exclusion of structural positions. Due to the short notice for implementation and the minimal significance of these positions, Argentina decided not to allow the option. As investments in non-consolidated subsidiaries are of no significance, 718(xxxix) was not implemented either. Argentina noted the aim was to keep the reading and implementation of the rule as simple as possible.
Basel paragraph no	Basel II paragraphs 718(xLiii)–718(xLvii); 718(xLviii); 718(xLix)–718(Liii); 718(Liv)–718(Lv); 718(Lix)–718(Lxii)
Reference in domestic regulation	No corresponding provisions
Findings	Capital charge for exposures to commodities not included in domestic regulation.
Materiality	Not material. Argentina explained that commodities exposures currently are practically non-existent.

### 2.3.7 Operational risk: Basic Indicator Approach

Section grade	Compliant
Summary	No deviations were identified by the RCAP Team. Argentinian regulation allows banks to use only the BIA.

## 2.4 Pillar 2: Supervisory review process

Section grade	Compliant
Summary	Implementation of the principles of Pillar 2 was found to be compliant with the Basel framework. The Pillar 2 Basel framework is implemented in the domestic regulation by the "Guidelines for risk management in banks" (GRM) and the "Régimen informativo plan de negocios y proyecciones e informe de autoevaluación del capital" (RIIAC). The text of the GRM, which is legally binding on all Argentinian institutions, refers to the guidelines as sound practice in order to apply the principle of proportionality, particularly concerning the management of risks by banks and their internal capital

	<p>adequacy assessment process. All the credit institutions are subject to the Supervisory Review and Evaluation Process (SREP) process and supervisory powers recognised in the GRM to the BCRA.</p> <p>Basel Pillar 2 identifies the four key principles that should frame the supervisory review process and the three main areas particularly suited to be treated under Pillar 2 (ie risks considered under Pillar 1 that are not fully captured by the Pillar 1 process; risks not taken into account by the Pillar 1 process; and factors external to the bank). While the domestic regulation does not explicitly refer to the four principles of supervisory review or to the three areas for pillar 2 treatment, in both cases, the four principles and the three areas are embedded throughout the text of the local rules. In particular, the GRM includes provisions on risks not taken into account or not fully covered by the Pillar 1 requirements, such as credit concentration risk, interest risk in the banking book or strategic risk, and states that banks are expected to operate with levels of capital above the Pillar 1 minimum. Both the GRM and the RIIAC require banks to have an appropriate process for the evaluation of their capital; specify the requisites that the ICAAP process must meet, including the need to have in place an adequate stress-testing process to assess possible adverse situations that may affect their level of capital; and includes provisions addressed to the SEFyC, who should assess the adequacy of the banks' ICAAP process and of their capital levels, and should require capital levels above those laid in the CRT when necessary, and consider a range of actions to address shortcomings in banks' ICAAPs. Finally, the GRM empowers the SEFyC to intervene promptly to prevent banks' capital from falling below the minimum levels required by the risk profile of each bank and to adopt or require corrective measures if necessary.</p> <p>The Argentinian regulation is in line with most of the provisions of supplemental Pillar 2 guidance under review.</p>
Basel paragraph no	Basel II paragraphs 777(v), (xi), (xii) and (xiii)
Reference in domestic regulation	BCRA Guidelines for risk management in banks (GRM) item 2.4
Findings	The implementation of the Pillar 2 provisions on counterparty credit risk (CCR) in GRM item 2.4 presents some minor deviations whose assessment should be put into the context of the small relevance of bilateral CCR in the Argentinian banking system, with a modest volume of exposures to derivatives that are mostly cleared through regulated CCPs. In this context, the lack of reference in the domestic regulation to requisites such as the need of daily reports by banks on CCR or the absence of a reference to wrong-way risk are assessed as deviations with little or no impact
Materiality	Not material.

## 2.5 Pillar 3: Market discipline

Section grade	Compliant
Summary	The implementation of the Pillar 3 disclosure requirements in the Market Discipline text is compliant with the Basel framework. The BCRA approved and published on 31 March 2016 its Communication "A" 5936, adding some relevant information that was missing in the regulation initially assessed and that has led to an upgrade in the assessment of this section from largely compliant to compliant. The disclosure requirements added to the domestic regulation include some elements of the banks' capital structure and some quantitative information on market risk and interest rate risk. Further details of these rectifications can be found in Annex 6 of this document.
Basel paragraph no	Basel III paragraph 91–93
Reference in domestic regulation	Communication "A" 5394 on Market Discipline – Minimum Disclosure Requirements
Findings	Paragraph 91 and 92 are implemented in the reference document. Disclosure of transitional provisions (para 93) was implemented through Communication "A" 5936, 31 March 2016.
Materiality	Not material.

Basel paragraph no	Table 1: Scope of application
Reference in domestic regulation	II. Disclosure Requirements. A. Scope of Application.
Findings	<p>Three quantitative disclosures regarding the scope of application of the disclosure requirements were missing in Argentinian regulation:</p> <p>d) The aggregate amount of surplus capital of insurance subsidiaries</p> <p>e) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation.</p> <p>f) The aggregate amounts (eg current book value) of the firm's total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate group-wide method.</p> <p>BCRA justified d) and f) because banks are not allowed to invest in insurance companies. When exceptionally permitted, investments in the capital of insurance entities must be deducted. There is no consolidation with insurance companies. BCRA incorporated disclosure requirements d), e) and f) through Communication "A" 5936.</p>
Materiality	Not material.
Basel paragraph no	Pillar 3 – Table 2
Reference in domestic regulation	"Market Discipline – Minimum disclosure requirements": II. Disclosure requirements. B. Capital: b.1. Capital structure; Annex I, 1.4.1. Capital structure template
Findings	<p>The capital structure template included in the Market Discipline text largely follows the structure of the Basel III disclosure template applicable during the transition phase, although it omits some elements.</p> <p>These elements are linked to accounting/legal requirements that are not applicable to Argentinian banks. Some of them, such as mortgages servicing rights and deferred tax assets linked to the IFRS accounting framework are not currently recognised as assets. Similarly, capital elements to be phased out and are not relevant for Argentinian banks. The banks will move to IFRS in January 2018.</p>
Materiality	Not material.
Basel paragraph no	Pillar 3 – Table 4
Reference in domestic regulation	"Market Discipline – Minimum disclosure requirements": II. Disclosure requirements. C.2. Credit risk
Findings	<p>The BCRA Market Discipline text omits one of the Basel disclosure requirements included in Table 4 on qualitative disclosures regarding credit risk that is, the discussion of the bank's credit risk management policy. Given that the same legal text includes in section c.1, under the general qualitative disclosure requirements, the requirement for banks to disclose their strategies and policies on the different risks, this finding is assessed as having limited or no impact.</p>
Materiality	Not material.
Basel paragraph no	Pillar 3 – Table 8
Reference in domestic regulation	"Market Discipline – Minimum disclosure requirements": II. Disclosure requirements. C4. Counterparty credit risk
Findings	<p>The BCRA Market Discipline text omits one of the Basel disclosure requirements included in Table 8, in particular the discussion of policies with respect to wrong-way risk exposures. Given the small volume of bilateral CCR in the Argentinian banking system, with a modest volume of exposures to derivatives that are anyway mostly cleared through regulated CCPs, the omission in the domestic regulation of disclosure requirements regarding wrong-way risk policies is assessed as a deviation with little or no impact.</p>
Materiality	Not material.

## 2.6 Observations and other findings specific to the implementation practices in Argentina

Basel paragraph no	Basel II paragraphs 763–764
Reference in domestic regulation	“Guidelines for risk management in banks”: 5.1.2.
Observation	Domestic regulation on interest rate risk management states the additional text: “or consistent with the 1st and 99th percentiles of observed interest rate changes using a one-year (240 working days) holding period and a minimum five years of observations” which is similar to the language in the BCBS <i>Principles for the management and supervision of interest rate risk</i> .
Basel paragraph no	Basel III paragraphs 10–26, Disclosure requirements for capital
Reference in domestic regulation	“Market Discipline – Minimum disclosure requirements”. Annex I; 1.2. Section 2. Reconciliation requirements & 1.4.2. Reconciliation approach.
Observation	Domestic regulation 1.4.2 example of paid-in share capital: reference number 30 in the table does not match the listing of codes in 1.4.1. Code was amended through Communication “A” 5936, 31 March 2016.
Basel paragraph no	Basel II paragraphs 43, and 45–49
Reference in domestic regulation	No reference in domestic regulation
Observation	As the Internal Ratings-Based Approach (IRB) has not been implemented in Argentina, related Basel provisions with regard to the calculation of minimum capital requirements are not implemented as well.
Basel paragraph no	Basel II paragraphs 777(v), (xi), (xii) and (xiii) and supplemental pillar 2 guidance
Reference in domestic regulation	BCRA “Guidelines for risk management in banks” and “Guidelines on corporate governance”
Observation	Basel Pillar 2 provisions have recently been implemented in Argentina through guidelines (Communications “A”). A question arose about their bindingness. BCRA confirms these legal instruments are binding, with a principle of proportionality. Therefore, they must be fully implemented by the 18 largest Argentinian banks, which represent the bulk of the banking system in terms of assets and deposits. The guidelines might be adapted in the case of smaller banks. BCRA has the power to sanction on this basis in case of non-compliance.



## Annexes

### Annex 1: RCAP Assessment Team and Review Team

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## Annex 2: Implementation of the Basel framework as of cut-off date

Overview of adoption of capital standards				Table 2
Basel III Regulation	Date of issuance by BCBS	Transposed in Argentinian rule	Date of implementation in Argentina	Status
<b>Basel II</b>				
Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version	June 2006	Minimum Capital for Financial Institutions Guidelines for Risk Management in Banks	Minimum capital requirement, first published in January and November 2012 (Communications "A" 5272 and 5369) with subsequent incorporations in April 2015 (Communication "A" 5737), October 2015 (Communication "A" 5821), November 2015 (Communication "A" 5831), and December 2015 (Communication "A" 5867). Guidelines, first published in May 2011 (Communication "A" 5203) and updated in 2013 and 2015 (Communications "A" 5398, 5821, 5831 and 5867). Rectifications were implemented through Communications "A" 6004 and 6006.	
<b>Basel 2.5</b>				
Enhancements to the Basel Framework Guidelines for computing capital for incremental risk in the trading book Revisions to the Basel II market risk framework	July 2009	Minimum Capital for Financial Institutions	Idem (Basel II, II.5 and III implemented at the same time).	
<b>Basel III</b>				

Basel III: A global regulatory framework for more resilient banks and banking systems –revised version	June 2011 (Consolidated version)	Minimum Capital for Financial Institutions  Profits distribution. Capital buffers.	Idem (Basel II, II.5 and III implemented at the same time). January 2015 (Communication "A" 5694), November 2015 (Communication "A" "A" 5827) and March 2016 (Communication "A" 5938).	
Pillar 3 disclosure requirements for remuneration	July 2011	Market Discipline – Minimum Disclosure Requirements	February 2013 (Communication "A" 5394).	
Treatment of trade finance under the Basel capital framework	October 2011	Not applicable. AIRB and Option 2 for claims on banks under the standardised approach not implemented.		
Composition of capital disclosure requirements	June 2012	Market Discipline – Minimum Disclosure Requirements	February 2013 (Communication "A" 5394) and March 2016 (Communication "A" 5936)	
Capital requirements for bank exposures to central counterparties	July 2012	Minimum Capital for Financial Institutions	October 2015 (Communication "A" 5821).	

Colour code: **Green** = implementation completed; **Yellow** = implementation in process; **Red** = no implementation.

## Annex 3: List of capital standards under the Basel framework used for the assessment

- (i) *International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Basel II)*, June 2006
- (ii) *Enhancements to the Basel II framework*, July 2009
- (iii) *Guidelines for computing capital for incremental risk in the trading book*, July 2009
- (iv) "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" Basel Committee press release, 13 January 2011
- (v) *Revisions to the Basel II market risk framework: Updated as of 31 December 2010*, February 2011
- (vi) *Basel III: A global regulatory framework for more resilient banks and banking systems*, December 2010 (revised June 2011)
- (vii) *Pillar 3 disclosure requirements for remuneration*, July 2011
- (viii) *Treatment of trade finance under the Basel capital framework*, October 2011
- (ix) *Interpretive issues with respect to the revisions to the market risk framework*, November 2011
- (x) *Basel III definition of capital – Frequently asked questions*, December 2011
- (xi) *Composition of capital disclosure requirements: Rules text*, June 2012
- (xii) *Capital requirements for bank exposures to central counterparties*, July 2012
- (xiii) *Regulatory treatment of valuation adjustments to derivative liabilities: final rule issued by the Basel Committee*, July 2012
- (xiv) *Basel III counterparty credit risk – Frequently asked questions*, November 2011, July 2012, November 2012

## Annex 4: Local regulations issued by the BCRA for implementing Basel capital standards

Overview of issuance dates of important Argentinian capital rules

Table 3

Domestic regulations	Document name, version and date
Domestic regulations implementing Basel II	Basel II, II.5 and III were partially introduced in the text on "Minimum Capital for Financial Institutions" in the period January–November 2012. Subsequent amendments were made in 2015 to set caps on the requirement for operational risk applicable to small institutions (Communications "A" 5737 and "A" 5746), to implement the requirement for exposures to central counterparties (Communication "A" 5821), to introduce limited adjustments to the text (Communication "A" 5831) and to align the requirement for market risk to the international standard (Communication "A" 5867). In March 2016 the CCyB rate was set at 0% (Comunicacion "A" 5938).
Domestic regulations implementing Basel II.5	See above.
Domestic regulations implementing Basel III	See above.

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" to which all financial institutions are bound 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 5: 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 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 and a credit ratings agency
- (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 Assessment Team, finalisation of the draft report and forwarding to the BCRA for comments
- (xv) Review of the BCRA's comments by the 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 6: List of rectifications by the BCRA

Basel paragraph	Reference to Argentinian document and paragraph	Brief description of the forthcoming correction
Credit risk: Standardised Approach		
Basel II paragraphs 53–56	BCRA capital rule text 4.2	Claims on sovereigns were not allowed to be risk-weighted according to external credit assessments, which created a significant deviation in the initial assessment. The revision performed by the BCRA included the association between external credit assessments and risk weights, attaining a complete alignment with Basel provisions for all these types of exposure.
Basel II paragraphs 57–58	BCRA capital rule text 4.2.1/4.2.5	Claims on non-central government public sector entities (PSEs): the revision performed by the BCRA included the association between external credit assessments and risk weights, attaining a complete alignment with Basel provisions for all these types of exposure.
Basel II paragraphs 60–64	BCRA capital rule text 4.4, 4.5	Claims on banks: the revision performed by the BCRA included the association between external credit assessments and risk weights, attaining a complete alignment with Basel provisions for all these types of exposure.
Credit risk: Securitisation Framework		
Basel II paragraphs 538–542	BCRA capital rule text (CRT) item 3.6. former paragraph 3, item 4.2 and 5.2.2	<p>The Argentinian CRT regulates in its article 3.6 the credit risk framework applicable to securitisations; paragraph 3 of article 3.6 of the CRT, in the version initially assessed, explicitly excluded from the capital treatment applicable to securitisations the exposures to securitisations of the non-financial public sector. It alternatively referred to former article 4.2.5 of Part 4 of the same text for the determination of the capital requirements of this type of exposure. This alternative treatment involved a 0% risk weight for this type of securitisation exposure.</p> <p>The CRT used to give to this type of securitisation the same capital treatment as it applied to collateralised transactions, which benefit from a substitution approach, leading to the 0% RW applicable to the Argentinian sovereign exposures in local currency. Nevertheless, securitisation transactions, which involve at least two different stratified risk positions or tranches reflecting different degrees of credit risk, are structures that differ from simple collateralised transactions, and at least the most subordinated tranche should receive a more severe capital treatment. For the most senior securitisation exposures, the look-through approach should apply and the risk weight of the underlying exposures should be considered.</p> <p>The BCRA has corrected this deviation, which had been assessed as potentially material, in its CTR-Compilation of amendments as of July 2016, by dropping paragraph 3 of article 3.6 and article 4.2.5. It has also added paragraph V to article 5.2.2.1, by which a clear separation is made between the capital treatments of collateralised exposures and of securitisation exposures. The corrections approved and published by the BCRA cover the initial deviation between the domestic regulation and the Basel standards.</p>

Basel II paragraph 538	BCRA Capital rule text (CRT) item 3.6. new paragraph 3	<p>Basel paragraph 538 underlines the relevance of the economic substance of a transaction versus its legal form to determine the applicability of the securitisations capital framework. It also requests supervisors to look to the economic substance of a transaction to determine whether it should be subject to the securitisation framework for the purposes of determining regulatory capital.</p> <p>The provision on the relevance of the economic substance was omitted in the version of the domestic regulation as initially assessed. The BCRA has covered this deviation, which was assessed as having only a limited impact, by adding a new paragraph 3 to article 3.6 of the CTR-Compilation of amendments as of July 2016. This says: "Since securitisations may be structured in different ways, the capital requirement of a securitisation exposure must be determined on the basis of its economic substance or purpose rather than its legal form. The Superintendence of Financial and Exchange Institutions must be consulted when there is uncertainty about whether a given transaction should be considered a securitisation." The corrections approved and published by the BCRA cover the initial deviation between the domestic regulation and the Basel standards.</p>
Pillar 3		
Table 2	"Market Discipline - Minimum disclosure requirements": II. Disclosure requirements. B. Capital: b.1. Capital structure; Annex I, 1.4.1. Capital structure template	<p>Some information included in the Basel capital structure table, relevant for Argentinian banks and that should therefore be part of their disclosure requirements, was omitted in the Argentinian templates as initially assessed. These templates were corrected and the relevant information added by the BCRA Communication "A" 5936, published on 31 March 2016. These elements relate in some cases to banks' holdings and investments in own capital instruments, both Tier 1 (including common equity and Additional Tier 1 instruments) and Tier 2 instruments; other elements added refer to the information on the banks' specific buffer requirement and the breakdown of the buffer requirement, and information on the national minima capital requirements, if different from Basel. The corrections approved and published by the BCRA cover the initial deviation between the domestic regulation and the Basel standards.</p>
Table 10	"Market Discipline - Minimum disclosure requirements": II. Disclosure requirements. C.6. Market risk	<p>The quantitative information disclosure requirement included in the domestic regulation as initially assessed did not follow the structure of the new Basel 2.5 market risk disclosure template and did not include disclosure requirements on the different types of risk covered by the market risk framework (interest rate risk; equity position risk; foreign exchange risk; and commodity risk). These deviations, which would have had a significant impact on the ability of market participants to understand the market risks faced by banks, were corrected and the relevant information added by the BCRA Communication "A" 5936, published on 31 March 2016.</p>
Table 14	"Market Discipline - Minimum disclosure requirements": II. Disclosure requirements. C.9. Interest rate risk	<p>The quantitative information disclosure requirement included in the domestic regulation initially assessed deviated from the qualitative disclosure requirement on interest rate risk in the banking book template in Basel. While the domestic regulation referred to the capital required to the bank to cover this risk, Basel requests banks to disclose the impact on earning or economic value due to interest rate shocks, broken down by currency. This deviation was corrected and the relevant information added by the BCRA Communication "A" 5936, published on 31 March 2016.</p>



## Annex 7: 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 frameworks.	Capital requirements are compiled in the ordered text on “Minimum Capital for Financial Institutions”. Requirements, as well as rules in general, 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). Section 30 of the LEF establishes that deposit-taking institutions must comply with the regulatory ratios required by the BCRA that govern the institutions’ capital, assets, liabilities etc.
(2) They are public and easily accessible	The text on “Minimum Capital for Financial Institutions” is available on the BCRA’s website at: <a href="http://www.bcra.gov.ar/pdfs/texord/t-capmin.pdf">www.bcra.gov.ar/pdfs/texord/t-capmin.pdf</a> .
(3) They are properly communicated and viewed as binding by banks as well as by the supervisors.	In the exercise of the regulatory power vested in the BCRA by law, the Board of Directors of the Central Bank lays down 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 is required in Section 7 of the Law on Administrative Procedures (Law 19,549). Both new rules and their amendments are published in the Official Gazette ( <a href="http://www.boletinoficial.gob.ar">www.boletinoficial.gob.ar</a> ). 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 regulation is widely known and viewed as binding by banks, the supervisors and the general public.
(4) They would generally be expected to be legally upheld if challenged and are supported by precedent.	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.
(5) Consequences of failure to comply are properly understood and carry the same practical effect as for the primary law or regulation.	The CO and the LEF not only vest regulatory powers in the BCRA but also appoint the Bank as the enforcement authority of the LEF. Section 43 of the CO gives power to the BCRA to supervise the financial and foreign exchange activity through its 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. Individuals and institutions – whether private, public or part state-owned – that habitually intermediate between the supply and demand for financial resources fall, by virtue of section 1 of the LEF, under the regulatory power of the BCRA. Section 41 of the LEF explicitly states that the BCRA has power to impose sanctions on institutions and individuals that fail to comply with the provisions of the LEF or with the regulation issued by the 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 primary law.
(6) The regulatory provisions are expressed in clear language that complies with the Basel provisions in both substance and spirit.	The text on “Minimum Capital for Financial Institutions” 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 sole authority in banking regulation and supervision, is committed to preserving the substance of the capital rule.

## Annex 8: Key financial indicators of the Argentinian banking system

Overview of the Argentinian banking sector as of 31 December 2015		Table 5
Size of banking sector (ARS billions)		
Total assets all banks operating in the jurisdiction (including off-balance sheet assets)		2,052
Total assets of all locally incorporated internationally active banks		1,080
Total assets of locally incorporated banks to which capital standards under Basel framework are applied (ie excludes foreign bank branches)		2,052
Number of banks		
Number of banks operating in Argentina		78
Number of internationally active banks		5
Number of banks required to implement Basel standards (according to domestic rules)		78
Number of global systemically important banks (G-SIBs) (*)		10
Capital standards under the Basel framework		
Number of banks required to implement Basel equivalent standards		78
Use of advanced approaches by banks		0
Capital adequacy (internationally active banks) (ARS billions; percent)		
Total capital		117
Total Tier 1 capital		110
Total CET1 capital		110
Total risk-weighted assets		741
RWAs for credit risk (percent of total RWAs)		73.17%
RWAs for market risk (percent of total RWAs)		5.28%
RWAs for operational risk (percent of total RWAs)		21.54%
Total off-balance sheet bank assets <sup>4</sup>		66
Capital Adequacy Ratio (weighted average)		16.6%
Tier 1 Ratio (weighted average)		15.7%
CET1 Ratio (weighted average)		15.7%

Source: Central Bank of Argentina as at December 2015.

(\*) Subsidiaries: HSBC Bank Argentina, Deutsche Bank, Industrial and Commercial Bank of China, Banco Santander Río and BBVA Banco Francés.

Branches: JPMorgan Chase Bank, BNP Paribas, Citibank, Bank of America and The Bank of Tokyo-Mitsubishi UFJ.

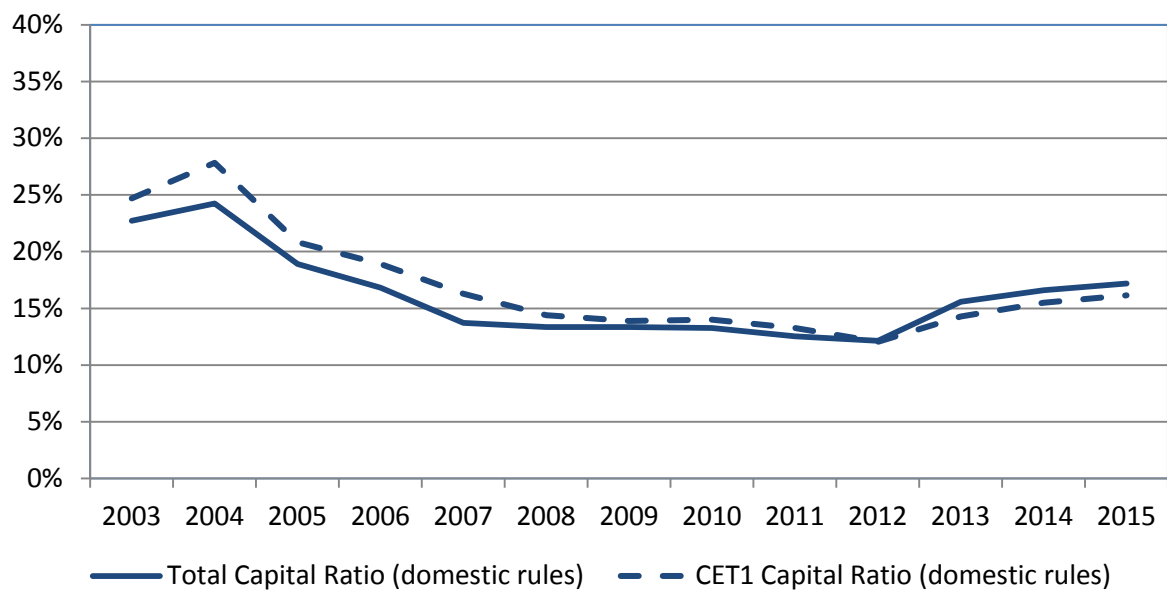
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## Capital ratios of Argentinian internationally active banks

Weighted average, in percent

Graph 1

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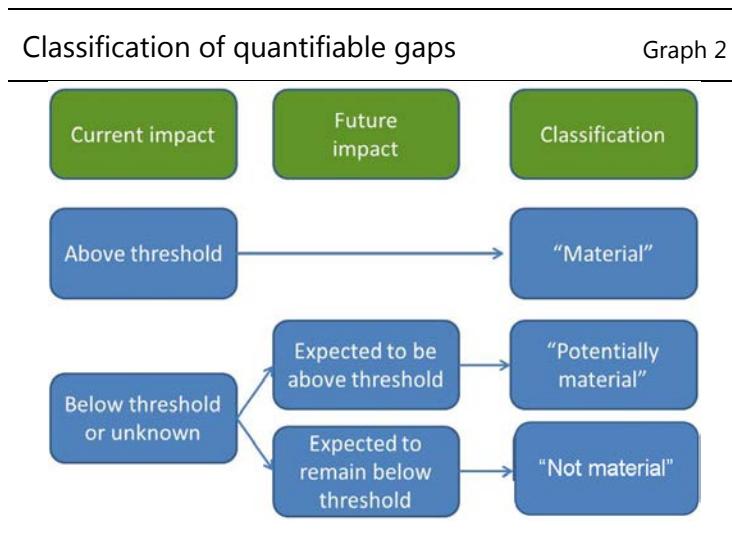


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Source: Central Bank of Argentina as at December 2015.

## Annex 9: Materiality assessment

The assessment of materiality distinguished between quantifiable and non-quantifiable gaps. For the Argentinian RCAP, an attempt was made to quantify the impact of all quantifiable gaps for each bank in the sample affected by the gap. In cases where the computation of the impact was not straightforward, the computation erred on the conservative side. Where no data were available to quantify gaps, the review team relied on expert judgment. Following this approach, an attempt was made to determine whether gaps are “not material”, “material” or “potentially material”. Following the amendments published on 1 July 2016 by the BCRA, 27 quantifiable gaps remain.



Number of gaps / differences by component Table 6

Component	Non-material	Material	Potentially material
Scope of application	0	0	1
Transitional arrangements	0	0	0
Definition of capital	1	0	0
Capital buffers	0	0	0
<b>Pillar 1</b>			
Minimum capital requirements (general)	0	0	0
CR: Standardised Approach	4	0	0
CR: IRB	N/A	N/A	N/A
CR: Securitisation	4	0	0
Counterparty credit risk	3	0	0
MR: Standardised Approach	9	0	0
MR: Internal Models	N/A	N/A	N/A
OR: SA/BIA	0	0	0
OR: AMA	N/A	N/A	N/A
<b>Pillar 2</b>	1	0	0
<b>Pillar 3</b>	5	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 bank operating in Argentina. The basis of materiality assessment is the impact on the reported capital 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 10: Areas where Argentinian 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.

### Scope of application and minimum capital requirements

#### 1. Basel II paragraphs 30–34

Argentinian banks are not allowed to invest in insurance companies. When exceptionally permitted, investments in the capital of insurance entities must be deducted.

### Credit risk: Standardised Approach

#### 1. Basel II paragraphs 69–71

Maximum aggregated exposure to counterparty: an amount equal to 75 times the minimum wage established by the Argentinian Council for Employment Productivity and Minimum Wage if a natural person; ARS 10,000,000 if MiPyME (SME). 75% RW only if at inception total instalments no more than 30% of counterparty's income (including family members' income). (Domestic regulation 3.4, 3.5.2.10 & 4.7.1).

#### 2. Basel II paragraphs 75–78

The treatment of past-due mortgage loans (that are not financing the only permanent family residence) is more rigorous than the Basel framework. They are subject to 50%, 75% or 125% risk weights depending on provisioning (Domestic regulation 4.11.), instead of 50%, 50% and 100% respectively under Basel provisions.

#### 3. Basel II paragraphs 79–80

The 150% risk-weight is applied to any type of equity holding in the banking book and not only to venture capital or private equity investments.

#### 4. Basel II paragraphs 119–144

On-balance sheet netting is not permitted in Argentinian regulations.

## Credit risk: Securitisation framework

### 1. Basel II – Pillar 1 paragraphs 596–605

Fixed CCFs were implemented (not dependent on excess spread): for uncommitted retail exposures: 40%; other exposures: 90%. All non-controlled early amortisation features are subject to a CCF of 100%. (Domestic regulation 3.6.1.6, 3.6.9, 3.7.2.2 and 3.7.2.3).

## Market risk

### 1. Basel II paragraphs 718(lvi)–718(lvii)

The requirement in paragraph 6.5.1 that, for a bank to be able to use the simplified approach, the market value of its portfolio of purchased options cannot exceed 5% of its regulatory capital; which is more specific than the general remark in paragraph 718(Lviii) that the simplified approach is only available for banks that handle a limited range of purchased options.

## Capital buffers

Argentina has adopted an additional loss absorbency buffer of 1% of RWAs for both domestic and global systemic institutions, in addition to the conservation buffer.

## Pillar 3

Tables 1, 2 and 3 are required from all banks, even if not internationally active.



## Annex 11: List of approaches not allowed by Argentinian regulatory framework

The following list provides an overview of approaches that BCRA have not made available to its banks through its regulatory framework. Where the Basel standards explicitly request certain approaches to be implemented under specific circumstances, the missing approaches have been taken into account in the assessment. However, where the Basel standards do not require jurisdictions to implement these approaches, they have been implicitly treated as “not applicable” for the assessment.

### Credit risk: Standardised Approach:

- Basel II paragraphs 156–165: Own estimates for haircuts are not allowed.
- Basel II paragraphs 178–181: Use of models for the calculation of haircuts is not allowed.
- Basel II paragraphs 182–187: For the calculation of the counterparty credit risk charge, only the Current Exposure Method is allowed.

### Credit risk: Internal Ratings-Based Approach

Argentina does not allow the use of IRB models.

### Operational risk: Standardised Approach and Advanced Measurement Approach

Argentina does not allow either the Standardised Approach or the Advanced Measurement Approach for operational risk.

### Market risk: Internal Models Approach

Argentina does not allow the use of the Internal Models Approach.

### Counterparty credit risk

Argentina allows neither the Internal Models Method (IMM) nor the Standardised Method. The Advanced CVA risk capital charge has not been adopted.

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

The Assessment Team identified the following issue listed below for a future follow-up RCAP assessment of Argentina.

### Scope of application

Under the Argentinian regulation, companies that hold ownership of a bank (ie holding companies) are not part of the scope of application and thus the Basel framework is not applied at the consolidated holding company level. The main focus of the scope of application is that the capital framework should apply on a fully consolidated basis to all internationally active banks at every tier within the banking group. This includes, on a fully consolidated basis, any holding company that is the parent entity within a banking group, so that the risk of the whole banking group is captured.

As outlined in the report, only one bank out of eight banks in the RCAP sample is owned by a parent holding company, and two banks out of 78 banks in Argentina. While the Assessment Team is of the view that this is not material at present, the possibility that other banks might adopt a holding company structure in the near future cannot be entirely ruled out. In this regard, the Assessment Team recommends keeping the scope of application under review for a future follow-up RCAP assessment.

## Annex 13: Areas for further guidance from the Basel Committee

The Assessment Team did not identify any areas where further guidance is required from the Basel Committee.

## Annex 14: Argentina's implementation of the Pillar 2 supervisory review process (as of November 2015)

### Risk-based supervision methodology

As from 2000, the SEFyC has followed a risk-based supervision methodology for financial institutions (FIs). The supervision scheme focuses on the particular risks of each FI, as well as on the risks of the financial system as a whole, being flexible enough to adapt tasks to the risks identified in each case. In this regard, the process has been envisaged as a continuous cycle that combines SEFyC on-site inspections with off-site monitoring between inspections.

In short, the supervision process is tailored to each FI, taking into account the quality of its management, the reliability of its internal controls and information systems, its size, complexity and risk profile. The process is dynamic and adjusts to changing risks within the FI and to different market conditions.

The SEFyC's methodology can be found in the Supervision Manual, which includes three sections: (i) Guidance on Monitoring and Rating Procedures in Financial Institutions (off-site), (ii) the Inspection Manual (on-site), and (iii) Other Procedures. The SREP has recently been implemented. It has not yet been formally included in the existing Supervision Manual because it is still subject to change. However, material has been made available to inspectors, including guides for assessing each risk and reporting samples.

### The present state of Pillar 2 implementation in Argentina

In February 2013, upon the issuance of Communication "A" 5398 – "Guidelines for risk management in financial institutions", regulations were adjusted to the requirements of Basel II, 2.5 and III by introducing amendments to the topics related to Pillar 2, among others. Within this framework, those aspects related to economic capital calculation for the capital adequacy assessment (ICAAP) of FIs were introduced.

The above communication provides that the SEFyC shall analyse the ICAAP through a SREP. To this end, supervisors will combine the knowledge acquired through the individual review of the internal capital assessment report ("IAC" in Spanish) submitted by each FI on a yearly basis, the information received during the continuous supervisory cycle and additional requests for information and meetings with managers of FIs. Supervisors will issue an opinion as to the actual capital adequacy against the financial institution's risk profile. If the SEFyC is not satisfied with the results of the ICAAP or notices that the conditions and requirements of applicable regulations have not been met, it may adopt a wide range of actions, including the requirement that FIs maintain capital above the minimum levels set out in the rules on "Financial institutions' minimum capital requirements".

This new regulatory framework has raised the bar for FIs, establishing the calculation of economic capital for the main risks of each institution and their aggregation. This calculation was not developed in Argentina, except for some FIs which performed it only on a partial basis. The new rules require more involvement and, in many cases, a learning process by the Board and senior management of FIs, as well as the adjustment of structures and procedures, and the hiring of qualified staff.

The IAC was first submitted in April 2014 and the SREP conclusions were reported in December of the same year. The insights gained through reading and reviewing the reasonableness of the IAC served to include specifications on the basis of the first submission in March 2015. For this second submission, based on the SREP conclusions, reports are being prepared, including an individual analysis of the most systemically important FIs, as well as an aggregate analysis.

At present, the resources available for supervisors to conduct SREP procedures include:

- Preliminary guides with review criteria for the main risks considered by the regulation and reported by FIs in the IAC, enabling supervisors to carry out a comprehensive and comparative reading of the information received from financial institutions. These include:
  - Description of the models used.
  - Forms of calculating parameters and reference values.
  - Topics of interest to be examined in-depth when supervising models of economic capital assessment.
- A list of coded supervisory remarks or suggestions in order to collate the main flaws identified.
- A report sample for tasks performed by supervisors regarding the review of the ICAAP.

Given the significant extension of these procedures, they have been posted for supervisors on the BCRA's intranet. It should be noted that these criteria are subject to future review in order to develop more detailed procedures which will, in turn, be included in the Supervision Manual.

Concerning the information submitted by each FI through the IAC, qualitative issues related to corporate governance, risk management and internal audit of risks are compared by inspectors with the information gathered from the continuous supervisory cycle mentioned above. As regards the quantification of the capital required to cover each risk and its subsequent aggregation, and given the novelty of the issue, the following supporting initiatives have been developed:

- a) Creation of specialised working groups based on each risk, to collaborate in activities such as:
  - supporting the supervision of the IAC;
  - designing training material and disseminating techniques and concepts (particularly, those used in the local market);
  - creating procedures and "benchmarks"; and
  - analysing aggregate data obtained from the IACs.
- b) In-house training courses on the various risks (credit and credit concentration, interest rate, market and operational risks).
- c) Creation of working groups based on homogeneous groups of financial institutions, whose main goal will be to properly apply the proportionality principle and to achieve consistency in terms of procedures and supervisory remarks for similar financial institutions.
- d) With the conclusions of the analysis carried out by supervisors on FIs, a status report on those IACs is prepared, including comparative data on the parameters used, methods and final results, which can then be used as a first reference in assessing the reasonableness of results.

To date, FIs have generally shown progress, especially as to organisation and policies. In general, more detailed aspects of implementation, usually on quantitative issues, remain to be completed. FIs are usually informed about any identified flaws, and are required to take action to fully implement the regulatory guidelines.