



RCAP jurisdictional assessments: self-reporting monitoring template for RCAP follow-up actions

Jurisdiction: Brazil

Status as of: 31 December 2018

With reference to RCAP report(s): Assessment of Basel III regulations – Brazil (December 2013) and LCR regulations – Brazil (October 2017)

Part A¹

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

Table A

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
Basel II, paragraphs 53–56: Claims on Sovereigns	The BCB does not depend on credit ratings from ECAs or risk scores assigned by ECAs. The Brazilian regulations instead use the national discretion and alternative methodologies for the risk-weighting of exposures to sovereigns. The exposures to other sovereigns and Brazil not denominated and funded in local currency are assigned a risk weight of 20% if none of the four listed credit events have been witnessed in the last five years (suspension of payment with respect to external obligations, unilateral alteration of the contractual term, moratorium or any other	Circular BCB 3,644 of 2013, arts. 19, 19-A, 21, 23, 26-A	Circular BCB 3,921 of 2018 enhanced articles 19, 19-A, 21, 23, 26-A of Circular BCB 3,644 of 2013 in order to align the sovereign exposures treatment with Basel standards. With this improvement, Basel II paragraphs 53 and 54 were fully implemented.

¹ To be completed only for those findings where action has been initiated/taken. Any plans for addressing other findings may be indicated in Part B.

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	<p>modality of rejection to accept the term of the external obligation, anticipation because of contract clause, or change in expiry date of obligation). For exposures to sovereigns that have witnessed any of the credit events, a 100% risk weight is assigned. Out of total exposures to sovereigns that are not denominated and funded in domestic currency, 74.68% of them would require a higher risk weight than 20% (ranging from 50% to 150%) if applying the external ratings of those sovereigns under the Basel approach. However, the exposures to such claims are not currently material. Also, in view of the unlikelihood of a significant increase in total exposures to sovereign that are not denominated and funded in the domestic currency in the three-year period, the Assessment Team considered the deviation as not material.</p>		
Basel II, paragraph 145	<p>Basel paragraph 145 provides the details of collateral instruments that are eligible for recognition in the simple approach. The simple approach is followed under the Brazilian regulations. As per their regulations, agreements for the clearing and settlement of obligations in the scope of the National Financial system are included under eligible financial collateral although they do not fall under any of the six categories defined in the Basel paragraph.</p>	Circular BCB 3,809 of 2016, arts. 8 and 9	The comprehensive approach was introduced in the local CRM implementation in August 2016.

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	As per the data provided by the BCB, the netting agreements in Brazil are immaterial, covering only 0.17% of the entire financial system exposures.		
Basel II, paragraphs 182–187	Basel Paragraph 182 read with Annex 11 requires that collateral must be marked to market or revalued with a minimum frequency of six months. The Brazilian regulations are silent on this issue.	Circular BCB 3,809 of 2016, art. 4, paragraph 1	All financial collateral must be marked to market, after regulation on treatment of CRM techniques was improved in August 2016.
Basel II, paragraphs 207–210	There are no requirements on CRM techniques relating to first-to-default and second-to-default credit derivatives in the Brazilian regulations. As per the data provided by the BCB, the amount of credit derivatives traded in the financial system (bought credit derivatives: BRL 2.2 billion -> 0.05% of total assets; sold credit derivatives: BRL 9.8 billion -> 0.21% of total assets) is presently very limited and thus not material. Looking at the overall trend of the derivative market in Brazil, the deviation is not considered likely to become material in near future.	Circular BCB 3,809 of 2016, art. 2, paragraph 2, II	Second-to-default index derivatives are not an eligible instrument for credit risk mitigation, as article 2, paragraph 2, II, of Circular BCB 3,809 of 2016 mandates that any default within the pool of exposures triggers the collection of the guarantee.
Basel II, paragraph 812	According to the Basel framework, where disclosure, ie transparency, is a qualifying criterion under Pillar 1 to obtain lower risk weightings and/or to apply specific methodologies, there would be a direct sanction in the sense that a bank would not be allowed to apply the lower weighting or the specific methodology. Disclosure is a qualifying criterion for using AMA and internal models for market risk. For using IRB, the Brazilian regulations regarding transparency refer to	Circular BCB 3,648 of 2013, arts. 2 and 168 to 172	Articles 168-172 of Circular BCB 3,648, published in 2013, establish transparency requirements, as required by the Basel framework for banks using IRB approach. According to article 2, paragraph 1, the supervisor may cancel an IRB authorisation if any of the IRB minimum requirements are not met at any time, including Pillar 3 provisions established in articles 168-172.

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	transparency towards the BCB and not the public as the Basel framework requires.		
Basel III, paragraphs 130–131	Resolution CMN 4,193/13 does not specify the treatment that applies to the repurchase of own shares and to the reduction of equity when a bank enters the capital conservation buffer. The BCB explained that this was not specified considering that banks are not allowed to repurchase their own shares or reduce their equity when their capital levels fall into the conservation capital range.	Resolution CMN 4,193 of 2013, art. 9, IV, V, paragraphs 4 and 5	Article 9 of Resolution CMN 4,193, published in 2013, established that “a shortfall in meeting the assigned ACP entails restrictions: IV – to the repurchase of own shares in any amount; and V – to the reduction of equity, when legally possible”. Paragraphs 4 and 5 of this article, which refer to the same numerical restrictions as paragraph 131 of Basel III, establish that these restrictions apply to: “I – the payment of variable compensation to managers and members of the board of directors, in the case of joint stock companies, and to administrators of non-joint stock companies; II – the payment of dividends and interest on capital; III – the payment of the surplus and the net annual earnings to quota-shares of capital, as well as the redemption of quota-shares, in the case of credit unions;” So, on this matter, when a financial institution does not meet its assigned ACP, repurchase of its own shares, in any amount, and reduction of equity, when legally possible, are not allowed under any circumstance from 2013 on.
Basel III, paragraph 132(d)	The Brazilian regulations do not include the Basel requirement for banks in normal times to not operate within the buffer range for competitive reasons.	Resolution CMN 4,193 of 2013 art. 9 § 9	An amendment to Resolution CMN 4,193 of 2013 specifies that the BCB may set individualised maximum lapses of time during which it is admissible not to comply with the conservation and the countercyclical capital buffers.
Basel III, paragraphs 139–140	Domestic regulations should include a provision equivalent to paragraph 139 that requires the	Circular BCB 3,827 of 2017, Annex, art. 4, VI, § 1	Circular BCB 3,827, issued in January 2017, states that the credit growth pattern, credit market conditions, pricing of

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	relevant national authority to consider putting in place a countercyclical buffer when it judges a period of excess credit growth to be leading to the build-up of system-wide risk.		assets and other financial stability risk factors must be considered when assigning a value to the countercyclical capital buffer (CCyB _{Brazil}). As a general remark, the BCB implemented the recommendations in the "Guidance for national authorities operating the countercyclical capital buffer". In that sense, Circular BCB 3,827 promoted an enhancement to the governance framework of the CCyB _{Brazil} related to the analysis, decisions and communication of the buffer value. Henceforth, analysis and decision process will be conducted by the Financial Stability Committee (Comef), which is comprised by the BCB's Board of Governors and was specifically created to promote financial stability and to discuss systemic risk. All decisions involving CCyB _{Brazil} will be disclosed immediately after Comef quarterly meetings. Policy Statement BCB 30,371 of 2017 disclosed the operationalisation of CCyB _{Brazil} .
Basel III, paragraph 141	The Basel reference that allows the national authority to reduce the buffer immediately was missing in the domestic regulations.	Circular BCB 3,769 of 2015, art. 2, § 7.	If any jurisdiction reduces its countercyclical capital buffer, the new rate should come into force immediately.
Basel III, paragraphs 142–145	The Brazilian regulations do not indicate how to deal with cross-jurisdictional exposures.	Circular BCB 3,769 of 2015, art. 2, II, IV V, §§ 1, 3, 5, 6, 7.	Cross-jurisdictional reciprocity is included in the Brazilian countercyclical capital buffer framework established by Circular BCB 3,769 of 2015. It includes a geographic breakdown of the private sector credit exposures and the calculation of each bank's specific buffer requirement as a weighted average of the buffers applied by jurisdictions where its exposures are located.

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Composition of capital disclosure requirements, paragraph 5	<p>In paragraph 5, the Basel capital disclosure standards require banks to disclose the reconsolidation between their financial statements and their regulatory capital with the same frequency as the publication of the financial statements, whether these are audited or not. However, in paragraph 91, the Basel III text itself only requires the disclosure of this reconciliation to audited financial statements.</p> <p>In the case of Brazil, the BCB explained that audited financial statements of banks are published on a semi-annual basis, while two banks also publish unaudited financial statements on a quarterly basis. Based on paragraph 91 of the Basel III standards, the BCB only requires the disclosure of the reconciliation to audited financial statements on a semi-annual basis. Given that the inconsistency regarding the frequency of disclosure rests in the Basel standards themselves, the Assessment Team regards the frequency of the disclosure to be in line with the Basel provisions.</p> <p>Paragraph 5 of the disclosure regulations also requires banks to disclose their capital position based on these regulations with respect to any balance sheet on or after 30 June 2013. The Basel III regulations in Brazil only apply from 1 October 2013 onwards. The disclosure requirements in Brazil will enter into force on 30 June 2014, thus becoming effective in financial statements as of the same date.</p>	Circular BCB 3,678 of 2013, art. 3	Even though Brazilian banks started publishing some Pillar 3 requirements with some delay (from 30 June 2014 on), this gap has been filled, as banks started to disclose all information according to Basel recommendations.

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Capital requirement for bank exposures to central counterparties, paragraphs 126–127	The BCB has a methodology to calculate exposures to NQCCPs. However, this methodology is not reflected in the circular, e.g. there is no explicit framework for NQCCPs. The methodology used by Brazil is, however, more conservative than the Basel requirements, since it applies a 100% risk weight.	Circular BCB 3,644 of 2013, art. 29, III.	Circular BCB 3,849 of 2017 enhanced the treatment of non-qualifying CCPs in a manner consistent with the new standards, as found in paragraphs 210 and 211 of the BCBS “Capital requirements for bank exposures to central counterparties”. That is, such exposures now receive a 1,250% risk weight.

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to liquidity coverage ratio standards (RCAP-LCR)

Table B

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Part B

The Central Bank of Brazil (BCB) is constantly scrutinising, revising, and monitoring the current financial regulation and, when appropriate, Brazilian authorities will modify it accordingly so that it can correspond even more closely to the Basel Committee's recommendations.

RCAP-Capital

- The issues expected to be addressed in 2019/2020 are:
 - (i) treatment of banks' investments in commercial entities along with a revision of the limit on fixed assets, a Brazilian-specific limit (Basel II, paragraphs 35–36);
 - (ii) revision of current Pillar 3 regulation in order to comply with BCBS "Revised Pillar 3 disclosure requirements", of January 2015 and "Pillar 3 disclosure requirements – consolidated and enhanced framework", of March 2017. This revision will also address gaps related to this issue (Basel II, tables 4, 8 and 9). It is worth mentioning that BCB is combining phases 1 and 2 of the BCBS review of the Pillar 3 disclosure framework.
- With Circular BCB 3,848 of 2017, BCB updated the Brazilian securitisation framework in order to align it with the July 2016 "Revisions to the securitisation framework" BCBS standards. In particular, it revises the calculation of risk-weight factors by introducing the Standardised Approach (SEC-SA).
- With Circular BCB 3,904 of 2018, BCB implemented the BCBS recommendations in the document "The standardised approach for measuring counterparty credit risk exposures – SA-CCR" that apply to large and complex banks. Rules will be in force from June of 2019.
- Gaps related to market risk may not be identified in future assessments, considering the implementation of new Basel recommendations, such as the trading book/banking book boundary.
- Gaps related to operational risk may also not be identified, considering the new standardised approach to operational risk (SMA) published in December 2017 by BCBS.

RCAP-LCR

The adoption of the Liquidity Coverage Ratio (LCR) standard in Brazil was assessed as 'compliant' in the Regulatory Consistency Assessment Programme (RCAP) concluded in October 2017. Only three non-material findings were identified during the RCAP assessment and due to the immateriality of these findings and the unlikelihood of their becoming material in the future, BCB does not intend to amend its LCR regulations to address these findings.