FSB FINANCIAL STABILITY BOARD

Peer Review of Argentina

Review Report

31 August 2017

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Foreword

Financial Stability Board (FSB) member jurisdictions have committed, under the FSB Charter and in the *FSB Framework for Strengthening Adherence to International Standards,*[1] to undergo periodic peer reviews. To fulfil this responsibility, the FSB has established a regular programme of country and thematic peer reviews of its member jurisdictions.

Country reviews focus on the implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies agreed within the FSB, as well as their effectiveness in achieving desired outcomes. They examine the steps taken or planned by national authorities to address International Monetary Fund (IMF)–World Bank Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) recommendations on financial regulation and supervision as well as on institutional and market infrastructure that are deemed most important and relevant to the FSB's core mandate of promoting financial stability. Country reviews can also focus on regulatory, supervisory or other financial sector policy issues not covered in the FSAP that are timely and topical for the jurisdiction itself and for the broader FSB membership. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, or its compliance with international financial standards.

FSB jurisdictions have committed to undergo an FSAP assessment every five years; peer reviews taking place two-three years following an FSAP will complement that cycle. As part of this commitment, Argentina volunteered to undergo a peer review in 2016.

This report describes the findings and conclusions of the Argentina peer review, including the key elements of the discussion in the FSB's Standing Committee on Standards Implementation (SCSI) in July 2017. It is the twenty-first country peer review conducted by the FSB, and it is based on the objectives and guidelines for the conduct of peer reviews set forth in the March 2015 version of the *Handbook for FSB Peer Reviews.*[2]

The analysis and conclusions of this peer review are based on the responses to a questionnaire by financial authorities in Argentina and reflect information on the progress of relevant reforms as of April 2017. The review has also benefited from dialogue with the Argentine authorities as well as discussion in the FSB SCSI.

The draft report for discussion was prepared by a team chaired by Francois Groepe (Deputy Governor, South African Reserve Bank) and comprising Juan Pablo Graf (Banco de México), R. Gurumurthy (Reserve Bank of India), Carolina Pancotto Bohrer (Central Bank of Brazil) and Francisco Sotelo (Bank of Spain). Sam Smith and Costas Stephanou (FSB Secretariat) provided support to the team and contributed to the preparation of the peer review report.

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1 See http://www.fsb.org/2010/01/r_100109a/.

2 See http://www.fsb.org/2015/03/handbook-for-fsb-peer-reviews/.

Abbreviations

AFIP	Federal Administration of Public Revenues
ARS	Argentine peso
ATM	Automated teller machine
BCBS	Basel Committee on Banking Supervision
BCRA	Central Bank of the Republic of Argentina
CCP	Central counterparty
CGFS	Committee on the Global Financial System
CML	Capital Markets Law
CNV	National Securities Commission of Argentina
D-SIB	Domestic Systemically Important Bank
ELA	Emergency Liquidity Assistance
EU	European Union
FGD	Deposit Guarantee Fund
FGS	Sustainability Guarantee Fund
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSR	Financial Stability Report
G-SIFI	Global Systemically Important Financial Institution
GDP	Gross domestic product
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INDEC	National Bureau of Statistics
IOSCO	International Organization of Securities Commissions
KAs	Key Attributes
LCR	Liquidity Coverage Ratio
LTV	Loan-to-value
MHyFP	Ministry of Treasury and Public Finance (formerly known as MECON)
MoF	Ministry of Finance
MoT	Ministry of Treasury
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
PPM	Platform for Mobile Payments
RR	Reserve requirements
RCAP	Regulatory Consistency Assessment Program
RRP	Recovery and resolution plan
RWAs	Risk-weighted assets
SEDESA	Seguro de Depósitos Sociedad Anónima (deposit insurance fund administrator)
SEFyC	Superintendence of Financial and Exchange Institutions
SME	Small and medium sized enterprises
SNP	National Payments System
SSN	National Superintendence of Insurance
UIF	Financial Information Unit
USD	United States dollar

Executive summary

Background and objectives

The main purpose of this peer review is to examine two topics that are relevant for financial stability in Argentina: the macroprudential policy framework, and the framework for crisis management and resolution. The peer review focuses on the steps taken by the Argentine authorities to implement reforms in these areas, including by following up on relevant FSAP recommendations and FSB initiatives.

Main findings

Some progress has been made in recent years on both topics. In particular, work is ongoing to enhance data collection and systemic risk analysis; a new draft bill provides a more robust framework for financial market infrastructure and powers to temporarily stay early termination rights; and recovery planning is underway for some domestic systemically important banks (D-SIBs). However, there is additional work to be done in both areas. On the macroprudential policy framework, this involves strengthening the institutional set-up for financial stability within the Central Bank of the Republic of Argentina (BCRA); establishing a coordination forum for authorities; enhancing data collection for systemic risk analysis; and refining stress tests as well as publishing more information on them. On crisis management and resolution, this involves incorporating additional elements of the FSB *Key Attributes of Effective Resolution Regimes for Financial Institutions* (*Key Attributes*) in the resolution regime; strengthening institutional arrangements for resolution; enhancing resolution funding; and further developing recovery and resolution planning. These recommendations should be considered from a forward-looking perspective, since they are meant to address future challenges as macroeconomic stability is restored and the financial system develops further.

Macroprudential policy framework

Given the structure of the financial system, the framework is largely focused on banks. The BCRA has an explicit financial stability mandate and it established in November 2016 a department within the Regulation Division for macroprudential monitoring. There have been improvements in data collection for use in risk analysis (e.g. on household debt and incomes), while efforts are ongoing to enhance the granularity of corporate sector data. Work is also underway to improve systemic risk analysis, for instance through the development of a financial risk dashboard and heat map, as well as through enhancements in stress testing models. Commendable improvements recently in the quality of macroeconomic data (e.g. on inflation) have provided a solid platform for this analysis. The authorities have a broad range of banking sector tools at their disposal for macroprudential purposes, including certain innovative tools introduced in response to the lessons from the 2001-02 crisis (e.g. restrictions on banks' lending in foreign currency). Public communication on financial stability issues takes place primarily through the BCRA's semi-annual Financial Stability Report (FSR), whose content has improved over time. The authorities have also submitted to Congress a new bill that provides an explicit financial stability mandate to the National Securities Commission (CNV) and a more robust framework for financial market infrastructures.

The authorities note that, without neglecting financial stability, their main priority at this stage is to achieve macroeconomic stability by bringing down inflation, reducing distortions and

consolidating public finances as a precondition for fostering financial deepening. This is motivated by the system's small size (around 50% of Gross Domestic Product (GDP)), low level of intermediation (private sector deposits and bank loans of 15% and 12% of GDP respectively), limited maturity transformation, and transactional nature.

At the same time, however, much remains to be done in terms of fleshing out a comprehensive macroprudential policy framework. While the current arrangements may be commensurate with the level of financial system development and associated risks, it would be worthwhile to take steps to strengthen the framework before the system becomes more open and dynamic.

- ***Institutional arrangements:*** According to its Charter, the BCRA has several objectives – monetary stability, financial stability, employment, and economic development with social equality – that can potentially be conflicting. In its annual plans for 2016 and 2017, the BCRA stated that its primary objective at this stage is to promote price stability. While this may be appropriate, the BCRA's broad mandate raises the challenge of reconciling different objectives on an ongoing basis while ensuring financial stability. It may therefore be useful for the BCRA to review and (as appropriate) revise its Charter to clarify the role and confirm the importance of financial stability vis-à-vis other objectives, both in order to facilitate decision-making and to communicate how it balances these objectives.

  There is also a need for the BCRA to continue to enhance internal arrangements for financial stability. At present, the resources available to undertake systemic risk monitoring and assist in the design of macroprudential policies are limited. Decisions on the use of tools for macroprudential purposes rest with the BCRA's Board, but there is no dedicated Committee (as is the case in other areas) to discuss financial stability issues and make recommendations to the Board. As the macroprudential framework is fleshed out, it would be useful for the BCRA to enhance the resources and expertise dedicated to financial stability and to set up internal structures in support of that objective.

- ***Inter-agency cooperation:*** Cooperation among authorities – both on financial stability matters and more broadly – takes place largely on a bilateral and ad hoc basis. This includes memoranda of understanding (MoUs) to facilitate the exchange of information between authorities in support of their respective mandates; attendance of BCRA Board meetings by a Ministry of Treasury (MoT) representative; and monthly meetings of the Chief Cabinet of Ministries which the Governor of the BCRA can attend. A Coordination Council for Monetary, Financial and Exchange Policy, created in 2010 and composed of Ministry and BCRA officials, never became operational out of concern about the institutional autonomy of the BCRA. The authorities are of the view that priority should be given to strengthening existing institutions, particularly the BCRA in light of its inflation targeting approach.

  The financial stability framework at present relies largely on the BCRA, while inter-agency cooperation depends on ad hoc mechanisms among authorities. As the financial system becomes larger, more open and complex, it would be useful to establish formal mechanisms to bring together the relevant authorities – as is the case in some other countries – to discuss and share information on systemic risks and related policy measures, regulatory gaps/overlaps and initiatives to address them, as well as crisis preparedness protocols.

  In that context, the Argentine authorities have recently decided to establish a Capital Markets Committee for coordination between regulators and government bodies involved

in the regulation of financial markets. According to the authorities, the Committee will address inter alia issues on rule harmonisation, the coordination of policies and resolution processes, systemic risk and regulatory reforms. Details on the operation and communication strategy of the Committee, which will be formalised once the new Law of Capital Market Development is approved, have not yet been elaborated.

Such a body can help reinforce and formalise inter-agency cooperation. To enhance its effectiveness, the authorities should ensure that the Capital Markets Committee does not interfere with the mandates and independence of participating regulatory authorities; that it gives a leading role to the BCRA on financial stability issues, based on its expertise and mandate; and that it is complemented by dedicated structures to support its functioning.

- ***Data for systemic risk analysis***: Notwithstanding the progress made since the FSAP, the BCRA acknowledges that more systematic and granular data can be used for systemic risk analysis in a number of areas. This includes data on credit provided by non-bank entities (e.g. retail, credit unions or trade credit) as well as on real estate transactions and cross-border activities. The BCRA also notes that data already collected – e.g. on non-financial companies – could be upgraded, systematised and added to the analysis. Given the low level of credit and limited role of non-bank credit providers, the BCRA views these sources of debt as immaterial at this stage and hence of little relevance to assessing systemic risks.

  Experience from other jurisdictions shows that designing frameworks and infrastructure for collecting granular data for financial stability analysis is cumbersome once the financial system becomes more complex. The authorities should take a pre-emptive approach to identifying potential future sources of systemic risk by addressing at an early stage the related issues of data identification, collection and analysis based on cost-benefit considerations – particularly given their objective to develop the financial system significantly in the coming years.

  Notwithstanding arrangements for data sharing among authorities, the BCRA relies largely on publicly available information to analyse systemic risks outside the banking sector. While these risks are perceived to be minimal at this stage, this may change in the future as the domestic capital market grows and corporates obtain financing from foreign sources – as has been the case in other emerging markets. To address this issue, other regulatory authorities – particularly the CNV (once it obtains an explicit financial stability mandate under the proposed capital markets law) – should contribute to the BCRA's systemic risk analysis by collecting, analysing and sharing relevant information with the BCRA.

- ***Stress testing:*** The BCRA conducts annual (top-down) stress tests of financial institutions' solvency and liquidity based on adverse macroeconomic and financial scenarios. Institutions supervised by the BCRA also perform (bottom-up) stress tests as part of their annual capital self-assessment based on their own scenarios. While this ensures customisation to the institution's particular activity and business model, the results cannot be compared across institutions or aggregated for the entire sector. Developing a common set of scenarios for all institutions based on the BCRA's stress tests, in addition to having institution-specific scenarios, may be useful in this regard and would help reconcile the bottom-up and top-down stress test exercises.

The results of BCRA stress tests are presented in meetings of its Board. The contents of these presentations are broader than those released to the public in the FSR: individual stress test results are not disclosed publicly out of concern about any adverse public reaction. Recent FSRs only include sensitivity analysis exercises of banking sector capital levels based on extreme credit scenarios.

While the BCRA's concerns are understandable, it may be appropriate for it to progressively disclose more information in its FSR on the objectives, methodology and system-wide results of these tests – as is the case in other countries – in order to enhance public understanding and improve communication on financial stability issues.

Framework for crisis management and resolution

The authorities have made some, albeit limited, progress in developing the crisis management and resolution framework to address the FSAP recommendations and include elements of the *Key Attributes*. Recovery planning is underway for four of the five D-SIBs and the resolution regime benefits from a well-funded deposit insurance fund. The draft Capital Markets Law also includes a proposal to introduce powers to temporarily stay early termination rights.

The authorities note that the resolution framework has been applied in previous cases and, in light of this experience, are of the view that the tools available under the regime are broadly sufficient to address the risks posed by failing financial institutions, considering the limited complexity and relatively small size of the financial system. Notwithstanding this, the current framework is not aligned with the *Key Attributes* and is limited in a number of important areas. Given the authorities' economic reform objectives and market expectations of economic growth, financial system development and banking consolidation, the tools under the current regime may no longer be sufficient in the future. Further work is therefore necessary to enhance the resolution framework and address fully the FSAP recommendations.

- ***Extend the resolution options by incorporating additional elements of the Key Attributes*:** The authorities have not made legislative changes to the resolution framework in recent years. The most recent amendment to the Financial Entities Law was enacted in 2003 and, as such, the resolution regime has not been revised in light of the *Key Attributes*.

  In the past, the authorities have relied on the use of purchase and assumption transactions to resolve financial institutions. This solution relies on finding a willing and able purchaser in a short amount of time to ensure that critical functions are not disrupted. A clear power to establish a temporary bridge institution, in cases where a buyer for the assets and liabilities of the firm cannot immediately be found, would be a useful addition to the resolution toolkit. The non-viable institution, including any remaining equity and the assets and liabilities not transferred to the bridge institution can then enter into ordinary liquidation procedures, as already provided for under the regime. Relatedly, a power to ensure continuity of essential services and functions in resolution, e.g. by requiring the bank to provide necessary services to a successor or acquiring entity, could help ensure that critical functions of that bank continue to be performed.

  Under the current framework, the replacement of a financial institution's management requires the involvement of the court to appoint a trustee recommended by the BCRA, which has typically been a public sector employee. The authorities note that, under Law 22,529 that was in force until 1992, the BCRA was empowered to take direct control of

failing financial institutions, but that such measures proved ineffective. In some cases, they also gave rise to legal challenges against the BCRA and its employees, some of which continue to date. More generally, the authorities consider that introducing optionality into the regime (by incorporating additional resolution powers) could increase the risk of legal challenge. However, these cases did not involve the appointment of a resolution administrator or professional manager, while past challenges arose in part due to insufficient legal protection for BCRA staff. In particular, there is no express legal provision providing for BCRA staff's indemnity, while the BCRA Law and the Law on Financial Entities only provide protection to the BCRA itself.

It would be beneficial for the resolution authority to have the power (as provided in the resolution regimes of a number of other FSB jurisdictions) to replace senior management with professional managers from the private sector, as opposed solely to public employees. In addition, the authorities should take steps to enhance legal protection for BCRA staff (for civil charges) and extend the same legal protections to other safety net officials – such as SEDESA's staff[3] – as required by the *Key Attributes* and recommended in the FSAP.

- ***Strengthening institutional arrangements***: Housing supervision and resolution functions within the same authority (BCRA) is not uncommon amongst FSB jurisdictions, and may facilitate cooperation. However, a lack of operational independence for the resolution function may create conflicts of interest, and the risk of supervisory forbearance would prevent timely and early entry into resolution as required by KA 3.1. In light of this, the BCRA should take steps to strengthen the operational independence of the resolution function, and provide it with a clear statutory mandate. A recalibration of the organisational structure, with operational separation of the supervisory and resolution functions (e.g. different areas within the BCRA and separate reporting lines) would allow for a better balance between going and gone concern interests. A statutory mandate for the resolution function may also help alleviate concerns regarding the legal basis of resolution actions.

  Another aspect of the institutional setup that should be enhanced is the coordination among safety net stakeholders, as recommended in the FSAP. Formal mechanisms are in place for cooperation and information sharing among domestic authorities for supervision, but no such mechanisms exist specifically for resolution. As noted above, the establishment of an inter-agency coordination forum involving sectoral regulators and relevant ministries, potentially including a dedicated subgroup on crisis management and resolution issues with representation from SEDESA, would be a useful step in this direction.

  Existing MoUs on cooperation and information sharing with foreign authorities also do not specifically address resolution issues. Establishing a firm legal basis to cooperate and share information for resolution purposes is necessary, given the sensitivity of such information and the need to coordinate with foreign authorities to facilitate a cross-border resolution.

- ***Resolution funding:*** The authorities have used the FGD in a number of previous resolution cases, albeit on a discretionary, case-by-case basis. To enhance transparency and predictability of the resolution regime as set out in the *Key Attributes*, the authorities should

[3] SEDESA is a private corporation owned jointly by the BCRA and deposit-taking institutions in proportion to their contribution to the Deposit Guarantee Fund (FGD). It acts as trustee of the FGD under regulations issued by the BCRA, managing the funds raised and implementing the depositor payout process.

be more explicit about the use of SEDESA as a resolution funding mechanism – for example, through amendments to existing regulations, or through the development and publication of high-level preferred resolution strategies (as discussed below).

The authorities should also revise institutional arrangements to ensure that the BCRA is responsible for resolution funding decisions. Under the current setup, SEDESA's Steering Committee decides on the use of funding for purposes other than the coverage of insured deposits. Although the Steering Committee is chaired by the BCRA (with veto power), the contributing financial institutions choose the representatives that hold voting rights. As such, the decision making process may be affected by private interests. In addition, any associated delay in the decision making process could affect the timely implementation of resolution measures. To address this, the authorities should establish a mechanism that strengthens the BCRA's role in the decision making process of the Steering Committee.

As regards a contingent funding mechanism for the FGD, recommended by the FSAP, the authorities note the high existing degree of coverage of FGD's funds; the ability of the BCRA to request advance contributions (up to two years) from financial institutions; and the possibility for SEDESA to issue, as payout to insured depositors, "registered non-endorsable securities" that other financial institutions would be required to accept as deposits. The authorities also note that a Presidential Decree could be used to secure contingency funding. However, requesting additional contributions from the industry may not be appropriate in a systemic crisis as it could place additional strain on financial institutions, while the issuance of non-endorsable securities and the use of a Presidential Decree represent ad hoc forms of funding that would be inconsistent with the need for transparency and predictability in resolution. The authorities should consider introducing more predictable back-up funding sources for SEDESA to provide clarity to market participants, complemented by clear provisions to recover any losses where public sources of back-up funding are used from shareholders and unsecured creditors or from the financial system more widely.

- ***Recovery and resolution planning:*** The BCRA commenced recovery planning in 2016 for four of the five identified D-SIBs (the exception being a state-owned bank), and has acknowledged that the process will be iterative, with enhancements planned after the review of the first round of plans. In this regard, the authorities should extend recovery planning requirements to the state-owned D-SIB. This would be consistent with the *Key Attributes*, which require RRPs at least for all domestically incorporated financial institutions that could be systemically significant or critical if they fail, without differentiating between private and public ownership.

  The BCRA has yet to commence resolution planning, other than through a request to financial institutions to make certain information available. Such planning is necessary to facilitate the effective use of resolution powers. The authorities should initiate resolution planning as part of an iterative approach to RRPs. To facilitate the removal of barriers to resolvability, the authorities should also consider introducing powers to require financial institutions to adopt appropriate measures where necessary solely in order to improve their resolvability. Such a power should be sufficiently broad and include a range of possible requirements exercisable in advance of, and not directly connected to, any financial problems in the financial institution.

Recommendations

In response to the aforementioned findings and issues, the peer review has identified the following recommendations to the Argentine authorities:

Macroprudential policy framework

1. The BCRA should (a) review its Charter to clarify the role and confirm the importance of financial stability vis-à-vis other policy objectives; (b) consider establishing an internal financial stability committee; and (c) continue to enhance the resources and expertise dedicated to financial stability work.
2. The authorities should establish a coordination forum involving sectoral regulators and relevant ministries to discuss regulatory gaps/overlaps; share information and analysis on systemic risks and related macroprudential policies; and develop crisis preparedness protocols. The forum should give a leading role to the BCRA on financial stability issues and should not interfere with the independence or override the mandates of its regulatory authority members.
3. The BCRA, working with other regulatory authorities, should develop a framework for the identification and collection of data for systemic risk analysis (e.g. with respect to non-bank financial institutions, corporate sector, real estate and cross-border activities), including via the use of information sharing arrangements among those authorities.
4. The BCRA should (a) reconcile banks' bottom-up and its own top-down stress tests (e.g. through common scenarios); and (b) consider publishing information on the objectives, methodology and system-wide results of its stress tests.

Framework for crisis management and resolution

5. The authorities should incorporate additional elements of the *Key Attributes* in the current resolution regime, including: (a) explicit powers to establish a bridge institution; (b) powers to ensure the continuity of critical services; (c) powers to replace senior management with professional managers; and (d) enhanced legal protections for BCRA staff and their extension to other safety net officials.
6. The BCRA should enhance institutional arrangements for resolution by strengthening the operational independence of the resolution function and by establishing mechanisms for cooperation and information sharing with domestic and foreign authorities specifically for the purposes of resolution.
7. To improve transparency and predictability in the resolution framework, the authorities should be more explicit about the use of SEDESA to finance resolution actions. In order to ensure that the BCRA is responsible for resolution funding decisions, its role in SEDESA's Steering Committee should be strengthened, and explicit and predictable sources of back-up funding should be put in place.
8. The authorities should continue efforts to develop the recovery and resolution planning framework by extending recovery planning requirements to all D-SIBs, initiating resolution planning, and considering the adoption of powers to require financial institutions to make changes to improve resolvability.

1. Introduction

Argentina underwent an assessment under the Financial Sector Assessment Program (FSAP) in 2013. The FSAP included assessments of the Basel Committee on Banking Supervision (BCBS) *Basel Core Principles for Effective Banking Supervision*, International Association of Insurance Supervisors (IAIS) *Insurance Core Principles* and International Organization of Securities Commissions (IOSCO) *Principles and Objective of Securities Regulation*.[4]

The FSAP noted that Argentina's financial system is small relative to countries at a similar stage of development and mostly transactional, with public institutions playing a dominant role. Banks and the Sustainability Guarantee Fund (FGS)[5] dominate the financial system with other types of non-bank financial entities playing a relatively small role. The FSAP concluded that building greater confidence in the macroeconomic outlook was essential to deepen financial markets. The banking system appeared resilient to a wide range of shocks given large capital and liquidity buffers and strong asset quality, but faced challenges in the transition to the new regulatory framework, especially the ability to develop forward-looking risk assessments. The FSAP highlighted the governance issues associated with the large equity stakes of the FGS in some private banks and the interconnectedness with the financial system, which had the potential to create unexpected liquidity pressures.

The FSAP identified several areas for improvement in the regulatory and supervisory framework for banking, insurance and securities markets. It concluded that while progress had been made in upgrading the regulatory and supervisory framework to Basel II standards and a roadmap for the implementation of Basel III has been developed,[6] there remained the need for steps to strengthen independence, legal protection to supervisors, loan provisioning rules and consolidated supervision. It also highlighted that financial safety nets could be further strengthened (see below).

The IMF published its 2016 Article IV assessment report of Argentina in November 2016.[7] This was the first such assessment since 2006. The report concluded that the new Argentine government faced pervasive macroeconomic imbalances, microeconomic distortions and a weakened institutional framework. It noted that the government had begun an ambitious transition towards a better economic policy framework that, while necessary to lay the foundations for robust future growth, could have an adverse near-term impact on the Argentine economy. The report further noted that the financial system appeared resilient to the ongoing

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[4] See "Argentina: Financial System Stability Assessment" (February 2016, IMF Country Report No. 16/64 http://www.imf.org/external/pubs/cat/longres.aspx?sk=43738.0). The detailed assessments on the observance of standards and codes were published in September 2012 and are available on the IMF website (http://www.imf.org/external/country/ARG/index.htm?pn=4).

[5] The FGS, a government-managed portfolio resulting from the nationalisation of pension funds in 2008, is the most important institutional investor in Argentina, with a size that it is almost three times that of the insurance companies or of mutual funds.

[6] In September 2016, the BCBS published the assessment of the consistency of the Basel III risk-based capital and liquidity coverage ratio standards in Argentina with the Basel framework. See http://www.bis.org/bcbs/implementation/l2.htm.

[7] See Argentina's "2016 Article IV Consultation" (November 2016, IMF Country Report No. 16/346, http://www.imf.org/external/pubs/cat/longres.aspx?sk=44386.0).

macroeconomic transition, pointing out that banks were well capitalised with low levels on non-performing loans, relatively large provisions and comfortable liquidity positions.

This peer review report has two main sections, corresponding to the two topics being reviewed. Section 2 focuses on the macroprudential policy framework, while Section 3 covers the framework for crisis management and resolution. In addition, Annex 1 provides background information on the regulatory and supervisory framework in Argentina, and Annex 2 describes the structure and recent developments in the financial system. Annex 3 presents the follow-up actions reported by the authorities to other key FSAP recommendations; these actions have not been analysed as part of the FSB peer review and are presented solely for purposes of transparency and completeness.

2. Macroprudential policy framework

Background

The FSAP noted that the mandates for financial stability and macroprudential policy are divided between the Central Bank of the Republic of Argentina (BCRA) and other authorities. In 2012, a new BCRA Charter came into force that extended the BCRA's mandate by adding explicitly the objectives of financial stability, employment and economic growth to its pre-existing objective of monetary stability.[8] Cooperation between authorities was achieved through mechanisms such as memoranda of understanding (MoUs).

The FSAP noted that although liquidity facilities for banks are comprehensive, experience from other countries shows that liquidity crises can emerge outside the regulatory perimeter. It recommended that the BCRA, in conjunction with the National Securities Commission (CNV), maintain surveillance over activities of non-bank financial companies to detect systemic liquidity risks.

While acknowledging that the implementation of stress tests was conceptually challenging in the Argentinean context and hence the need to interpret the results required a high degree of caution, the FSAP concluded that the banks appeared to be resilient to market risks but less so to sovereign risks and to the impact of external shocks on their credit portfolios. It also found that direct contagion risk through bilateral interbank exposures is limited and that those exposures are very small compared to banks' capitalisation. Nonetheless, it noted that the banking system is interconnected with the FGS, which has the potential to create unexpected liquidity pressures. It also recommended that the BCRA further fine-tunes its stress test toolkit.

The FSAP noted that Argentina has used a number of tools to manage financial and macroeconomic risks, such as those stemming from excessive credit growth and currency mismatches. The measures included sectoral limits, risk weights based on loan-to-value ratios, loan-to-deposit ratios, use of reserve requirements on deposits, concentration limits, limits on profit distributions by banks, foreign currency lending limits and other policies.

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[8] See http://www.bcra.gov.ar/Pdfs/Institucional/CartaOrganica2012_i.pdf.

This section reviews the progress made to date to develop a macroprudential policy framework, including with respect to the follow-up of relevant FSAP recommendations. Drawing on the experience of other FSB jurisdictions and on international guidance in this area,[9] it analyses the main elements of the framework in order to evaluate progress and identify remaining tasks.

Steps taken and actions planned

***Institutional arrangements and legal framework**:* The objectives and main elements of the macroprudential framework are defined by the interaction of the Executive Power and financial sector authorities – namely, the BCRA, Ministry of Finance (MoF) and Ministry of Treasury (MoT),[10] CNV and National Superintendence of Insurance (SSN) (see Figure 1 and Annex 1).

Only the BCRA has an explicit legal mandate to promote financial stability. As provided under Article 3 of the Charter, "the purpose of the Central Bank is to promote – within the framework of its powers and the policies set by the National Government – monetary stability, financial stability, employment, and economic development with social equality." According to section 4(a), one of the BCRA's powers is "to regulate the operation of the financial system and enforce the Financial Entities Law and such regulations as may be consequently adopted." Section 43 of the Charter establishes that the BCRA shall supervise all financial and foreign exchange activity through the Superintendence of Financial and Exchange Institutions (SEFyC). The SEFyC reports directly to the Governor of the BCRA and its regulatory scope covers banks, other deposit-taking institutions and other financial intermediaries. Accordingly, the legal framework provides the BCRA with powers regarding both microprudential and macroprudential decisions within the scope of its regulatory perimeter.

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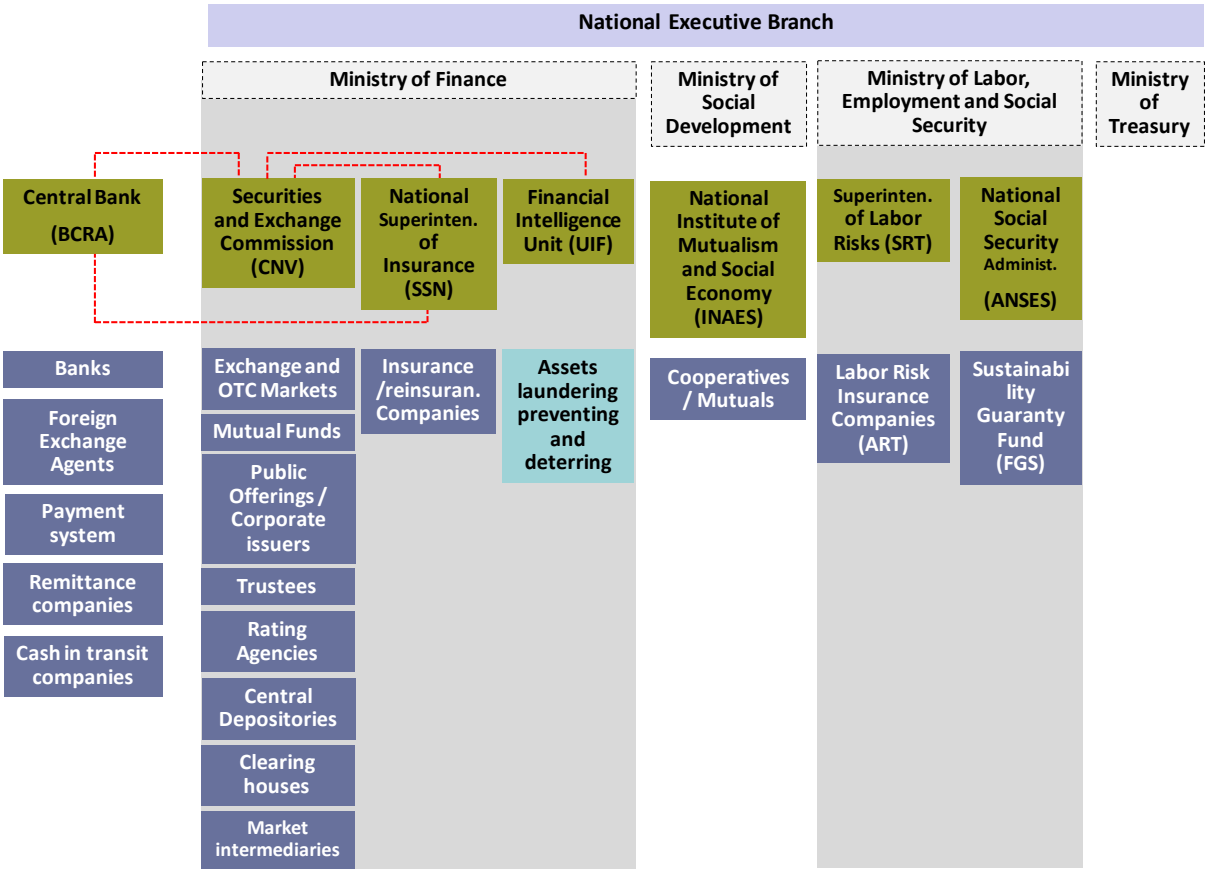
[9] See "Macroprudential Policy Tools and Frameworks – Progress Report to the G20" (October 2011, http://www.fsb.org/2011/10/r_111027b/) and "Elements of Effective Macroprudential Policies" (August 2016, http://www.fsb.org/2016/08/elements-of-effective-macroprudential-policies/) by the IMF, FSB and BIS; "Macroprudential Policy: An Organizing Framework" (March 2011, http://www.imf.org/external/np/pp/eng/2011/031411.pdf), "Institutional Models for Macroprudential Policy" (November 2011, http://www.imf.org/external/pubs/ft/sdn/2011/sdn1118.pdf), "Key aspects of macroprudential policy" (June 2013, http://www.imf.org/external/np/pp/eng/2013/061013b.pdf) and "Staff Guidance on Macroprudential Policy" (December 2014, http://www.imf.org/external/np/pp/eng/2014/110614.pdf) by IMF staff; and "Macroprudential instruments and frameworks: A stocktaking of issues and experiences" (May 2010, http://www.bis.org/publ/cgfs38.htm), "Operationalising the selection and application of macroprudential instruments" (December 2012, http://www.bis.org/publ/cgfs48.htm), "Experiences with the ex ante appraisal of macroprudential instruments" (July 2016, http://www.bis.org/publ/cgfs56.htm) and "Objective-setting and communication of macroprudential policies" (November 2016, http://www.bis.org/publ/cgfs57.htm) by the Committee on the Global Financial System (CGFS).

[10] On 2 January 2017, Executive Decree N° 2/2017 divided the former Ministry of Treasury and Public Finance (MHyFP) into the MoT and MoF – see https://www.boletinoficial.gob.ar/pdf/linkQR/ZkVQSEdzQnd0YWRycmZ0RFhoUThyQT09 (in Spanish). Decree N° 32/2017 established that CNV and SSN come under the oversight of the MoF – see https://www.boletinoficial.gob.ar/pdf/linkQR/MjloZm16aXpodGxycmZ0RFhoUThyQT09 (in Spanish).

Figure 1: Regulatory structure in Argentina



Note: MoUs between authorities are shown as red lines.

The BCRA defines financial stability as a situation where the financial system can provide services of funds intermediation, hedging and payments in an adequate manner, efficiently and continuously, even in stress situations.[11] Although it uses a range of analytical tools to assess systemic risk (see below), the BCRA has not articulated explicitly intermediate objectives of macroprudential policy to act as operational specifications to promoting financial stability.

Article 42 of the BCRA Charter mandates that the central bank must publish at the beginning of every calendar year its objectives and plans regarding monetary, financial and exchange rate policies. Since the new administration took office, the BCRA has established a hierarchy of objectives published in January each year. Bringing down inflation has been given priority over other mandates.[12]

Over the years, activities related to financial stability have involved many areas of the BCRA and the SEFyC. In order to improve the organisational set-up, the BCRA implemented a change in its structure in November 2016. In particular, the BCRA's Regulation Division was given

[11] See the preface to the BCRA's Financial Stability Reports for the first and second half of 2016 (available at http://www.bcra.gov.ar/PublicacionesEstadisticas/Informe_de_estabilidad_financiera_i.asp).

[12] Financial system stability and growth are mentioned as a second priority of the BCRA. See http://www.bcra.gov.ar/Pdfs/PoliticaMonetaria/ObjetivosBCRA_2016_i.pdf.

the responsibility to "promote the analysis and research of regulations and financial innovations that encourage financial stability, as well as regulation implemented by other central banks or banking institutions dedicated to regulation and supervision".[13] The Division is also responsible for establishing "guidelines for the analysis of the evolution of financial markets in order to promote financial stability". The Head of the Division reports to the General Manager who, in turn, reports to the Governor. Within the Regulation Division, the Macroprudential Monitoring Department (comprising around 16 staff) identifies and monitors risks of the financial system, participates in the design of macroprudential measures and instruments to address systemic vulnerabilities, and collaborates in the development of stress testing methodologies.[14] It also coordinates the preparation of the BCRA's semi-annual Financial Stability Report (FSR), the monthly banking report, as well as any other reports requested on ad hoc basis (e.g. for Monetary Policy Committee meetings).

The decision-making body on macroprudential policies – as well as monetary and other policies – is the BCRA's Board of Directors, which includes the Superintendent and Vice Superintendent of SEFYC.[15] The Board receives proposals that are analysed by the Regulation Division, with participation of other areas as needed, and coordinated by the General Manager. Section 12 of the BCRA Charter sets forth that its Board must meet at least once every fifteen days. A representative from the MoT may participate, but has no vote, in Board decisions involving monetary, financial and exchange rate matters.[16]

The authorities note that the BCRA, MoT and MoF share responsibilities over macroprudential instruments available to control systemic risks, the detection of any increase in systemic risk and the decision making regarding adoption, implementation and enforcement of macroprudential policies. However, in practice only the BCRA has an explicit financial stability mandate and a broad range of tools for macroprudential purposes (see below).

Following the recent split of the former MHyFP, the MoT is responsible inter alia for designing, preparing and proposing the strategic guidelines for economic policy and development planning. This Ministry receives information related to monetary, financial and exchange rate and policies under the legal competence of the BCRA. By contrast, the MoF is responsible for the design of policies to develop financial services and foster capital market transparency and

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[13] The Economic Research Division is responsible for analysis on monetary policy issues. See http://www.bcra.gov.ar/Pdfs/Institucional/ORG_BCRA.pdf (in Spanish) for the BCRA's organisational setup.

[14] The other two departments within the Regulation Division – Financial Innovation Department and Regulation Research and Planning Department – are also involved in the design, formulation and evaluation of BCRA's bank regulation policies in general, including on macroprudential measures. In particular, the former department analyses regulation and financial innovation in other countries to improve or adapt the local regulation and evaluates the effects of regulation compared to the expected effects in order to (if deemed necessary) make necessary adjustments. The latter department monitors and analyses international trends in financial regulation and develops comparative studies, including in financial stability issues.

[15] See http://www.bcra.gov.ar/Institucional/Autoridades_i.asp.

[16] The BCRA Board has five working Committees: Monetary Policy; Audit, Money Laundering and Legal Affairs; Financing Innovation, Transparency and Competitiveness; Superintendence of Financial and Exchange Institutions; and Procurements and Systems. Each Committee is assigned with the discussion of certain topics and meets once a week. Proposals to change or introduce a regulation go through the designated Committee, which discusses the issue and makes a recommendation to the Board. While some of these Committees discuss financial stability issues, none of them is dedicated to this topic.

consumer protection. In this regard, the MoF, through the Secretariat of Financial Services (Decree 32/2017), plays a coordinating role between the CNV, the SSN and the Executive.

The CNV does not have an explicit financial stability mandate; its functions and responsibilities involve investor protection and the regulation, supervision and development of the capital market;[17] similarly, the SSN focuses on the regulation and supervision of insurance and reinsurance companies (see Annex 1).[18]

The government has recently submitted to Congress an amendment to the CML ("New Law on Capital Markets"), with the main purpose of incorporating updates of the IOSCO *Objectives and Principles of Securities Regulation*, including an explicit mandate for systemic risk reduction. The draft law, which is expected to be enacted in 2017, aims to facilitate monitoring, identification and management of systemic risk amongst capital market intermediaries, markets and market infrastructures under the CNV's scope (see Box 1).

Box 1: The proposed new Law of Capital Market Development

The government submitted to Congress a new "Law of Capital Market Development" proposing the amendment of a set of laws, including Capital Market Law N° 26,831. The bill incorporates most of the IOSCO recommendations for capital market supervisors and regulators, including the mandate for CNV to reduce systemic risk through policy actions and resolutions. The bill also empowers the CNV with new mandates to promote transparency and integrity of the capital markets by avoiding conflicts of interest and to promote investor protection.

Other important amendments include a new classification of market participants or activities and their respective clearinghouse and settlement systems. In particular, the bill incorporates central counterparties (CCPs) to the list of registered entities with the CNV by giving them a legislative status rather than a regulatory one. One of the reasons for this is to highlight and promote their contribution to counterparty credit risk management by allowing for multilateral netting, reducing uncertainty about participants' exposures and increasing transparency of market activity.

Another relevant aspect of the proposed legal changes is to foster the development of the derivatives market, so that hedging can be used by investors to protect profits, curb financial volatility, as well as manage and transfer risks when required. In this regard, the bill also proposes the development of a specific regulation for derivative instruments, allowing bilateral netting, early termination and margin and collateral execution following the occurrence of an event of default of a party. It also provides for the creation of a trade repository to collect information on derivatives transactions.

[17] Notwithstanding this, the CNV's Intermediaries and Markets Department carries out market surveillance, by monitoring and supervising on real-time basis transactions in authorised markets, and develops policies to promote the resilience of market infrastructures and intermediaries. This includes a minimum capital requirement, a guarantee fund and assignment of responsibility for setting initial and variation margins for central counterparties; a risk management framework as well as minimum capital and guarantee requirements for market intermediaries; and minimum liquidity requirements and other tools for mutual funds.

[18] This includes a minimum capital regime and technical reserves requirements as well as limits (e.g. creditworthiness and concentration) and other rules on insurers' investments and on internal control policies.

Cooperation and information sharing arrangements: The FSAP had noted the creation in 2010 of a Coordinating Council for Monetary, Financial and Exchange Policy (Executive Decree 272/2010),[19] composed by officials of the BCRA and the former MHyFP. However, the authorities point out that the Council never became operational and that there are other coordination mechanisms in place. These include bilateral MoUs between the BCRA, CNV and SSN[20] as well as with other domestic authorities,[21] and attendance of BCRA Board meetings by a MoT representative. In addition, the Chief Cabinet of Ministries gathers on a monthly basis the main heads of each Ministry to coordinate the development and implementation of public policies. The MoT and MoF as well as the Governor of the BCRA participate in those meetings and provide their views on financial and economic matters.

Data for systemic risk analysis: In accordance with its mandate, the BCRA collects information from banks and other financial intermediaries it supervises. In addition, the BCRA supervises all financial and foreign exchange activity, including compliance with the reporting and accounting regime, through the SEFyC.[22] Given this, a broad set of supervisory reports, surveys and data requirements are submitted to the SEFyC both on a regular (daily, monthly or quarterly) and ad hoc basis by institutions under the regulatory perimeter of BCRA. In addition to this information, supervisors can request access to books, documents and other papers during onsite inspections.

As far as powers to request additional information on an ad hoc basis for financial stability purposes is concerned, the BCRA's scope is determined by the Financial Institutions Act. This Act and the BCRA's Charter allow for the expansion of this scope beyond deposit-taking institutions to include persons that regularly act as financial intermediaries and whose volume of operations so warrants, or when there are reasons associated with monetary, foreign exchange or lending policies. The BCRA has used this power to collect credit data from non-bank credit card companies.

The CNV collects data from market intermediaries, issuers and CCPs on a periodic basis. Similarly, the SSN collects data from insurance entities within its regulatory jurisdiction. Both the CNV and the SSN have the authority to request additional information on an ad hoc basis from financial entities under their scope.

The FSAP recommended that the authorities develop a comprehensive database of the assets liabilities and debt service of corporates and households, with a breakdown by size of the corporation or income level of the household and by geographic location. This would allow for

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[19] See http://servicios.infoleg.gob.ar/infolegInternet/anexos/160000-164999/164520/norma.htm (in Spanish).

[20] The BCRA, SSN and CNV have signed agreements of cooperation and information exchange aimed at contributing to the fulfilment of their respective duties, in which they mutually commit to cooperate and provide information on institutions operating under their scope of supervision, subject to the legal restrictions applicable in each case.

[21] For instance, the CNV has signed agreements with the Financial Information Unit (UIF), the Public Prosecutor on Economic Crime and money-laundering, and the Federal Administration of Public Revenues (AFIP).

[22] For example, the SEFyC has the power to request that financial institutions, foreign exchange bureaus and agencies, offices and brokers, exporters and importers, or any other individuals or legal entities directly or indirectly involved in foreign exchange transactions show their books and documents, and provide information and documentation related to their operations.

a better assessment of the distribution of the debt burden, which could help identify if certain groups of households or corporates were under distress from debt.

The BCRA monitors different datasets to assess the financial health and soundness of the corporate and household sectors. These include supervisory reports, market data (Bloomberg, Reuters), information from other supervisory authorities and the National Bureau of Statistics (INDEC), private sector financial reports, as well as BCRA surveys (credit conditions survey, market expectations survey) and projections. Given that the financial system remains relatively small and bank-dominated, the focus of the assessment is on bank loans. Data on bank loans and credit lines are available on a monthly basis at bank/client level for households and corporates in the public Credit Registry (Central de Deudores del Sistema Financiero) that the BCRA operates through SEFyC.[23] Moreover, the BCRA developed a methodology to estimate households' debt burden at the aggregate level (debt service payments as percentage of personal income) and, following the FSAP, started using data on payroll deposit payments to estimate households' level of debt by income bracket.[24]

The BCRA also notes that it monitors the financial health of the corporate sector and capital markets financing to the non-financial private sector using publicly available information, including commercial databases and financial statement data from companies trading on the Buenos Aires Stock Exchange. Since 2015 the analysis has been systematised and indicators were developed. These information sources may not be sufficiently granular or constitute a representative sample of different economic sectors, but they provide useful information on foreign debt issuance by these companies.

At the same time, however, the BCRA acknowledges that systematic, consolidated data needs to be improved on other types of credit, including debt provided by institutions outside the regulated financial system (such as retail, credit unions or trade credit), as well as data on real estate transactions and cross-border activities. It also notes that different sets of data at the BCRA itself,[25] INDEC[26] and AFIP could be upgraded, systematised and added to the analysis.

As noted above and notwithstanding arrangements for data sharing among authorities, the BCRA relies largely on publicly available sources of information to analyse systemic risks

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[23] This database collects information on household and corporate loans and commitments granted by banks, other regulated financial institutions, non-bank credit cards and financial trusts (these trusts have mortgages, credit card receivables, and other forms of regulated institution credit as underlying assets, and issue securitised debt instruments). Loans to non-resident clients are also included in the Registry.

[24] See Exhibit 3 in the FSR for the second half of 2016 (available at http://www.bcra.gov.ar/Pdfs/PublicacionesEstadisticas/bef0216i.pdf).

[25] For example, the Credit Analysis Department at the SEFyC receives from banks the annual financial statements of around 800 non-financial private sector companies identified as the main debtors to the banking sector; this information is used to supervise banks' provisioning on these exposures at an individual level.

[26] For example, INDEC conducts a survey on the country's 500 major companies, covering broadly their activity, added value, investment, employment, cross-border transactions and other information on companies' assets and liabilities.

outside the banking sector (e.g. with respect to mutual funds and insurance companies). Collaboration with other authorities generally takes place on an ad hoc basis.[27]

Analytical framework and risk assessments: The BCRA monitors systemic risk using various analytical tools, such as stress tests and risk indicators, while a number of other tools are under preparation;[28] other authorities are not generally involved in this process.

The BCRA monitors on a continuous basis a broad set of banking sector indicators of different frequency, such as aggregate intermediation, risk exposures, buffers and tools to mitigate risks, solvency and liquidity positions, credit portfolio structure (including non-performing loans analysis by sector and country), currency and interest rate mismatches, leverage levels, funding stability and profitability. The financial conditions of the corporate sector and households are also examined. Capital market trends (fixed income and equity markets, yields, volatilities, financing flows, sovereign debt) are monitored at the domestic, regional, emerging market and global levels. Asset prices and the levels of leverage and liability dollarisation of the corporate sector are also monitored, as are the main developments of the payment system.

The BCRA developed in 2016 a financial risk dashboard, comprising more than 100 financial system indicators intended to provide an overview of financial system conditions and risks. There are plans to expand the set of indicators used as input to the dashboard. Work is also underway to develop a heat map for the banking sector, taking into account the most important risks. Neither of these analytical tools has been made public at this stage, although the intention is to eventually include the heat map in the FSR once it is adequately calibrated.

The BCRA conducts annual stress tests based on adverse macroeconomic and financial scenarios (see Box 2). These exercises have a time horizon of two years and consider the resilience of institutions in terms of solvency and liquidity. The tests are complemented with more frequent exercises that focus on particular risk factors using sensitivity analysis.[29] Financial institutions supervised by the BCRA also perform stress tests as part of their capital self-assessment, and their results are used to guide supervisory actions. The results of systemic risk assessments are presented in meetings of members of Board Committees and, in the case of stress test results, in meetings of the BCRA's Board. The contents of these presentations are broader than those released to the public in the FSR – in particular, stress test results are not disclosed publicly.

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[27] An example of inter-agency cooperation is the participation of the Argentine authorities in the annual FSB shadow banking monitoring exercise, although the data they provided for the 2015 exercise were not adequate or sufficiently granular to assess related risks. See the FSB's "Thematic Review on the Implementation of the FSB Policy Framework for Shadow Banking Entities" (May 2016, http://www.fsb.org/2016/05/thematic-review-on-the-implementation-of-the-fsb-policy-framework-for-shadow-banking-entities/).

[28] The FSR for the second half of 2016 includes analyses and indicators on credit risk (total, households, corporates); liquidity risk; and currency, interest rate and market risks. See http://www.bcra.gov.ar/Pdfs/PublicacionesEstadisticas/bef0216i.pdf.

[29] For example, the FSR for the first half of 2016 undertook three sensitivity exercises on the capital position of banks in response to the materialisation of adverse credit scenarios. See http://www.bcra.gov.ar/Pdfs/PublicacionesEstadisticas/bef0116i.pdf.

Box 2: Stress testing of the financial system

Stress tests are performed by all (78) financial institutions supervised by the BCRA as part of their capital self-assessment, and by the BCRA (jointly undertaken by the Economic Research Department and the SEFyC). The BCRA carries out these tests for supervised institutions on an annual basis.

The top-down stress test exercises done by the BCRA annually have a time horizon of two years and consider two macroeconomic scenarios: one of them allows a total or partial recovery within the horizon of analysis, while the other contemplates a deterioration over the two years under projection. At present, stress scenarios usually involve triggering events from outside the financial system, such as macroeconomic imbalances or external shocks.

The exercises use a small economic general equilibrium model that includes feedback of different variables and considers extreme scenarios for the economy as a whole. The scenarios are calibrated according to historical experience, expert judgement and the results of the model.[30] The SEFyC uses these stress scenarios and its own risk factor models (credit risk, interest rate, market, expenses and service income) to analyse the effect on liquidity and solvency of individual financial institutions in a consistent manner for 24 months under each scenario. In doing this, the individual portfolios of each entity as well as its specific exposures and business profiles are considered. Thus, any impacts on the valuation of traded assets, changes in the exchange rate, financial margins, noninterest income, operating expenses and the impact of macroeconomic circumstances on the credit quality of each institution's portfolio are estimated. From these projections, the monthly capital and liquidity positions are estimated, as well as the resulting possible use of capital and liquidity buffers for each individual institution. Finally, specific information concerning each institution is added (such as committed capital contributions). Marginal improvements to the approach have been made after each annual exercise.

Under the SEFyC's Guidelines for Risk Management, entities also must implement individual stress tests on a forward-looking assessment of risk, to plan capital and liquidity needs and to facilitate the development of contingency plans and risk mitigation. In this exercise, each financial institution conducts its own stress test with a two-year horizon, using its own models and scenarios. These tests are sent to the SEFYC and both the models and the scenarios are analysed by the supervisors, who might make recommendations to improve them (e.g. asking for more stressed scenarios or changes in the models). Other assessed variables are the participation of the board and senior management of each bank, and the use of these stress tests when making business decisions and implementing contingency plans. The results are reported to the SEFyC under five sections (business plan, two-year projections, macroeconomic assumptions, stress tests and capital self-assessment), while their summary must also be published by each bank as part of its Pillar 3 disclosures.

The FSAP recommended that the BCRA uses the existing bank-level panel supervisory dataset with detailed information on the balance sheet and profit and loss statements for the modelling part of stress testing, and establish a mechanism to make it available to the members of the stress testing team at short notice. The BCRA points out that no concrete actions are needed in response to this FSAP recommendation, since the stress testing team has always used all supervisory information available on the balance sheets of individual entities.[31]

In addition, the FSAP recommended that the BCRA continue to improve its satellite models of the top-down stress testing for profits. The BCRA notes that some of the recommendations

[30] A new general equilibrium model is currently under development at the BCRA.

[31] In particular, the BCRA notes that since the first stress tests were carried out (2005), it has been using an extensive bank-level panel supervisory dataset with detailed information on balance sheet, profit and loss statements, the BCRA's credit registry, capital requirements, fixed-income and public debt portfolio database, foreign exchange portfolio, as well as other data sets.

concerning credit and business risk have already been implemented. As regards credit risk, the BCRA has developed an econometric model using quarterly data to estimate losses due to credit risk through panel time series, and is also exploring alternative specifications and explanatory variables (including time-variant bank-specific variables). However, the development of more granular models (e.g. loan loss rates or default probabilities by economic sector, loan or borrower type) and of default probability models based on individual borrower data requires more granular information that is not available to date. As regards business risk (satellite model for net fee and service income), BCRA points out a number of limitations when compared to the model used for the tests based on the FSAP baseline.[32] In addition, a projection module was developed that makes it possible to establish the accounting consistency of the projections (annual balance sheet and profit and loss statement at year-end in each projected scenario) as well as their link with liquidity risk. In terms of actions planned, the viability of preparing projections over periods longer than two years is being considered.

In terms of network analysis, the BCRA notes that the banking sector is small and focused on transactional operations. Given the business model and balance sheet structure, the amplification of shocks through asset liquidation or interconnection channels is perceived to be limited. Thus the BCRA considers the main sources of systemic risk as being banks' common exposures to risk factors and shocks originating from outside the financial system. BCRA analyses the interconnectedness matrix of interbank unsecured credit operations on a monthly basis ("call money market"). Given that daily data are available (with a one-day lag), this matrix can be calculated with this higher frequency as needed, e.g. when interest rate volatility increases or there are unexpected changes in volumes.

The FSAP highlighted the governance issues associated with the large equity stakes of the FGS in some private banks and the interconnectedness with the financial system, which had the potential to create unexpected liquidity pressures. In recent years, the involvement of the FGS in the banking sector has diminished (see Box 3), although the FGS retains large equity stakes in a few banks.[33] FGS time deposits represented only 2% of the time deposits of the banking sector as of June 2016, and they are not a significant proportion of funding in any one bank.

The FSAP also noted that although liquidity facilities for banks are comprehensive, the BCRA should work with other supervisors to monitor potential risks outside its regulatory perimeter. It recommended that the BCRA, in conjunction with CNV, maintains surveillance over activities of non-bank financial companies to detect emergence of systemic liquidity risks. The authorities note that such entities are small and do not currently pose systemic liquidity risks, and that the proposed Law of Capital Market Development will facilitate the monitoring of systemic risks stemming from capital market intermediaries, markets and market infrastructure.

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[32] These limitations include: non-stationarity of the series and the likely spurious nature of the regression; loss of precision due to the use of aggregate instead of bank-specific data; and data are used only for the 20 biggest entities in terms of assets.

[33] FGS owns equity in three banks (including 30% of the equity of one D-SIB) and one group (20% of the equity of a financial holding company that owns a D-SIB).

Box 3: The Sustainability Guarantee Fund (FGS)

The FGS is a sovereign pension reserve fund that manages the assets and liabilities from the nationalisation of private pension funds in 2008. Its mission is to preserve capital and provide sufficient returns to meet commitments made by Law 27,260 (Ley de Reparación Histórica)[34] by investing in projects and financial instruments that promote growth in the economy and support the development of local capital markets. It is the largest institutional investor in Argentina, with assets under management almost three times those of insurance companies and mutual funds (12.6% of GDP in December 2016).

The national pension system is based on pay-as-you-go scheme, with contributions paid to the Social Security administration (ANSES) that manages and owns the FGS. The ANSES Executive sub-Director for FGS reports to an Executive Committee that includes the ANSES Executive Director and the Secretaries from the Finance, Treasury and Economic Policy and Development Planning Ministries. The Committee sets the investment strategy (within pre-determined limits, see below) balancing safety and returns considerations, adequate risk diversification together with the promotion of economic activity and taking into account macroeconomic effects of its investment decisions (in particular, effects on employment). External oversight of the FGS is carried out by the FGS Council (comprising representatives of trade unions, retirees, entrepreneurs, legislators, the Chief-of-Cabinet Office and ANSES), a Legislative Committee (with members of both chambers of Congress), the Ombudsman Office (within Congress), the Government Accountability Office, the Officer of Inspector General, and the general auditor of ANSES.

FGS follows an investment regime with specific limits[35] (minima and maxima) for the amount of resources that may be invested in different asset classes within Argentina. As of December 2016, its portfolio was invested in domestic public sector bonds (60% of total), private firms' equity (13%), infrastructure investments (11%), time deposits in banks (6%), loans to provinces (3%), mutual funds (2.6%) and consumer loans (1.8%). FGS asset valuation is done on a daily basis using market prices. As in the case of other market participants, FGS assets are overseen by CNV.

The FGS also funds ANSES special programmes. In 2012, the FGS bought debt issued by PROCREAR trust (which finances mortgage loans to first-time homeowners). In 2016, the lending programme was restructured into a new scheme under which FGS stopped providing direct credit to its customers and started funding a programme to provide mortgages by banks. Another programme it participates in is ARGENTA (consumer loans for retired people, guaranteed by their monthly pension income). ARGENTA borrowers are not reported to the BCRA credit bureau.

According to the BCRA, systemic risk is relatively low at present given the banking sector's small size, low-complexity products, low concentration and degree of interconnectedness (both within the system and between domestic and international financial markets), as well as high levels of solvency and liquidity. The main risks to financial stability identified in the FSR relate to the policy reorientation implemented by the new government as from late 2015.[36] In particular, the process of disinflation and the maintenance of positive real interest rates for savers create downward pressures on interest margins and thereby limit banks' profits. In an

[34] This law, which was enacted in July 2016, recognises past claims due to incorrect settlement and forwards adjustment of benefits to a universe of approximately two million national pensioners.

[35] According to article 74 of Law 24.241, equities cannot exceed 50% of the FGS portfolio, bank and corporate bonds 40% of the portfolio, bank certificates of deposit 30% of the portfolio, mutual funds 20% of the portfolio, financial trusts 30% of the portfolio and consumer loans 20% of the portfolio.

[36] This includes normalising macroeconomic statistics, launch of an inflation targeting scheme, lifting of a complex array of foreign exchange controls ("cepo cambiario"), return to international debt markets, gradual opening of the economy and the implementation of a fiscal plan that aims at consolidating public finances.

environment of higher competition and innovation, this requires banks to increase operational efficiency by improving their productivity (which is relatively low from an international perspective) and benefiting from economies of scale (both through increased financial intermediation and through system consolidation).

Macroprudential tools: The main instruments available to the authorities for macroprudential purposes relate to the banking sector (see Table 1). The BCRA is responsible for their design and operationalisation (which is not typically subject to a public consultation process), although in some instances the government is also involved.

Some of these tools, such as the countercyclical capital buffer and capital surcharges for D-SIBs, stem from the Basel III framework. In other cases, they have been introduced by the authorities in response to the lessons from the 2001-02 financial crisis. These include, in particular, the need to limit explicit and implicit currency mismatches given exchange rate volatility (e.g. via restrictions on banks' lending in foreign currency); to control the build-up of public sector exposures (e.g. via exposure limits to such entities, excluding the BCRA); and to avoid procyclicality of marking-to-market public sector securities (e.g. via a precautionary reserve for price fluctuations of those securities).

The previous government had also adopted capital flow management tools, such as a minimum 365-days holding period and an unremunerated one-year 30% reserve requirement for capital inflows from non-residents. However, the present government began lifting those controls and normalising the operation of the foreign exchange market at the end of 2015.[37]

The authorities apply these tools after assessing risk to financial stability using expert judgment, rather than a formal process that follows explicit rules or maps trigger points to policy actions. The BCRA reports that to date, no difficulties have been faced in integrating microprudential supervision and monetary policy with the implementation of the macroprudential framework.

[37] The minimum holding period was reduced to 120 days, and reserve requirements were set to 0% in December 2015. Full transferability of foreign currency deposits held in the financial system was allowed as from January 2017, while minimum holding periods for non-resident capital inflows were reduced to 0 days. Restrictions on the payment for new imports were lifted and restrictions on the purchase of foreign currency for foreign asset holdings were eased. In addition, the conditions for the repatriation of direct and portfolio investments of non-residents were relaxed, with the elimination of prior approval requirements as long as the beneficiary was located in a country considered as cooperating for fiscal transparency purposes.

Table 1: Main instruments available to the authorities for macroprudential purposes

Instrument	Definition	Responsible authority
Limits on currency mismatches for banks	The net global position of a bank (i.e. the sum of all financial assets in foreign currency net of the sum of all liabilities in foreign currency) cannot exceed 30% of its regulatory capital.	BCRA
Restrictions on banks' lending in foreign currency[1]	Banks' foreign currency liabilities can only fund loans in the same currency to borrowers whose income is directly or indirectly linked to international trade; any excess liabilities must be placed at the BCRA.	BCRA
Exposure limits to government entities	All entities belonging to the public sector (except the BCRA), each provincial jurisdiction (including the city of Buenos Aires) and each municipal jurisdiction are subject to an individual limit of 50%, 10% and 3% respectively of a bank's regulatory capital. This includes trust funds whose ultimate beneficiary or trustee belongs to the non-financial public sector. In addition, total financing provided to the public sector at national, provincial and municipal levels cannot exceed 75% of the bank's regulatory capital or 35% of its assets; and aggregate credit to municipalities cannot exceed 15% of regulatory capital. For infrastructure projects or the acquisition of equipment, individual limits may be increased by 15%, while aggregate limits may be increased by 50%.	BCRA. Limits on provincial exposures are set jointly by the BCRA, MoT and the Ministry of Interior
Exposure limits to private sector entities (both financial and commercial)	Exposures to financial entities are subject to a limit of 25% of a bank's regulatory capital. The limit may be increased up to 75% depending on ratings assigned by the SEFyC to lending and borrowing banks. In addition, the sum of all individual credits (to financial and non-financial clients) that exceed 10% of a bank's capital cannot be greater than: (i) three times the regulatory capital (without including exposures to local financial entities); and (ii) five times the capital, including all these large credits.	BCRA
Marking-to-market public sector securities reserve	Banks are allowed to hold a precautionary reserve for securities' price fluctuations of up to 10% of the value of these securities.	BCRA
Requirements for capital flows[2]	Capital inflows from external financial debt issued by private sector residents and from non-residents must comply with: (i) a minimum period in which funds must be kept in a local bank account (in January 2017, this was set to zero days); and (ii) unremunerated reserve requirement for non-residents for a one-year period (this requirement was reduced from 30% to 0% in December 2015).	MoF, MoT, Executive Power
Cash reserve requirements[3]	Reserve requirements are set for both local and foreign currency denominated liabilities. The requirement may be fulfilled with different instruments (e.g. deposits at the BCRA or holdings of government securities). Requirements are calculated on the monthly weighted average of daily balances of demand and time deposits. Requirement ratios vary according to the currency and maturity of the liability taking into account historical experience, with foreign currency deposits subject to a higher requirement.	BCRA
Capital and liquidity buffers[4]	Banks must hold a capital conservation buffer, capital buffer (1% of risk-weighted assets (RWAs)) for D-SIBs,[5] and a countercyclical capital buffer.[6] They are also subject to the Liquidity Coverage Ratio (only for the 20 largest banks) according to the Basel III phase-in timetable.	BCRA
Capital requirements on residential mortgages	Residential mortgages by default receive a 100% risk weight. Only exposures with a 75% maximum loan-to-value ratio and a maximum debt-income ratio of 30% are assigned lower risk weights to compute capital requirements.[7]	BCRA

[1] In March 2016, the restrictions on banks' use of foreign currency deposits were extended to other foreign currency sources of funding, such as bond issuance. [2] In May 2015, the restrictions on the payment for new imports were lifted and restrictions on the purchase of foreign currency for foreign asset holdings were eased. There is full transferability since February 2016. [3] In February 2017, reserve requirements were reduced by 2%. [4] Implemented in 2015. [5] A 1% of RWA buffer was established in January 2016 for five D-SIBs. [6] Set at 0% since April 2016. [7] These ratios have remained fixed (i.e. are not time varying according to market conditions).

The authorities also note that Mutual Funds Law No. 24,083 and the regulations issued thereunder include mandatory guidelines aimed at diversifying risks and liquidity requirements in line with redemption term (i.e. higher requirements for funds allowing daily redemption).[38] The CNV has issued prudential regulations to deal with shortages of liquidity in the stock market when there are grounds to believe that situations of systemic risk might arise.[39]

Communication and transparency: The authorities communicate financial stability issues to the public using a number of mechanisms. First, the BCRA Governor gives speeches on topics that include financial stability, which are available on the BCRA's YouTube channel and website. Second, the BCRA publishes the FSR on a semi-annual basis to inform the public on its view about the financial system and the initiatives adopted for its development, as well as to assess the system's stability, with a special emphasis on the identification and analysis of potential systemic risks and the actions taken to prevent or mitigate them. The release of the FSR is announced by the Governor and other BCRA Board members at a press conference in which the key findings of the report are presented. These presentations are published on the BCRA website. Third, the BCRA issues new regulations in the form of communications, including with respect to tools for macroprudential purposes. These communications do not include a detailed rationale and relevant considerations for adopting a tool, although the BCRA typically organises meetings with banks following the announcement in order to explain the policy measure.

Other authorities publish press releases and issue periodic reports on the market segments that they supervise, although these focus primarily on recent developments and do not aim to identify systemic risks (see Table 2).

Table 2: Publications by the Argentine authorities on the financial system

Institution	Title of document	Frequency (per year)	Date of publication
BCRA	Financial Stability Report	2	Q1 and Q3
BCRA	Overview of the banking system[40]	12	Monthly

[38] In particular, mutual funds are not allowed to invest more than 20% of their net assets on securities issued by the same entity, or more than 30% on the same public bond. In addition, fixed income mutual funds that have a high proportion of assets with accrued valuation must have a liquidity margin in order to promptly meet redemptions.

[39] Section 141 of Law No. 26,831 provides that when there are grounds to believe that there might be situations of systemic risk or other situations of serious danger, the CNV shall preventively stop the public offering or trading of securities, other financial instruments and the execution of any act under its supervision until new facts make advisable the review of such a decision. Section 142 of the Law prescribes that the CNV shall interrupt temporarily the public offering of securities or other financial instruments or trading, when the disclosure of material information is pending or if extraordinary circumstances make it advisable, until the causes that determined such an interruption disappear.

[40] This report covers recent developments in the banking sector, focusing on the evolution of payments, credit, funding, liquidity, solvency and the issuance of any regulatory norms or other policies.

BCRA	Monthly Bulletin of the BCRA and Financial Entities	12	Monthly
MoT	Economic Reports (until 2015)	6 or 4	Bi-monthly, quarterly
CNV	Capital Market Report	12	Monthly
SSN	Overview of the insurance market	4	Quarterly
SSN	Overview of the reinsurance market	2	June, December
SSN	Insurance market evolution (last 10 years)	1	First half of the year
SSN	Investments, credits and debt of insurance institutions	4	Quarterly
SSN	Indicators of the insurance market/Equity and income statements	4	Quarterly
SSN	Statement of Coverage of Liabilities and Liquidated Claims to Pay	4	Quarterly

Lessons learned and issues to be addressed

The authorities have made some progress in developing the macroprudential policy framework in recent years. Given the structure of the financial system, the framework is largely focused on banks. The BCRA has an explicit financial stability mandate and it established in November 2016 a department within the Regulation Division for the purpose of macroprudential monitoring. There have been improvements in data collection for use in risk analysis (e.g. on household debt and incomes), while efforts are ongoing to enhance the granularity of corporate sector data. Work is also underway to improve systemic risk analysis, for instance through the development of a financial risk dashboard and heat map, as well as through enhancements in stress testing models in response to the FSAP recommendations. Commendable improvements recently in the quality of macroeconomic data (e.g. with respect to inflation) have provided a solid platform for this analysis. The authorities have a broad range of banking sector tools at their disposal for macroprudential purposes, including certain innovative tools introduced in response to the lessons from the 2001-02 crisis (e.g. restrictions on banks' lending in foreign currency). Public communication on financial stability issues takes place primarily through the publication of a semi-annual FSR by the BCRA, whose content has improved over time.[41] Finally, the authorities have submitted to Congress a new bill that provides an explicit financial stability mandate to the CNV and a more robust framework for financial market infrastructures.

The authorities note that their main priority at this stage is to achieve macroeconomic stability (particularly by bringing down inflation, reducing distortions and consolidating public finances) as a precondition for fostering financial deepening. This is motivated by the financial system's small size (around 50% of GDP), low level of intermediation (private sector deposits and bank

[41] See "Financial Stability Reports in Latin America and the Caribbean" by Lim et al (March 2017, IMF working paper 17/73, available at http://www.imf.org/en/Publications/WP/Issues/2017/03/28/Financial-Stability-Reports-in-Latin-America-and-the-Caribbean-44771).

loans of 15% and 12% of GDP respectively), limited maturity transformation and transactional nature. According to the BCRA, these characteristics, when combined with low concentration and interconnectedness as well as high levels of solvency and liquidity, limit systemic risk at present.

At the same time, however, much remains to be done in terms of fleshing out a comprehensive macroprudential policy framework. While the current arrangements may be commensurate with the level of financial system development and associated risks, it would be worthwhile to take steps to strengthen the framework before the system becomes more open and dynamic. These steps include: strengthening the institutional set-up for financial stability within the BCRA; establishing a coordination forum for authorities; enhancing data collection for systemic risk analysis; and refining stress tests as well as publishing more information on them.

Institutional arrangements: At the current juncture, an important first step would be to strengthen the institutional set-up for financial stability within the BCRA. According to its Charter, the BCRA has several objectives – monetary stability, financial stability, employment, and economic development with social equality – that can potentially be conflicting. In its annual plans for 2016 and 2017, the BCRA stated that its primary objective at this stage is to promote price stability. While this may be appropriate, the BCRA's broad mandate raises the challenge of reconciling different objectives on an ongoing basis while ensuring financial stability. It may therefore be useful for the BCRA to review and (as appropriate) revise its Charter to clarify the role and confirm the importance of financial stability vis-à-vis other objectives, both in order to facilitate decision-making and to communicate how it balances these objectives.

There is also a need for the BCRA to continue to enhance internal arrangements for financial stability. At present, a department within the Regulation Division is tasked with systemic risk monitoring and assists in the design of macroprudential policies; the resources available to fulfil this task are limited. Decisions on the use of tools for macroprudential purposes rest with the BCRA's Board, but there is no dedicated Committee (as is the case in other areas) to discuss financial stability issues and make recommendations to the Board. As the macroprudential framework is fleshed out, it would be useful for the BCRA to enhance the resources and expertise dedicated to financial stability and to set up internal structures in support of that objective.

- ***<u>Recommendation 1</u>: The BCRA should (a) review its Charter to clarify the role and confirm the importance of financial stability vis-à-vis other policy objectives; (b) consider establishing an internal financial stability committee; and (c) continue to enhance the resources and expertise dedicated to financial stability work.***

Inter-agency cooperation: Cooperation among authorities – both on financial stability matters and more broadly – takes place largely on a bilateral and ad hoc basis. This includes MoUs to facilitate the exchange of information between authorities in support of their respective mandates; attendance of BCRA Board meetings by a MoT representative; and monthly meetings of the Chief Cabinet of Ministries which the Governor of the BCRA can attend. A Coordination Council for Monetary, Financial and Exchange Policy, created in 2010 and composed of MHyFP and BCRA officials, never became operational out of concern about the institutional autonomy of the BCRA. The authorities are of the view that priority should be given to strengthening existing institutions, particularly the BCRA in light of its inflation targeting approach.

The financial stability framework at present relies largely on the BCRA, while inter-agency cooperation depends on ad hoc mechanisms among authorities. As the financial system becomes larger, more open and complex, it would be useful to establish formal mechanisms to bring together the relevant authorities – as is the case in some other countries[42] – to discuss and share information on systemic risks and related policy measures, coordinate on regulatory gaps/overlaps and initiatives to address them, and help develop crisis preparedness protocols (see section 3).

In that context, the Argentine authorities have recently decided to establish a Capital Markets Committee for the coordination between regulators (BCRA, CNV, SSN) and government bodies (MoF, UIF) involved in the regulation of financial markets. According to the authorities, the Committee will address inter alia issues on rule harmonisation, the coordination of policies and resolution processes, systemic risk and regulatory reforms. The CNV is working on the creation of a department to analyse systemic risk and to share conclusions and exchange views with the BCRA and other authorities that will be part of the Committee. Details on the operation and communication strategy of the Committee, which will be formalised once the new Law of Capital Market Development is approved, have not yet been elaborated.

The establishment of such a body can help reinforce and formalise inter-agency cooperation. To enhance its effectiveness, the authorities should ensure that the Committee does not interfere with the mandates and independence of participating regulatory authorities; that it gives a leading role to the BCRA on financial stability issues, based on its expertise and mandate; and that it is complemented by dedicated structures (e.g. inter-agency working groups in specific areas) to support its functioning.

- ***Recommendation 2*: The authorities should establish a coordination forum involving sectoral regulators and relevant ministries to discuss regulatory gaps/overlaps; share information and analysis on systemic risks and related macroprudential policies; and develop crisis preparedness protocols. The forum should give a leading role to the BCRA on financial stability issues and should not interfere with the independence or override the mandates of its regulatory authority members.**

Data for systemic risk analysis: Notwithstanding the progress made since the FSAP, the BCRA acknowledges that more systematic and granular data can be used for systemic risk analysis in a number of areas. This includes data on credit provided by non-bank entities (e.g. retail, credit unions or trade credit) as well as data on real estate transactions and cross-border activities. The BCRA also notes that sets of data already collected – e.g. on non-financial companies – could be upgraded, systematised and added to the analysis. Given the low level of credit to GDP and the limited role of non-bank credit providers, the BCRA views these sources of debt as immaterial at this stage (see Annex 2) and hence of little relevance to assessing systemic risks.

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[42] Examples include the Council of Financial Regulators in Australia (http://www.cfr.gov.au/), the Financial Stability and Development Council in India (http://finmin.nic.in/fsdc/fsdc_index.asp) and the various inter-agency mechanisms that have been created to facilitate cooperation and information sharing in Canada (http://www.imf.org/external/pubs/cat/longres.aspx?sk=41407.0).

Experience from other jurisdictions shows that designing frameworks and infrastructure for collecting granular data for financial stability analysis is cumbersome once the financial system becomes more complex. The authorities should take a pre-emptive approach to identifying potential future sources of systemic risk by addressing at an early stage the related issues of data identification, collection and analysis based on cost-benefit considerations – particularly given their objective to develop the financial system significantly in the coming years.

Notwithstanding existing arrangements for data sharing among authorities, the BCRA relies largely on publicly available sources of information to analyse systemic risks outside the banking sector. While these risks are perceived to be minimal at this stage, this may change in the future as the domestic capital market grows and corporates obtain financing from foreign sources – as has been the case in recent years in a number of other emerging markets.[43] To address this issue, other regulatory authorities – particularly the CNV (once it is provided with an explicit financial stability mandate under the proposed CML) – should contribute to the BCRA's system-wide risk analysis by collecting, analysing and sharing relevant information with the BCRA.

- ***Recommendation 3*: The BCRA, working with other regulatory authorities, should develop a framework for the identification and collection of relevant data for systemic risk analysis (e.g. with respect to non-bank financial institutions, corporate sector, real estate and cross-border activities), including via the use of information sharing arrangements among those authorities.**

Stress testing: The BCRA conducts annual (top-down) stress tests of financial institutions' solvency and liquidity based on adverse macroeconomic and financial scenarios. These are complemented with more frequent exercises that focus on particular risk factors using sensitivity analysis. Institutions supervised by the BCRA also perform (bottom-up) stress tests as part of their annual capital self-assessment, under the oversight of the SEFyC and based on those institutions' own scenarios. While this ensures customisation to the institution's particular activity and business model, the results cannot be compared across institutions or aggregated for the entire sector. Developing a common set of scenarios for all institutions based on the BCRA's own stress tests, in addition to having institution-specific scenarios, may be useful in this regard and would help reconcile the bottom-up and top-down stress test exercises.

The results of BCRA stress tests are presented in meetings of its Board. The contents of these presentations are broader than those released to the public in the FSR – in particular, individual stress test results are not disclosed publicly out of concern about any adverse public reaction.[44]

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[43] See, for example, "Corporate Leverage in Emerging Markets – A Concern?" by the IMF (chapter 3 of the October 2015 Global Financial Stability Report, http://www.imf.org/en/Publications/GFSR/Issues/2016/12/31/Vulnerabilities-Legacies-and-Policy-Challenges), "Dollar credit to emerging market economies" by McCauley et al (BIS Quarterly Review, December 2015, http://www.bis.org/publ/qtrpdf/r_qt1512e.pdf) and "Domestic financial markets and offshore bond financing" by Serena and Moreno (BIS Quarterly Review, September 2016, http://www.bis.org/publ/qtrpdf/r_qt1609g.pdf).

[44] The historical experience of the loss of savings' value has led to heightened public sensitivity to negative news about the financial system. In the view of the BCRA, lack of experience with stress test disclosures could

Recent FSRs only include sensitivity analysis exercises of overall banking sector capital levels based on the materialisation of extreme credit scenarios.

While the BCRA's concerns are understandable given the history of financial crises in Argentina, it may be appropriate for it to progressively disclose more information in its FSR on the objectives, methodology and system-wide results of these tests – as is the case in other countries[45] – in order to enhance public understanding and improve communication on financial stability issues.

- ***Recommendation 4*: The BCRA should (a) reconcile banks' bottom-up and its own top-down stress tests (e.g. through common scenarios); and (b) consider publishing information on the objectives, methodology and system-wide results of its stress tests.**

3. Framework for crisis management and resolution

Background

The FSAP noted that the BCRA's approach to supervision is risk-based and focuses on early supervisory action to address deficiencies. For this purpose, it relies on off-site analysis and on-site inspections conducted by the SEFyC. The FSAP concluded that, while this system has been effective, the BCRA could enhance its prompt corrective action framework (e.g. through quantitative triggers such as benchmark capital or liquidity thresholds), which could improve transparency and reduce the risk of regulatory delays.

The resolution framework, as described in the FSAP,[46] is largely based on the use of purchase and assumption transactions, conducted as part of a restructuring plan approved by the BCRA under section 35bis of the Financial Entities Law. The BCRA, as resolution authority, is responsible for the decision to adopt restructuring measures. The Deposit Guarantee Fund (FGD), which can be used to fund resolution actions, is administered by the Seguro de Depósitos Sociedad Anónima (SEDESA), under regulations issued by the BCRA. The FSAP noted that, while the current reserve levels compare quite favourably with those of other countries, the system would benefit from a contingency plan for a systemic crisis. In particular, it pointed out that SEDESA lacks adequate access to back-up funding that may be needed if a systemic crisis were to drain the FGD's reserves.

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potentially lead to an exaggerated reaction on the part of investors, depositors and other creditors. The BCRA considers such disclosures as an ongoing process and has already taken steps in this direction by disclosing additional elements and communicating the existence and purpose of stress test exercises in the FSR.

[45] For examples in a regional context, see the Central Bank of Brazil's April 2017 FSR (http://www.bcb.gov.br/?fsr201704); the Central Bank of Chile's FSR for the second half of 2016 (http://www.bcentral.cl/en/faces/pfinanciera/ief); and the Bank of Mexico's November 2015 FSR (http://www.banxico.org.mx/publicaciones-y-discursos/publicaciones/informes-periodicos/reporte-sf/%7B99B72AA7-CC8D-13BF-B3F0-A7233A5D71A8%7D.pdf).

[46] See the IMF technical note on financial safety nets (February 2016, IMF Country Report No. 16/66, available at http://www.imf.org/external/pubs/ft/scr/2016/cr1666.pdf).

The FSAP set out a number of recommendations in relation to the crisis management and resolution framework in Argentina:

- establish a high-level systemic committee comprising all safety net players to monitor and plan for crisis coordination;
- clarify in the norms the resolution framework in case of a systemic crisis and formalise the operation of bridge bank powers;
- establish a contingent funding mechanism for the FGD;
- review liquidation arrangements with home country supervisors of foreign banks, given that existing MoUs do not typically deal with resolution issues; and
- extend legal protection to BCRA and SEDESA.

This section reviews progress by the authorities in strengthening the crisis management and resolution framework since the FSAP. Drawing on the FSB *Key Attributes for Effective Resolution Regimes for Financial Institutions* (*Key Attributes*, KAs)[47] and other policy guidance as well as experience in other countries, it examines the objectives, scope and functioning of the framework in order to identify any gaps and lessons of experience for FSB members.

Steps taken and actions planned

Legal framework and institutional arrangements: The 1977 Financial Entities Law (Law 21,526) establishes a framework for the supervision and regulation of financial institutions in Argentina. It also includes arrangements with respect to resolution, under a restructuring procedure embedded in Article 35bis in 1995 (see Box 4). The BCRA is empowered to enforce this law and acts as both the supervision and resolution authority. With respect to resolution, the BCRA is responsible for: (i) determining whether the conditions for entry into resolution have been met; (ii) deciding the resolution strategy and actions; and (iii) implementing the resolution.

The resolution regime applies to banks (including state-owned banks and domestic branches of foreign banks) and other financial institutions.[48] However, it does not extend to the holding companies of banks or non-regulated operational entities as required by the *Key Attributes*, since the authorities have no powers over either of these types of entity.[49] The resolution regime also

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[47] See http://www.fsb.org/2014/10/r_141015/.

[48] Entities that fall under the definition provided in the Financial Entities Law include commercial, mortgage and investment banks, finance companies, home savings and loans companies and credit unions. The BCRA may expand the scope of this definition based on the volume of operations or considering monetary and credit policy issues (Articles 2 and 3, Law 21,526).

[49] The authorities report that there are few local holding companies that exercise a controlling interest in financial institutions. As regards non-regulated operational entities, the authorities report that such entities are not generally significant to the business of financial institutions in Argentina.

does not extend to financial market infrastructures. Insurance companies are captured under a separate framework, with resolution under an ordinary insolvency proceeding.[50]

Box 4: Past experiences with crises

During the Argentine financial crisis of the 1980s, several financial institutions underwent a liquidation proceeding managed by the BCRA. This resulted in substantial administrative expense and legal issues, some of which continue today, and imposed a large fiscal cost. In light of this experience, the regime was amended under a law (Law 24,144) passed in 1992 that introduced substantial changes to the banking system, including to the Charter of the BCRA. The changes introduced under the new law included: (i) removal of state guarantee for deposits; (ii) removal of the BCRA's role as trustee and liquidator of financial institutions and assignment of this responsibility to judicial bodies; and (iii) powers to temporarily suspend the operations of financial entities for a maximum period of thirty days.

Additional amendments to the legal and regulatory framework were introduced in 1995 as a result of the economic crisis in Mexico ("tequila crisis") that reverberated throughout Latin America. The crisis resulted in a net withdrawal of deposits equivalent to 18% of the Argentine banking sector from December 1994 to May 1995. Several smaller banks failed as depositors, mindful of the lack of deposit insurance, moved their deposits to larger banks in the system. The institutional changes included: (i) the revision of the Financial Entities Law, including a restructuring scheme under Article 35 with powers for the BCRA to transfer assets and liabilities and modify the capital base of financial institutions; (ii) the creation of a deposit insurance framework; and (iii) legal protection for the BCRA when adopting resolution measures.

The restructuring procedure was applied to twenty entities up until 2000. Almost all of these procedures were based on the transfer of assets and liabilities (including deposits) to an acquiring bank, and the revocation of the licence of the failed entity and liquidation of its remaining assets and liabilities. With the exception of two cases, one in which the exclusion of liabilities was partial and another where the excluded liabilities were transferred to a trust, all of the deposits of the failed entities were assumed by other entities, together with the equivalent assets, so depositors did not suffer any losses.

In 2001, a run on bank deposits resulted in the imposition by the government of restrictions on financial transactions in pesos and foreign currency, effectively freezing deposits.[51] As a consequence, there was a consolidation in the banking sector, with some foreign banks ceasing to operate or selling their operations. The banks that continued to operate reduced their activities, and the number of bank entities decreased to 90. The BCRA used the tools in the resolution framework to address the crisis, requiring 34 entities to produce a regularisation and stabilisation plan under Article 34 of the Financial Entities Law. In several cases, the restructuring measures under Article 35bis were used. For example, Banco Bisel, Banco Suquía and Banco Entre Ríos S.A. were restructured using a transfer of preferred liabilities to three new financial institutions, temporarily under the control of a state-owned bank. The assets of the failed entities were transferred to a trust, which issued certificates to the new financial institutions equivalent to the nominal amount of liabilities they had assumed. Non-preferred assets and other liabilities remained in the failed entities, which entered into a liquidation proceeding. The restructuring measures were adopted within a 35-day period, and the three new financial institutions were eventually sold to private sector purchasers.

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[50] Under the Insurance Institutions Law 20,091 of 1973, the SSN can request the entity to put in place a regularisation and stabilisation plan to correct deficiencies, and may revoke the firm's authorisation under certain circumstances. This triggers an ordinary court-led insolvency proceeding. There is no administrative resolution regime.

[51] See chapter 5 of the Inter-American Development Bank's "Unlocking Credit: the quest for deep and stable bank lending" (IPES 2005, http://www.iadb.org/en/research-and-data/publication-details,3169.html?pub_id=B-2005).

The Financial Entities Law was last amended in 2003. As such, no statutory amendments have been made to the resolution regime in light of the *Key Attributes*. In an effort to clarify the resolution framework in case of a systemic crisis, as recommended by the FSAP, the BCRA approved a *Procedure for the restructuring of Financial Entities* (Resolution 249/2013). This represents a compilation of legislation pertaining to the BCRA and the resolution framework, which describes the interaction of the relevant legislation but does not cover the decision making process per se. A similar effort is currently being conducted as regards coordination with SEDESA.

The deposit insurance system (*Sistema de Seguro de Garantía de los Depósitos*) was established in 1995 under Law 24,485 and Decree 540/95. The FGD is set up under a "paybox plus" mandate, with responsibility for the reimbursement of insured deposits and additional responsibilities in relation to the funding of resolution actions.[52] The FGD covers all deposit-taking institutions regulated under the Financial Entities Law. SEDESA acts as trustee of the fund, managing the funds raised and implementing the payout process. SEDESA is a private corporation that is owned jointly by the BCRA and deposit-taking institutions in proportion to their contribution to the fund.[53] As noted in the FSAP, the BCRA retains responsibility for many of the FGD's key functions. For example, the BCRA sets the risk-adjusted premium and has a veto power on the least-cost option to be employed. Decisions on the use of deposit insurance funds in resolution are taken by a Steering Committee comprising a representative of the BCRA and individuals nominated by the institutions that contribute to the FGD (see 'resolution funding' below). If the Steering Committee decides that resolution action should not be taken, or the BCRA vetoes the Committee's proposal, the paybox option may be triggered and executed by SEDESA.

Early intervention*:* The BCRA's supervisory framework aims to detect liquidity or solvency problems at an early stage, so that the BCRA can adopt preventive measures. Before such measures are adopted, supervisory engagement increases as the financial institution starts showing signs of weaknesses. If there is a breach of a prudential requirement, a formal early intervention procedure is started following Article 34 of the Financial Entities Law, which allows for the use of certain preventive measures. Such measures include the development of a regularisation and stabilisation plan by the financial institution. During the implementation of this plan, the BCRA may appoint an overseer with veto power over decisions made by the management board of an institution (whose decisions may only be appealed to the Governor of the BCRA), require the granting of guarantees, or limit or forbid dividend distributions. Failure by the financial institution to submit such a plan or to comply with its terms, or the rejection of the financial institution's plan by the BCRA, constitute grounds for license revocation, without prejudice to the application of other penalties provided under the law.

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[52] For further details, see the website of SEDESA (http://www.sedesa.com.ar/index.php/en/) and the FSB "Thematic Review on Deposit Insurance Systems" (February 2012, http://www.fsb.org/2012/02/r_120208/).

[53] Ownership levels are modified yearly, based on the aggregated level of past contributions.

The FSAP recommended that the authorities enhance the prompt corrective action framework by considering additional capital and liquidity quantitative triggers to reduce the risk of regulatory delays, as well as provide additional incentives to managers and shareholders to rectify problems and increase regulatory transparency. No steps have yet been taken in this area, although the authorities report that the early intervention framework is expected to be reviewed during the second half of 2017 to amend aspects such as the quantitative measurement for early warnings and the respective triggers.

Emergency liquidity assistance (ELA): The BCRA is able to provide emergency liquidity assistance to banks and other financial institutions.[54] As noted in the FSAP, the framework and conditions differ depending on whether liquidity is provided to a specific financial institution suffering a liquidity shortfall, or to the financial sector more broadly (e.g. for systemic risks).

In the former case, ELA may only be accessed once the financial institution's liquidity ratio falls below a certain threshold and the use of other BCRA liquidity facilities has been exhausted. In such cases, ELA is always provided on a collateralised basis and a maximum total amount equivalent to the entity's capital and reserves is imposed.[55] The emergency assistance is available for 180 days (which can be renewed) at an above market interest rate. Recipients of ELA are subject to increased supervisory monitoring and certain restrictions (e.g. on dividend payments). Repayment of ELA is tied to the institution's liquidity ratio.

When the provision of ELA is necessary to address a systemic risk (as determined by the BCRA's Board), liquidity may exceed the financial institution's net worth. In addition to the pledging of collateral, shares representing a controlling interest in the financial institution must also be pledged and the institution is required to consent to the eventual implementation of restructuring measures.

Entry into resolution: Decisions concerning entry into resolution and the application of resolution measures are taken by the BCRA's Board of Directors. Such decisions are discretionary and must be adopted by an absolute majority of the Board's members. Resolution measures are set out in Article 35bis of Law 21,526 and include:

i) the restructuring of the financial institution; or

ii) the withdrawal of the institution's licence and liquidation through ordinary insolvency proceedings.

Adoption of resolution measures by the BCRA Board generally follows a determination that the preventive measures under Article 34 described above, including the regularisation and stabilisation plan developed by the financial institution, are not sufficient to deal with the

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[54] The provision of ELA is governed by art. 17 b) and c) of Law 24.144. Article 4 extends the scope of the Law to the financial system as a whole, implying that ELA can be provided for institutions other than banks.

[55] Banks that fall short of liquidity may apply for assistance (rediscounts or loans) using public or private sector assets as collateral; a wider range of collateral is accepted than under normal liquidity facilities. Assets such as mortgages, auto loans, consumer loans, post-dated checks and publicly-offered securities may be 'pre-qualified' in anticipation of the possible need to use them as collateral.

institution's capital or liquidity deficiencies. This does not necessarily require preventive measures under Article 34 to be adopted; the BCRA can immediately apply resolution measures if deemed necessary.[56] There are no criteria for entry into resolution based on public interest considerations or the protection of financial stability.

The BCRA has some flexibility in choosing and sequencing the resolution measures provided for by Article 35bis of Law 21,526. For example, the adoption of a restructuring procedure may be followed by a license withdrawal and liquidation if the BCRA determines that the restructuring procedure is not working.

The same set of measures are available to deal with all failing or failed financial institutions, and the resolution regime does not make any distinction regarding systemic impact. In particular, the application of the resolution framework does not differ depending on whether the bank is systemically important.

Resolution tools: The resolution regime provides some tools that can be used under a restructuring procedure. In particular, Article 35bis of Law 21,526 sets out the following powers: (i) ordering the institution to enter losses on its books against partial or total asset allocations; (ii) granting the institution a term to decide an increase in capital stock and reserves to comply with the requirements; (iii) withdrawing authorisation for any or all shareholders to continue acting as such; (iv) sale or commission the sale of capital stock and the shareholders right to subscribe shares for enlarging capital stock, with previous shareholders' consent; (v) exclude privileged liabilities, either wholly or partially and decide on the exclusion of a similar amount of assets; (vi) authorise and commission the transfer of assets and liabilities excluded in favour of financial entities or to financial trust funds; or (viii) request a judicial intervention, which allows the replacement of the management of the financial institution.

In the context of the *Key Attributes*, those powers include: (i) powers to control and operate a firm; (ii) powers to remove and replace management; and (iii) powers to transfer assets and liabilities (described further in Box 5 below).[57] The current regime does not therefore include a number of the resolution powers set out in the *Key Attributes*. For example, there are no explicit powers to establish a temporary bridge institution; to require continued provision of critical shared services; to impose a temporary stay on the exercise of early termination rights; and to write-down and convert liabilities (bail-in).

The FSAP recommended to enhance the framework for legal protection of the BCRA's employees, to limit liability only to actions based on criminal activity, gross negligence, or bad faith. It also recommended that such legal protection should be extended to SEDESA's employees, given their

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[56] For example, a financial institution's license may be withdrawn: (i) at the request of the institution itself; (ii) in the cases of dissolution provided for in the Commercial Code; (iii) due to a failure to comply with solvency or liquidity regulations that, in the view of the BCRA, may not be addressed through a regularisation and stabilisation plan; or (iv) under other cases provided by law, such as when significant changes have occurred in the conditions for authorisation.

[57] It should be noted that the use of powers to control and operate a firm and to remove and replace management require a court order, while the power to transfer assets and liabilities in administrative in nature.

role in the financial safety net. These issues have not been addressed to date, although a BCRA working group is reviewing their staff's standing on legal protection.

Box 5: Transfer powers

The BCRA's strategy for the restructuring of financial institutions in Argentina has, in a number of cases in the past, relied on the use of powers to exclude and transfer assets and liabilities as part of a purchase and assumption transaction (see Box 4). When the sale of a financial institution is not possible, the authorities may decide to transfer to another entity certain preferential credits, which may be partially or totally financed by the failing institution's assets. This resolution tool provides continuity of access to the financial institution's deposits and minimises disruption to its customers, maintaining the value of performing assets via the transfer of those assets to an acquiring bank.

The use of this tool requires a valuation of the assets transferred, which is led by the BCRA on the basis of the net realisable value. The total amount of transferred assets may not exceed the value of excluded liabilities. The BCRA only has powers to transfer totally or partially liabilities with general privilege as per section 49.e of Law 21,526 (deposits, liabilities arising from trade credits related to international activities and, when applicable, liquidity assistance granted by the BCRA). Should a partial exclusion of liabilities be adopted, the creditor hierarchy must be respected. The BCRA also cannot separate liabilities within the same creditor class. Amendments to the Financial Entities Law in 2003 added a requirement for a market valuation of the assets to be excluded and the option to set-up a trust with the assets of the failed institution, funded by the issuance of bonds, or classes of bonds, equivalent in value. The regulation does not specify which categories of assets can be selected to be transferred.

The transfer of excluded assets and liabilities is not subject to court approval. In addition, creditors of the financial institution cannot exercise any action against the purchaser, except where they have special privileges over the excluded assets.

***Role of the court**:* Resolution tools adopted by the BCRA do not require court approval, with the exception of the replacement of management, which can only be exercised following the appointment of a trustee by the court, and the power to control and operate a firm. The BCRA may use a court-appointed trustee more generally in resolution, with the trustee implementing the BCRA's restructuring plan and assuming its powers for this purpose. The appointment of a trustee (as proposed by the BCRA) is expected to occur immediately following the BCRA's application to the court. The commencement of a judicial liquidation process under ordinary insolvency proceedings, where adopted as a resolution measure, also requires an application to the court.

The timing, merit and convenience of resolution measures adopted by the BCRA may be subject to court review. However, the use of resolution measures as set out in the Financial Entities Law can only be overturned in the event of manifest arbitrariness or unreasonableness.

Cooperation and information sharing: Formal mechanisms are in place for cooperation and information sharing among domestic authorities for the purposes of supervision, but no such mechanisms exist specifically for resolution. Information sharing between domestic authorities is governed by inter-agency arrangements and legislation related to the disclosure of information obtained by supervisory authorities, such as the BCRA, in the performance of their duties. The

BCRA, SSN and CNV have signed agreements for cooperation and information sharing in which they mutually commit to cooperate and provide information on financial institutions operating under their supervision (see section 2).

MoUs are in place with certain foreign authorities, although these MoUs also do not deal with resolution issues. There is also no legal framework for cross-border cooperation (e.g. recognition and support of foreign resolution actions). In this context, the FSAP recommended that the authorities review cross-border liquidation procedures with home countries of foreign banks operating in Argentina, but no specific actions have been taken to date.

The FSAP also recommended the establishment of a high-level systemic risk monitoring committee, comprising all relevant institutions in the financial safety net. Such a committee could develop contingency planning for crisis management, meeting on a recurring frequency to highlight systemic risks, ensure that all possible legal hurdles for taking action during a crisis are cleared and that procedures for implementing resolution and recovery tools are well defined. The authorities note that additional coordination arrangements between financial authorities and powers for those authorities to enter into information sharing and cooperation agreements with foreign resolution authorities are currently under discussion.

Resolution funding: KA 6 states that resolution authorities should have statutory policies in place so that they are not constrained to rely on public ownership or bail-out funds, while the extension of temporary sources of public funding should include provisions to recover losses incurred from shareholders and unsecured creditors or from the financial system more widely.

The resolution regime does not provide the BCRA with the power to bail-in creditors as a resolution tool (outside ordinary insolvency proceedings), but has relied on collective contributions from the financial system – procured by the FGD – as a means to fund resolution measures in previous cases. Under such an approach, unconstrained and prompt access to funding is necessary to ensure the timely implementation of resolution measures.

The FGD can be used to finance a broad array of resolution actions (other than the payout of insured deposits), such as making capital contributions and loans to financial institutions or acquiring assets or deposits (subject to a least cost criterion). Exceptionally, in cases where the suspension of the firm's authorisation could endanger the stability of other financial institutions or of the financial system as a whole, the application of some of the FGD's funding provisions may be permitted even where their use implies a higher direct cost for the FGD. There are, however, no specific rules to determine when the stability of the financial system is threatened.

Decisions regarding the use of funding for purposes other than the payout of insured deposits are made by SEDESA's Steering Committee. The Committee is chaired by the BCRA, with a veto power but no voting rights, and features five representatives selected by contributing financial institutions that hold the voting rights. These usually comprise three representatives on behalf of industry organisations (national private banks, international private banks and public banks), an independent expert agreed upon by the contributing financial institutions and, as a matter of practice, a member of the Ministry of Finance.

The FGD is pre-funded through regular contributions by financial institutions. It currently holds funds corresponding to around 6.2% of insured deposits and 2.7% of total deposits in the banking sector. Monthly contributions were reduced in September 2016 from 0.06% of total deposits to 0.015%, the minimum amount required by the relevant Decree, in consideration of the high level of existing funds. The size of the FGD fund compares favourably with deposit guarantee schemes in other countries[58] and when considered against the capital base of banks in Argentina. In particular, the size of the FGD fund exceeds – by a significant amount – the equity base of all financial institutions in Argentina, except the largest state-owned bank.

In addition, the BCRA may require an advanced contribution of up to twenty-four monthly minimum normal contributions and, for the sole purposes of the paybox function, the FGD may also issue "registered non-endorsable securities" to depositors in case the FGD does not have sufficient funds to pay out insured deposits (Article 13bis). Such issuance, which must be accepted as deposits by other entities in the financial system, would require additional ad hoc regulations by BCRA to determine its financial status (i.e. interest rate, acceptance conditions).

The FSAP included a recommendation to establish a contingent funding mechanism for the FGD. To date, the authorities have not considered it necessary to take action to address this recommendation given the size of the FGD's funds which the authorities deem to be sufficient, and the ability of the BCRA to request advanced contributions (up to two years) from financial institutions. The authorities also note that a Presidential decree could be used in an emergency (therefore not following the ordinary procedures to enact a law) to provide contingency funding.

Recovery and resolution planning and resolvability requirements: Recovery planning has commenced for four of the five D-SIBs identified by the authorities (the exception being a state-owned bank). The requirement is not established in statute and is instead set out by means of a letter addressed to the institutions. Recovery plans, prepared by the financial institutions taking into account the guidance in the *Key Attributes*, are submitted to the SEFyC and are expected to be updated at least annually. The BCRA indicates that the recovery planning process will be further developed following the submission of the first round of plans in February 2017, including through the extension of requirements to the state-owned D-SIB.

Resolution planning, however, has not been implemented, at least in the sense of the requirements in KA 11. Some information for the purposes of resolution planning has been requested in the aforementioned letter and has to be made available by the financial institution to the SEFyC.[59]

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[58] See the FSB "Thematic Review on Deposit Insurance Systems" (ibid). As another example, requirements in the European Union (EU) establish a target level for the EU Member States' deposit guarantee schemes of 0.8% of covered deposits by July 2024.

[59] According to the information provided by the BCRA, the minimum information required by the SEFyC covers: (i) deposits; (ii) management information systems; (iii) inventory of assets pledged as collateral and own real state, indicating ownership; (iv) a detailed description of lending and borrowing matching transactions; (v) lending and borrowing transactions with related parties; (vi) inventory of companies and institutions that pay salaries through that institutions; (vii) list of pensions paid; (viii) updated organisational structure; (ix) inventory of operating offices; and (x) established crisis committee, with name and position of each member and individual contact details.

This information has not to date been used to, for example, develop preferred resolution strategies or operationalise resolution actions, although the authorities report that they intend to do so in due course. There is also no resolvability assessment, or an associated power for the authorities to require changes to improve resolvability.

Planned reforms: A legislative proposal on capital markets reform, with provisions regarding the exercise of early termination rights for derivatives and repos has been submitted to Congress (see Box 1 in section 2). Additionally, BCRA officials have established a technical working group to consider limited reforms to certain elements of the resolution regime, including with respect to: (i) cooperation and information sharing among authorities (domestic and foreign); (ii) legal protection for BCRA staff; and (iii) the use of bridge bank powers. However, the working group proposals remain at an early stage and their outcome, in terms of the potential adoption of legislation or amendments to the regime, is uncertain.

Lessons learned and issues to be addressed

The authorities have made some, albeit limited, progress in developing the crisis management and resolution framework to address the FSAP recommendations and include elements of the *Key Attributes*. In particular, recovery planning is underway for four of the five identified D-SIBs and the resolution regime benefits from a well-funded deposit insurance fund. Moreover, a draft Capital Markets Law including powers to temporarily stay early termination rights has been submitted to Congress and initiatives are underway within the BCRA to explore areas where the resolution framework could be better aligned with the *Key Attributes*.

The authorities note that the resolution framework has been applied in previous cases and, in light of this experience, are of the view that the tools available under the regime are broadly sufficient to address the risks posed by failing financial institutions, especially considering the limited complexity and relatively small size of the financial system. Notwithstanding this, the current framework – even if the measures under consideration are implemented fully – is not aligned with the *Key Attributes* and is limited in a number of important areas. Given the authorities' economic reform objectives and market expectations of economic growth, financial system development and banking consolidation (prompted by lower inflation that creates downward pressures on interest margins and thereby limits banks' windfall profits), the tools under the current regime may no longer be sufficient in the future.

Further work is therefore necessary to enhance the resolution framework and to address fully the FSAP recommendations. This involves incorporating additional elements of the *Key Attributes* that are most relevant for the Argentine financial system and its future evolution; strengthening institutional arrangements for resolution; enhancing resolution funding; and further developing recovery and resolution planning.

***Extend the resolution options by incorporating additional elements of the Key Attributes*:** As previously noted, the authorities have not made legislative changes to the resolution framework in recent years. The most recent amendment to the Financial Entities Law was enacted in 2003 and, as such, the resolution regime has not been revised in light of the *Key Attributes*.

In the past, the authorities have relied on the use of purchase and assumption transactions to resolve financial institutions, including in some cases by using a financial trust fund to exclude and transfer assets and liabilities, as provided for by Article 35bis of Law 21,526. The BCRA has set up such funds with the whole or part of an entity's assets by issuing one or more share certificates for nominal amounts, equivalent to the excluded liabilities. This solution relies on finding a willing and able purchaser in a short amount of time (i.e. over the resolution weekend) to ensure that critical functions are not disrupted. A clear power to establish a temporary bridge institution, in order to transfer at least the firm's systemically important assets and liabilities and ensure continuity of its critical functions in cases where a buyer for the assets and liabilities of the firm cannot be found, would be a useful addition to the resolution toolkit. The non-viable institution, including any remaining equity and the assets and liabilities not transferred to the bridge institution can then enter into ordinary liquidation procedures, as already provided for under the regime.

Relatedly, a power for the authorities to ensure continuity of essential services and functions in resolution, e.g. by requiring the bank in resolution to provide necessary services to a successor or acquiring entity, could help ensure that the critical functions of that bank continue to be performed.

Under the current framework, the replacement of a financial institution's management requires the involvement of the court to appoint a trustee recommended by the BCRA, which has typically been a public sector employee. The authorities note that, under Law 22,529 that was in force until 1992, the BCRA was empowered to take direct control of failing financial institutions, but that such measures proved ineffective. In some cases, they also gave rise to legal challenges against the BCRA and its employees, some of which continue to date. More generally, the authorities consider that introducing optionality into the regime (by incorporating additional resolution powers) could increase the risk of legal challenge.

It should be noted, however, that these previous cases did not involve the appointment of a resolution administrator or professional manager, while past challenges arose in part due to insufficient legal protection for BCRA staff. In particular, Law 26,944 provides that officials and public employees shall be held liable for the damages caused by their actions or omission arising from their own neglect or default in the performance of their duties. However, there is no express legal provision providing for BCRA staff's indemnity, while the BCRA Law and the Law on Financial Entities only provide protection to the BCRA itself.[60]

It would be beneficial for the resolution authority to have the power (as provided in the resolution regimes of a number of other FSB jurisdictions) to replace senior management with professional managers from the private sector, as opposed solely to public employees. In addition, the authorities should take steps to enhance legal protection for BCRA staff (for civil charges) and

[60] See the IMF technical note on financial safety nets in Argentina (ibid).

extend the same legal protections to other safety net officials – such as SEDESA's staff – as required by the *Key Attributes*[61] and recommended in the FSAP.[62]

- ***Recommendation 5:*** ***The authorities should incorporate additional elements of the Key Attributes in the current resolution regime, including: (a) explicit powers to establish a bridge institution; (b) powers to ensure the continuity of critical services; (c) powers to replace senior management with professional managers; and (d) enhanced legal protections for BCRA staff and their extension to other safety net officials.***

Strengthening institutional arrangements: The BCRA is responsible for the supervision and resolution of financial institutions, both of which come under SEFyC. Housing supervision and resolution functions within the same authority is not uncommon amongst FSB jurisdictions, and may facilitate cooperation. On the other hand, however, a lack of operational independence for the resolution function may create conflicts of interest, or the risk of supervisory forbearance would prevent timely and early entry into resolution as required by KA 3.1.

A clear example involves recovery and resolution planning. The *Key Attributes* require that the development and maintenance of resolution strategies and plans be led by resolution authorities. Recovery and resolution plans (RRPs) have different objectives: recovery plans include options to restore the firm's viability in a timely manner from a going concern perspective, while resolution plans should make the resolution of any firm feasible without severe disruption and without exposing taxpayers to loss. Therefore, decisions to ensure the effective implementation of the resolution strategy as outlined in the resolution plan may create tension with actions taken by the supervisory authorities in the recovery phase, and vice versa. In Argentina these tensions may become evident once recovery and resolution planning is further developed (see below).

In light of this, the BCRA should take steps to strengthen the operational independence of the resolution function, and provide it with a clear statutory mandate.[63] A recalibration of the organisational structure, with operational separation of the supervisory and resolution functions (e.g. different areas within the BCRA and separate reporting lines) would allow for a better balance between going and gone concern interests. A clear statutory mandate for the resolution function may also help alleviate any concerns regarding the legal basis of resolution actions.

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[61] In particular, KA 2.6 states that "The resolution authority and its staff should be protected against liability for actions taken and omissions made while discharging their duties in the exercise of resolution powers in good faith, including actions in support of foreign resolution proceedings".

[62] The FSAP stated that "The framework for the legal protection of the BCRA's employees as well as persons appointed by the BCRA under the resolution regime should be enhanced. Employees of supervisory agencies and resolution authorities should not be inhibited by the threat of lawsuits against their actions, while exercising their professional judgment and taking the necessary measures, especially in a crisis. It is important that liability accrues only in the event of gross negligence or wilful misconduct on the part of the supervisory agency, resolution agency, or its employees. It would help clarify in advance to potential plaintiffs that a case would have no chance of success, unless it is based on criminal activity, gross negligence, or bad faith. Consideration should be given to extending legal protection to SEDESA staff as well".

[63] For example, to pursue financial stability and ensure continuity of critical functions, as per KA 2.3.

Another aspect of the institutional setup that should be enhanced is the coordination among safety net stakeholders on resolution and crisis management arrangements, as recommended in the FSAP. Formal mechanisms are in place for cooperation and information sharing among domestic authorities for the purposes of supervision, but no such mechanisms exist specifically for resolution. The establishment of an inter-agency coordination forum involving sectoral regulators and relevant ministries (see section 2), potentially including a dedicated subgroup on crisis management and resolution issues with representation from SEDESA (e.g. to work on contingency planning and crisis management protocols), would be a useful step in this direction.

Similarly, existing MoUs on cooperation and information sharing with foreign authorities do not specifically address resolution issues. Establishing a firm legal basis to cooperate and share information for the purposes of resolution is necessary, considering the sensitivity of resolution information and the need to coordinate with foreign authorities to facilitate a cross-border resolution. The Argentine authorities note that there have been no requests from foreign resolution authorities to establish such agreements for the foreign financial institutions hosted in Argentina.

- ***Recommendation 6:*** ***The BCRA should enhance institutional arrangements for resolution by strengthening the operational independence of the resolution function and by establishing mechanisms for cooperation and information sharing with domestic and foreign authorities specifically for the purposes of resolution.***

Resolution funding: Consistent with the *Key Attributes*, resolution authorities should have statutory policies in place so that they are not constrained to rely on public ownership or bail-out funds. In this vein, and taking into account the liability structure of Argentine financial institutions (mostly deposit funded – see Annex 2), collective contributions from the financial system could be used to fund resolution measures. To this end, the FGD has been used in a number of previous resolution cases, albeit on a discretionary, case-by-case basis. To enhance transparency and predictability of the resolution regime as set out in the *Key Attributes*, the authorities should be more explicit about the use of SEDESA as a resolution funding mechanism – for example, through amendments to existing regulations, or through the development and publication of high-level preferred resolution strategies (as discussed below).

The authorities should also revise institutional arrangements to ensure that the BCRA is responsible for resolution funding decisions. Under the current setup, SEDESA's Steering Committee decides on the use of funding for purposes other than the coverage of insured deposits. Although the Steering Committee is chaired by the BCRA (with veto power), the contributing financial institutions choose the representatives that hold voting rights. As such, the decision making process (e.g. on capital contributions, non-reimbursable contributions and loans to financial entities) may be affected by private interests. The BCRA can exercise its veto power, but there is no guarantee that the alternative proposal(s) this would trigger would be a better option. In addition, any associated delay in the decision making process at the Steering Committee could affect the timely implementation of resolution measures. To address this, the authorities should amend Decree 540/1995 to establish a mechanism that strengthens the BCRA's role in the decision making process of the Steering Committee.

The FSAP included a recommendation on establishing a contingent funding mechanism for the FGD, but the authorities do not deem it necessary given the existing degree of coverage of FGD's funds; the ability of the BCRA to request advance contributions (up to two years) from financial institutions; and the possibility for SEDESA to issue, as part of the paybox function, "registered non-endorsable securities" to depositors that other financial institutions in Argentina would be required to accept as deposits. The authorities also note that a Presidential Decree could be used to secure contingency funding. However, requesting additional contributions from the industry may not be appropriate in a systemic crisis as it could place additional strain on financial institutions, while the issuance of non-endorsable securities and the use of a Presidential Decree represent ad hoc forms of funding that would be inconsistent with the need for transparency and predictability in resolution. The authorities should therefore consider introducing more predictable back-up funding sources for SEDESA (e.g. a line of credit from the government, as suggested in the FSAP)[64] to provide clarity to market participants, complemented by clear provisions to recover any losses where public sources of back-up funding are used from shareholders and unsecured creditors or from the financial system more widely.

- ***Recommendation 7:*** ***To improve transparency and predictability in the resolution framework, the authorities should be more explicit about the use of SEDESA to finance resolution actions. In order to ensure that the BCRA is responsible for resolution funding decisions, its role in SEDESA's Steering Committee should be strengthened, and explicit and predictable sources of back-up funding should be put in place.***

Recovery and resolution planning: The BCRA commenced recovery planning in 2016 for four of the five identified D-SIBs (the exception being a state-owned bank), and has acknowledged that the process will be iterative, with enhancements planned after the review of the first round of plans submitted in February 2017. In this regard, the authorities should extend recovery planning requirements to the state-owned D-SIB. This would be consistent with the *Key Attributes*, which require RRPs at least for all domestically incorporated financial institutions that could be systemically significant or critical if they fail, without differentiating between private and public ownership.

The BCRA has yet to commence resolution planning, other than through a request to financial institutions to make certain information available to the SEFyC. Such planning is necessary to facilitate the effective use of resolution powers. The authorities should initiate resolution planning as part of an iterative approach to RRP. This should include the identification of financial and economic functions for which continuity is critical; the development and analysis of suitable resolution strategies and operational plans to meet resolution objectives; and a substantive assessment of resolvability, including the identification of potential barriers to effective resolution and actions to mitigate those barriers. To facilitate the removal of barriers to resolvability, the authorities should also consider introducing powers to require financial institutions to adopt appropriate measures where necessary solely in order to improve their resolvability. Such a power should be sufficiently broad and include a range of possible requirements (for example, changes

[64] See the IMF technical note on financial safety nets in Argentina (ibid).

to legal and organisational structures, limiting maximum exposures, restricting the development of new business lines etc.) exercisable in advance of, and not directly connected to, any financial problems in the financial institution.

- ***Recommendation 8:*** ***The authorities should continue efforts to develop the recovery and resolution planning framework by extending recovery planning requirements to all D-SIBs, initiating resolution planning, and considering the adoption of powers to require financial institutions to make changes to improve resolvability.***

Annex 1: Financial regulatory framework in Argentina[65]

Regulatory framework

The regulatory architecture in Argentina involves three financial supervisors. The central bank (BCRA) oversees financial institutions (banks, financial companies and credit unions), foreign exchange houses and brokers, and issuers of credit cards. The Argentine Securities Commission (CNV) oversees securities markets and mutual funds. Lastly, the National Superintendence of Insurance (SSN) oversees the insurance sector.

The legal framework of the Argentine financial system is composed of the Charter of the BCRA (as approved by Law N° 24.144) and the Financial Entities Law (Law No. 21.526). Section 3 of the Charter provides that the mandate of the BCRA is "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." According to section 4(a), one of the powers of the BCRA shall be "to regulate the operation of the financial system and enforce the Financial Entities Law and such regulations as may be consequently adopted." In this regard, section 43 of the Charter establishes that the BCRA shall supervise all financial and foreign exchange activity through the SEFyC. Section 4 of the Financial Entities Law provides that the BCRA is responsible for its enforcement with all such powers as are vested upon it by the Financial Entities Law and the Charter, 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 perform usual intermediation between supply and demand of financial resources (section 1 of the Financial Entities Law) fall within the scope of the Financial Entities Law and its regulations. The provisions contained in the Financial Entities Law may further be applied to individuals as well as public and private institutions that are not expressly mentioned therein, where the volume of their operations and reasons of monetary and lending policy so warrant, as determined by the BCRA (section 3).

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

The BCRA's communications cover a wide range of issues. They include minimum cash requirements and other technical ratios for financial intermediaries, credit risk diversification and rating, guarantees and investments, accounting information regimes and lending policies, and other issues that are relevant for the proper functioning of the domestic financial system and for fulfilling the objectives of the BCRA. These regulations are available on the BCRA's website along with compilations of regulations on major aspects of the financial system.

[65] Based on information provided by the Argentine authorities.

Section 41 of the Financial Entities Law sets forth sanctions for institutions and individuals that fail to comply with its provisions and relevant regulations, as well as with other resolutions issued by the BCRA. Such sanctions include: (i) 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 Financial Entities Law; and (vi) license revocation.

***Capital markets*:** The main legal and regulatory framework governing capital markets comprises the Capital Markets Law No. 26,831 (CML), enacted on 29 November 2012 and operative since February 2013; the CNV's Rules (as amended in 2013); and CNV's General Resolutions.

Section 1 of CML empowers the CNV to set rules to govern capital market players and securities traded therein according to the following goals and principles: a) promoting the participation of small investors, union associations, industry groups and trade associations, professional associations and all public savings entities in the capital market, particularly encouraging mechanisms designed to promote domestic savings and channel such funds towards the development of production; b) strengthening mechanisms for the protection of and prevention of abuses against small investors for the protection of consumers' rights; c) promoting access of small and medium-sized companies to the capital market; d) fostering the creation of a federally integrated capital market through mechanisms designed to achieve an interconnection of computer systems from different trading markets, with the use of state-of-the-art technology; e) encouraging simpler trading procedures available to users to attain greater liquidity and competitiveness in order to provide the most favourable conditions for the implementation of transactions.

Moreover, according to Section 19 of CML, the CNV is the enforcement and controlling authority of capital market participants and securities. Among other duties, it directly and closely monitors, regulates, inspects, supervises and imposes penalties on any natural persons or legal entities that under any circumstances perform activities in relation to the public offering of securities, other instruments, transactions and activities within the scope of this law and other applicable regulations, and that on account of their business are subject to the CNV's jurisdiction.

***Insurance market*:** The Insurers and its Control Law (20,091), Insurance Control Law (17,418) and Intermediaries Activities Law (22,400) establish the legal provision for insurance contracts as well as reinsurance, insurance and intermediary activities, and grant government-level oversight powers in this area to the head of the SSN. The SSN also has the mandate to ensure a solvent, stable and efficient market, thus helping to guarantee the protection of consumers, in keeping with the principles of Law 20,091.

The scope of insurance supervision covers the branches and offices of representatives of foreign insurance companies, as well as the activities of the various bodies that are related to the insurance industry (insurance brokers and advisors, proxy agents, auditors, actuaries and experts and liquidators of damages). The General Rule of Insurance Activity (SSN Resolution N° 37,708), its modifications, along with other resolutions and communications, regulate the sector based on the aforementioned Laws.

Policy objectives and planned reforms

Since taking office in December 2015, the new administration has aimed at reversing macroeconomic imbalances, correcting microeconomic distortions and strengthening the institutional framework. The overarching objective is to restore sustained and equitable growth, boost job creation, and protect the poor from the costs of restoring macroeconomic stability. According to the authorities, important progress has already been made: foreign exchange restrictions have been lifted so that the peso is now market determined and interventions are limited; changes in utility tariffs are progressively bringing prices more in line with underlying costs; and the dispute with foreign creditors has been settled, allowing for a return to international capital markets by both the private and the public sectors. The revamping of the national statistics bureau and completing an IMF Article IV assessment form part of this new policy orientation. Importantly, medium-term fiscal and inflation targets have been announced.

In line with the provisions of its Charter, the BCRA has established three main objectives.[66] The first is to ensure monetary stability. The BCRA considers essential to attain a gradual decrease in the inflation rate and has formally adopted an inflation targeting regime, effective as from January 2017. Second, ensuring the financial sector's stability and growth is another priority of the BCRA, by focusing its actions on the development of a domestic banking sector and on the promotion of savings and lending instruments in domestic currency. The introduction of instruments denominated in Housing Units (Unidades de Vivienda – UVIs) to boost saving in domestic currency and long-term lending that is taking place is an example of this agenda.

The BCRA also prioritises the convergence to international standards: as from the fiscal year beginning in January 2018, every financial institution must record their operations and prepare their financial statements in accordance with International Financial Reporting Standards (IFRS Communication "A" 5541, February 2014). BCRA plans to implement the Basel III standard promulgated by the BCBS within the agreed deadline.[67]

Finally, the promotion of financial access ("bankarization") is the third target. New measures will be adopted to continue to deepen the financial system, providing access to basic financial products and services to sectors of the population residing in districts with low or no presence of banks.

The former Ministry of Treasury and Public Finance (MHyFP) sent to Congress a new "Law of Capital Market Development" proposing the amendment of a set of laws, including Capital Market Law N° 26,831.[68] The bill empowers the CNV with new mandates to promote transparency and

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[66] See its annual goals for 2016 (http://www.bcra.gob.ar/Pdfs/Institucional/ObjetivosBCRA_2016.pdf).

[67] See http://www.bis.org/bcbs/publ/d388.htm. Argentina was recently assessed by the BCBS Regulatory Consistency Assessment Program (RCAP), and was found to be overall compliant with the Basel III framework (see http://www.bis.org/bcbs/publ/d382.pdf).

[68] The proposed "Law of Capital Market Development" includes the modification of the following set of laws: Capital Market Law N° 26,831; Trust Funds Law N° 24,083; Law on Corporate Debt N° 23,576; Law on *Caja de Valores* (CSD) N° 20,643; Law on Promissory Notes N° 27,264; Law on Combating Money Laundering Nº 25,246. The proposal also includes changes to Derivatives Instruments, fostering financing for SMEs, launching

integrity of capital markets by avoiding conflict of interests, and to reduce systemic risk through policy actions. The bill incorporates CCPs to the list of registered entities with the CNV, giving them a legislative rather than a regulatory status. One of the reasons is to highlight and promote their contribution to counterparty credit risk management by allowing for multilateral netting, reducing uncertainty about participants' exposures and increasing transparency of market activity.

Furthermore, the bill sent to Congress proposes changes with the aim of fostering the development of the derivatives market, so that hedging could be commonly used by investors to protect profits, curb financial volatility, managing and transferring risks when required. The project proposes the development of a regulation for derivative instruments, as well as allowing bilateral netting, early termination and margins and collaterals execution following an event of default.[69] Additionally, once the new Law of Capital Market Development is approved, authorities intend to create a formal Capital Markets Committee for the coordination between regulators and other authorities.

In the context of a relatively shallow capital market, the proposed legal modification seeks to encourage investors and firms to look for market funds. The project aims to facilitate risk management by market participants and to improve their resilience to external shocks. Proposed changes would strengthen CNV as a regulator based on new mandates for promoting transparency and integrity and for reducing systemic risk, in accordance with international practices.

Furthermore, the CNV is studying other regulators' experiences in risk-based supervision, with the aim to develop a risk monitoring system that will allow identification of vulnerable market intermediaries or segments, and the consequent adoption of additional supervisory actions.

As for the insurance sector, Resolutions 39,645 and 39,647 of January 2016 lifted the mandatory investment guidelines established in October 2012 regarding the reorientation of investments to productive sectors and established new requirements. In August 2016, Law N° 27,264 on the Productive Recovery Program was enacted. Section 49 incorporates listed corporate bonds and issuances collateralised by Mutual Guarantee Societies or Guarantee Funds to the list of eligible investments for insurers. Furthermore, Section 50 establishes minimum investment requirements in instruments for financing working capital of small and medium sized enterprises (SMEs). To apply this Law, the SSN issued Resolution N° 40,103 in October 2016. SSN has also aligned the reinsurance regime to international standards, seeking to achieve a gradual opening of the market (Resolution N° 40,422). Effective as of January 2017, local insurance companies can cede directly to an admitted reinsurance risks of more than USD 35 million. The SSN has also reformulated the capital requirement phase-in from March 2017 up to December 2019. This schedule has been complemented with the ability of local reinsurance companies to establish a restructuring plan to wind down their business. For an international company to become an admitted reinsurer, the minimum capital requirement has been increased up to USD 100 million of shareholders' equity.

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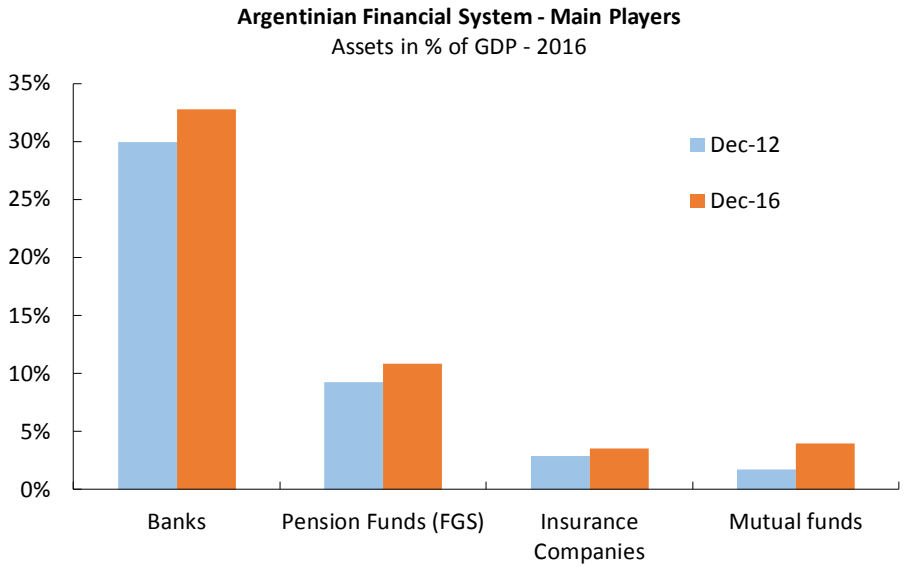
a National Strategy of Financial Inclusion, setting the legal basis for regulating Guarantee Agents, modifying certain financial taxes, and establishing the faculties to regulate the Collective Financing Scheme.

[69] In general terms, the bill proposes to exclude derivative transactions from the application of the dispositions about restructuring in the Bankruptcy Law, the Financial Institutions Law, and in the BCRA Charter.

Annex 2: Structure of the financial system and recent developments[70]

Financial system structure

The size of the Argentinian financial system is small compared to the average in other emerging economies. The total assets of financial entities[71] and the main institutional investors represent approximately 50% of the GDP. As noted in the FSAP, the financial system is mainly bank-based (see Chart). The total assets of banks accounted for 33% of GDP in December 2016, up 3% compared to the level recorded at the end of 2012.



Source: BCRA based on ANSES-FGS, SSN and CAFCI

Institutional investors have a more limited scale: their assets represent less than 19% of the GDP, although this has increased since 2012.

- The *Fondo de Garantía de Sustentabilidad* (FGS), a government-managed portfolio resulting from nationalisation of pension funds in 2008 is the most important institutional investor. Its size is almost three times that of insurance companies or mutual funds.
- Argentina's insurance market comprises 149 active non-life insurers, including 12 monoline workers' compensation insurers and several small niche players. Most large insurers are local, including seven of the top 10 in 2016 (based on the local ranking of underwriting premiums). The reinsurance market comprises 25 local companies established in Argentina and subject to supervision by the SSN. There are also 84 foreign "admitted" reinsurers with legal representation in the country. In spite of its small size, the insurance market has grown constantly in the last five years. In terms of insurance premiums, it increased from 2.1% in 2011 to 2.6% of GDP in 2016 (see table).

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[70] Based on information provided by the Argentine authorities.

[71] Unless otherwise stated, financial entities/institutions are those under the regulation and supervision of BCRA.

	2011	2012	2013	2014	2015	2016
# companies						
Insurers	181	181	186	185	184	186
Retirement	21	19	19	18	16	16
Life	37	35	37	37	37	37
Employees accident and sickness	16	16	17	15	15	12
Public transportation	5	5	5	5	5	5
Property and others	102	106	108	110	111	115
Re-insurers	0	21	28	28	28	25
Balance sheets - Million ARS						
Assets	82.077	105.071	139.358	188.896	271.656	379.860
Equity	15.597	20.094	26.858	36.964	55.241	80.975
Premiums - In Million ARS	44.875	59.388	80.626	108.913	153.322	211.027

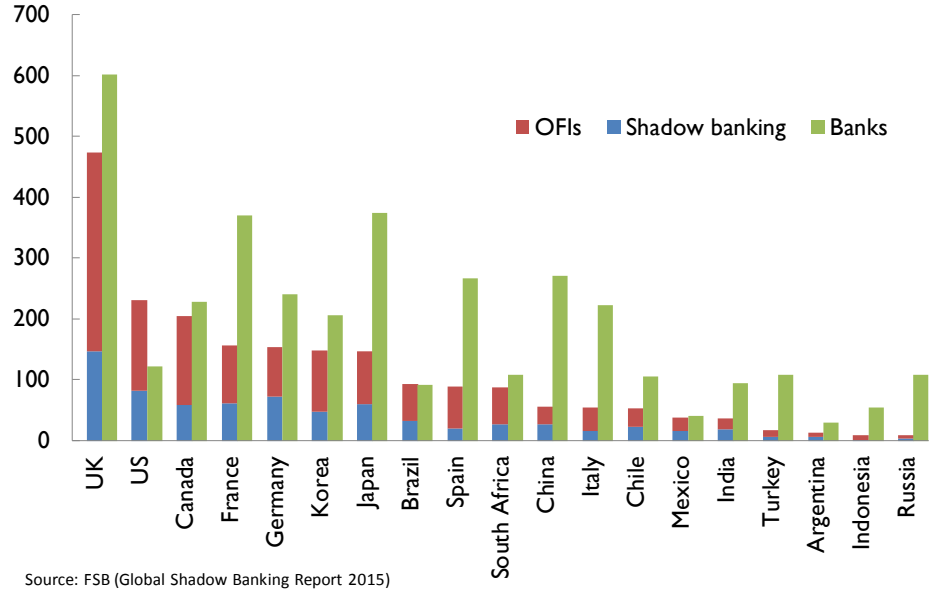
Source: SSN.

- As of December 2016 there were 420 mutual funds in Argentina, compared to 289 funds at the end of 2012. Of this total, 199 are fixed income funds, 52 are equity funds, 87 are blend funds and 31 are money market funds (the rest corresponds to SME funds, infrastructure funds and total return funds). Compared with 2012, the increase is mostly explained by new fixed income and blend funds. Fixed income funds represented more than 60% of the total portfolio of mutual funds as of December 2016.

According to the authorities, since institutional investors mostly invest in securities, the interlinkages between the banking sector and these investors (which are constrained by regulation) are contained. The aggregate time deposits of the FGS, insurance companies and mutual funds represented around 11% of total time deposits in banks as of June 2016.

As for vehicles usually associated with shadow banking, their scale in Argentina is modest compared to the levels observed in some other countries. For instance, financing associated with credit cards by non-bank credit providers represents less than 1% of GDP. Even smaller is the stock of bank lending to families that is currently in structured finance vehicles.

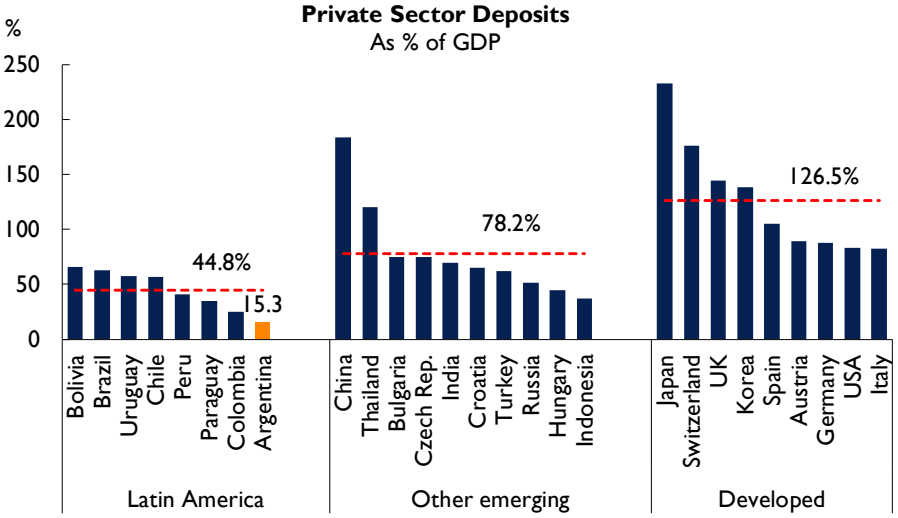
Shadow Banking, Other Financial Intermediaries and Banks
As a percentage of GDP



Source: FSB (Global Shadow Banking Report 2015)

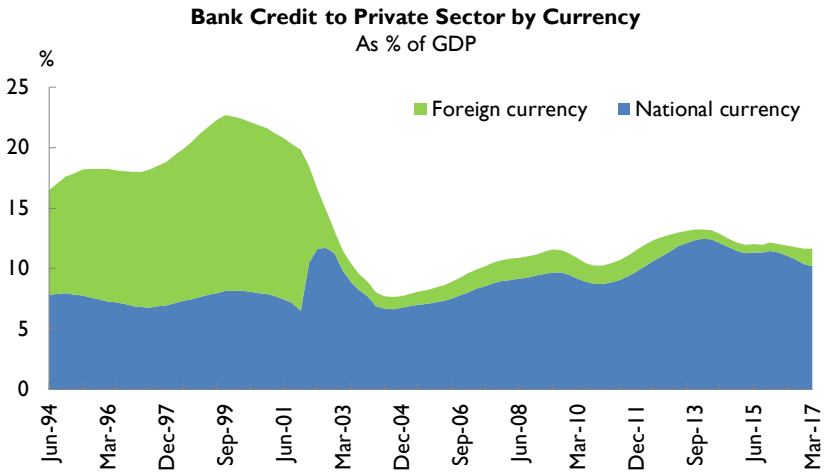
Banking sector[72]

One characteristic of the banking sector is its relative lack of depth. Private sector deposits represent around 15.3% of GDP, which is low compared to many other countries.



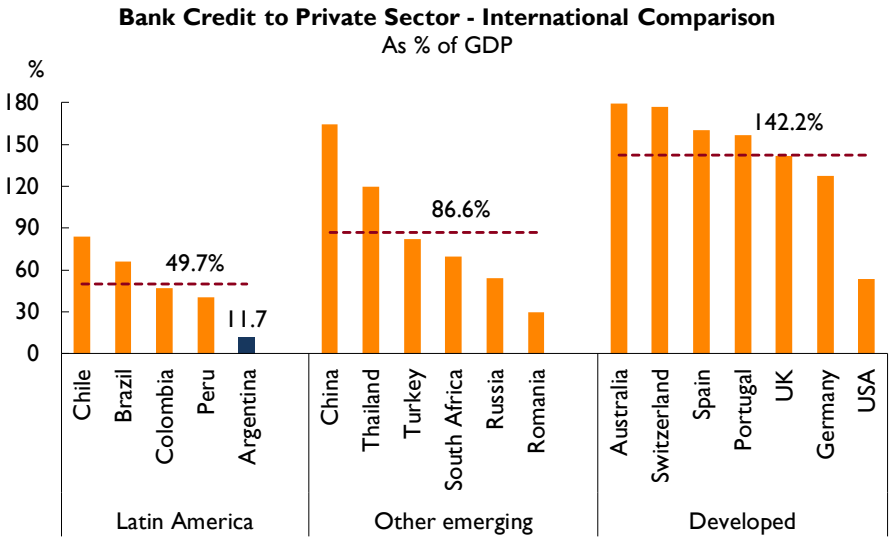
Note: As of 2016, except China to 2015 and Argentina to March 2017.
Source: FSI (IMF) and BCRA

The ratio of loans to the private sector in terms of GDP (11.7%) is almost half its historical peak, and well below levels in other emerging and developed economies. Lending granted in pesos represents almost 86% of total credit, with low levels of indebtedness in foreign currency. Financing channelled to firms represents 53.4% of total private sector financing (6.4% of GDP), with the remaining 46.6% focused on households (5.3% of GDP).



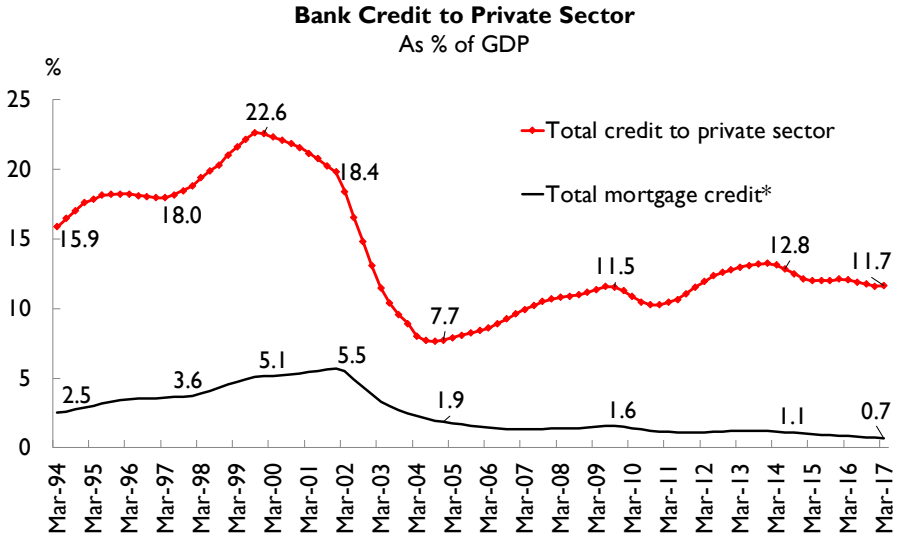
Note: The average annual stock of credit to private sector and the average GDP of 4 quarters is considered.
Source: BCRA and INDEC

[72] Including all financial institutions (banks and non-bank deposit takers) under the supervision of the BCRA.



Note: As of 2016, except China (2015) and Argentina (March 2017).
Source: FSI (IMF) and BCRA

Mortgage lending has a small share in total bank credit. As of March 2017, this type of lending represented only 0.7% of GDP, with retail mortgages accounting for less than half that figure.



* Note: Total retail and wholesale credits
Source: BCRA

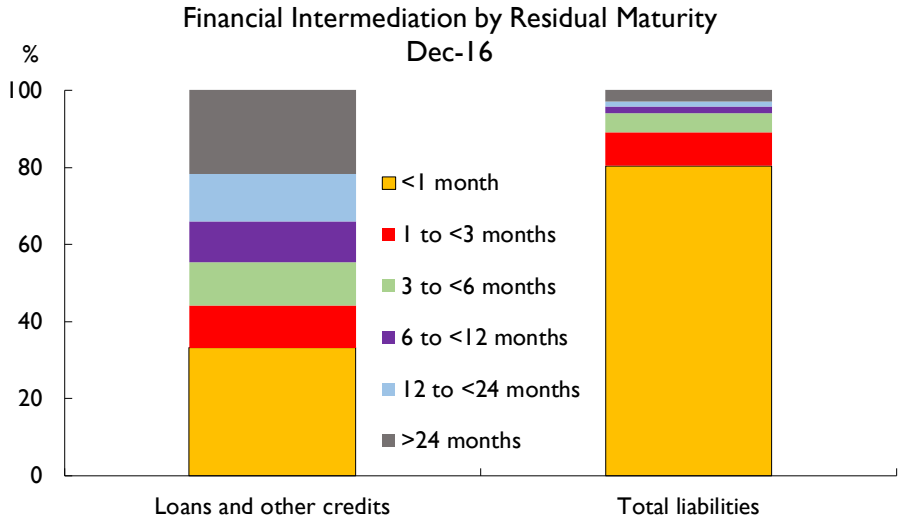
There are currently 78 financial entities in operation (12 state-owned banks, 34 domestic banks, 17 branches and subsidiaries of foreign banks and 15 non-banking financial institutions). The number of branches amounts to 4,618, entailing an 8% increase (337 additional branches) compared to end-2012. In turn, the network of automated teller machines (ATMs) has expanded 24% (3,796)

compared to December 2012, reaching a total of 19,750 at the end of the first quarter of 2017. This expansion in the operating infrastructure was accompanied by an increase in bank staff. The number of employees went up 5% since 2012, totalling 110,059 workers as of December 2016.

Credit to the private sector is the most important component of assets, accounting for approximately 42% (down 9% since December 2012). Liquid assets account for 25% of the total portfolio, while the holdings of monetary regulation instruments account for 15% and lending to the public sector 9% of total assets.

Deposits of the private and public sectors represented around 77% of banks' total funding (similar to the level observed at the end of 2012). Other sources of funding, such as wholesale borrowing and foreign credit lines, remain small. In general, the activity of banks is mostly transactional in nature, while financial intermediation is characterised by limited maturity transformation.

Bank funding and assets are mainly short term in nature. The financial system possesses a significant portion of funding (sight deposits) that is relatively stable, being linked to households' transactional needs and corporate operational requirements. The effective term of these liabilities is longer than the contractual period.



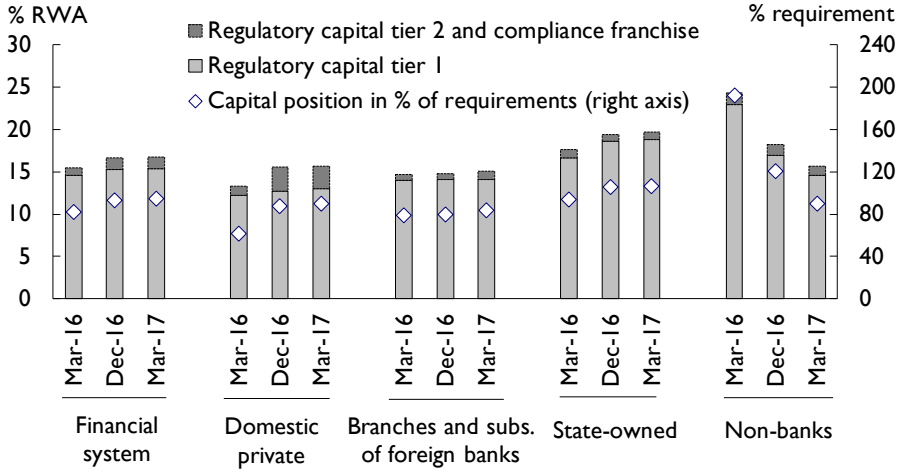
Note: information of accounting IR for quaterly/annual publication.
Source: BCRA

Government-owned banks' assets accounted for 43% of the total banking sector as of March 2017 (without significant changes when compared to 2012 year-end). The largest bank, which is state-owned, represents 13% of total loans and 29% of total deposits. Public sector deposits accounted for 27% of total deposits in the banking sector, and are concentrated mainly in public banks. The main business of this group of banks is similar to that of private ones, albeit with a lower private sector credit to assets ratio (26%, which is below the banking sector average).

Solvency and liquidity ratios

As of March 2017, the regulatory capital ratio was 16.8% of RWAs (up 2.4% compared to early 2013). 15.3% of the capital ratio corresponded to core Tier 1 capital. The Basel III leverage ratio I (Tier 1 capital relative to total exposures) stood at around 9.8% as of December 2016 for the aggregate of domestic banks.

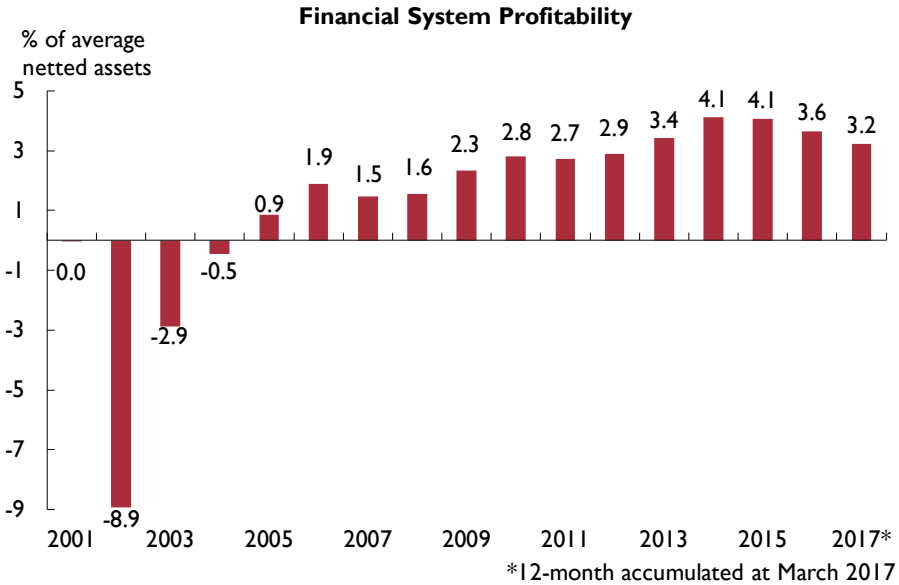
Regulatory Capital and Excess of the Requirement (Position)



Regulatory capital tier 1: Basic net worth
Regulatory capital tier 2: Complementary net worth
Source: BCRA

In recent years, the banking sector improved its solvency position mainly due to retained profits.

Financial System Profitability



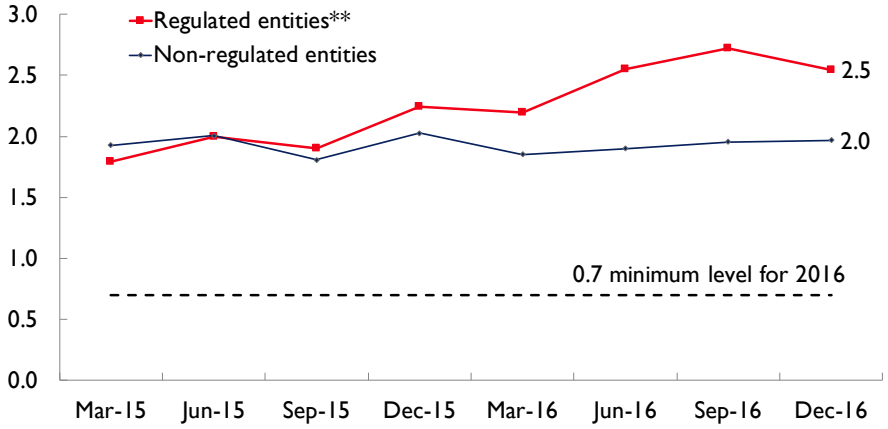
*12-month accumulated at March 2017

Source: BCRA

The stock of liquid assets (defined in a broad sense, including local and foreign currency assets as well as holdings of bills and notes issued by the BCRA) reached historical highs of 52% of deposits as of March 2017, and 54% of liabilities with a term shorter than one month as of December 2016. The holdings of BCRA bills and repos with BCRA accounted for 38% of total liquid assets, followed by cash and cash equivalents in pesos – mainly the stock of sight deposits at the BCRA – that accounted for 61%.

The Liquidity Coverage Ratio (LCR) for those institutions that are subject to this ratio (accounting for 89% of sector assets) reached 2.5 by December 2016.

Liquidity Coverage Ratio (LCR)
FALAC / SENT*



* FALAC = Fund of High-Quality Liquid Assets. SENT = Total Net Cash Outflows
** Entities with a minimun share of 1% in total financial system deposits (89% of assets to dec-16). *** Provisional. Source: BCRA

Activity and profitability

The current level of loans to the private sector (in real terms) is down 9% compared to late 2012. The drop is more significant in collateralised loans (-32%) and loans for commercial purposes (-22%), while financing for consumption went up (+11%). In turn, private sector deposits (in real terms) expanded 11% compared to late 2012, a performance that was mainly driven by time deposits (+17%), while sight deposits contracted (-6%).

In terms of asset portfolio composition, a notable increase has been seen in loans to the private sector in foreign currency since the first part of 2016, although their weight in total lending remains low (14%). The share of private sector credit in total assets has dropped in recent years, reaching 42% of total assets. The combined total of liquid assets and BCRA securities has increased during 2016 and in the first quarter of 2017 (reaching 40% of total assets), above the levels of previous years. Lending to the public sector has declined slightly compared to total assets. In the case of liabilities, total private sector deposits remain as the main source of funding with nearly 56% of the total (a reduction of 2% compared to the levels of December 2015). In particular, the share of total foreign currency deposits has increased, rising to 20% of the total in March 2017. Corporate bonds and foreign credit lines remain a small portion of total funding (3%).

Balance Sheet - Financial system

	As % of netted assets			
	dec-12	dec-15	dec-16	mar-17
Assets	100	100	100	100
Liquid assets	19	21	24	25
BCRA securities and repos	11	14	13	15
Total credit to the public sector	10	10	9	9
Total credit to the private sector	51	46	43	42
Credit in $	47	44	37	36
Credit in US$*	4	2	6	6
Other assets	9	9	10	9
Liabilities + Net worth	100	100	100	100
Public sector deposits	21	16	17	21
Private sector deposits	56	58	59	56
In $	51	50	45	43
In US$*	5	8	14	13
Corporate bonds, sub. debt and foreign	2	3	3	3
Other liabilities	9	11	8	9
Net worth	12	12	12	11

Source: BCRA

High inflation in recent years was a source of profitability for banks, given that they were able to fund themselves with sight deposits – which account for a sizable part of total funding – at virtually zero nominal rates (negative real rates), which was then used to invest in higher-yielding assets.

During the first quarter of 2017, the return on assets of financial entities reached 2.7% year-on-year, well below the same period of 2016. The aggregate results of banks in terms of assets or net worth have declined in recent quarters. This performance mirrors a drop in margins, prompted by the decline in inflation, with a corresponding reduction of the benchmark interest rate.

Profitability Structure - Financial System

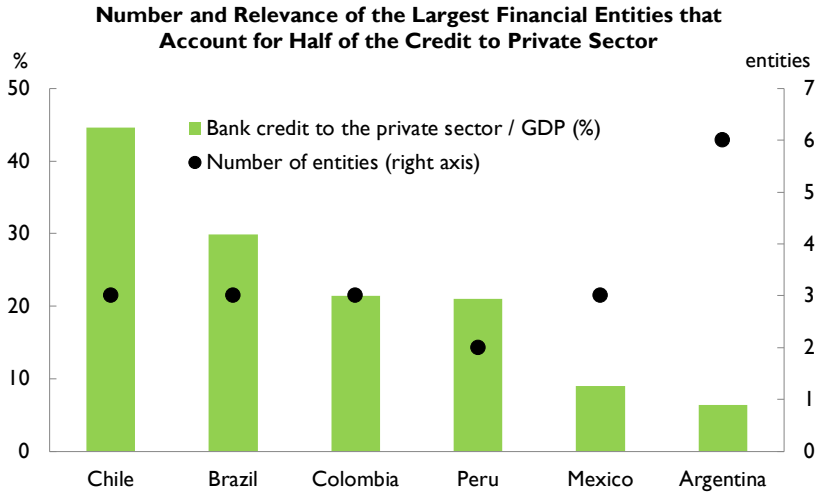
As % of netted assets	Annual			3-month accumulated annualized	
	2012	2015	2016	2016	2017
Financial margin	**9.2**	**11.8**	**11.4**	**12.1**	**9.5**
Interest income	10.1	12.6	12.5	12.8	9.9
CER and CVS adjustments	0.3	0.2	0.3	0.4	0.1
Foreign exchange price adjustments	0.6	0.8	0.9	1.4	0.4
Gains on securities	2.6	5.6	5.5	6.0	3.7
Returns on repo	0.3	0.1	0.2	0.1	0.9
Interest expense	-4.7	-7.3	-7.9	-8.4	-5.4
Other financial income	0.0	-0.2	-0.1	-0.2	-0.1
Service income margin	**4.2**	**4.2**	**3.8**	**3.6**	**3.5**
Loan loss provisions	**-0.9**	**-0.9**	**-0.8**	**-0.7**	**-0.9**
Operating costs	**-7.0**	**-7.7**	**-7.7**	**-7.4**	**-7.0**
Tax charges and others	**-2.5**	**-3.3**	**-3.1**	**-3.3**	**-2.4**
Income tax	-1.5	-2.0	-1.7	-2.0	-1.5
ROA	**2.9**	**4.1**	**3.6**	**4.3**	**2.7**
ROE	**25.7**	**32.4**	**29.6**	**35.4**	**25.0**

Source: BCRA

Risks of the banking sector

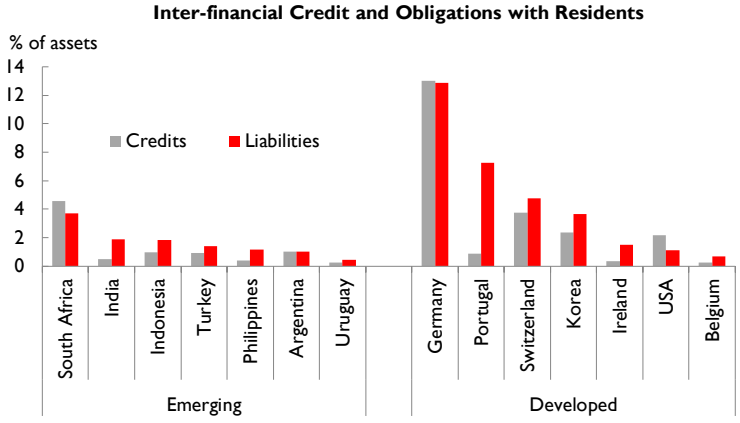
According to the authorities, systemic risk is relatively small given the banking sector's size, low-complexity products, interconnectedness among entities, solvency of D-SIBs and concentration of risk factors.[73]

Concentration is lower in the Argentine banking sector compared to the rest of the region. For example, half the volume of total credit to the private sector (6% of GDP) is generated by six large banks, while the equivalent figure in other countries (which is much higher in terms of GDP) is generated by a lower number of entities.



Note: As of 2016, except Peru (2015) and Argentina (2017).
Sources: Central Banks and Superintendencies of Financial Institutions

Interconnectedness among domestic entities is moderate compared to other banking sectors.

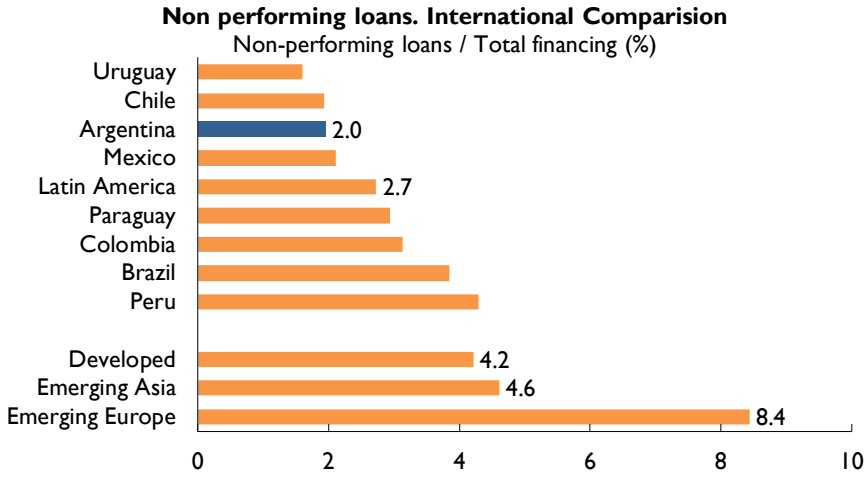


Note: The information corresponds to 2016, except Switzerland (2015), Korea (2014) Uruguay (2012) and Argentina (2017).
Source: Financial Soundness Indicators (IMF) and BCRA

[73] For a more detailed assessment, please see the BCRA's Financial Stability Report, available at http://www.bcra.gob.ar/PublicacionesEstadisticas/Informe_de_estabilidad_financiera.asp.

Cross-border activities of the banking sector remain limited. Assets with foreign counterparties represented only 1.7% of total assets as of March 2017. At an aggregate level, cross-border assets are mainly originated in correspondent accounts and in foreign branches of local banks (52% and 25% of total foreign exposure respectively). Non-residents' liabilities reached 2.5% of total system liabilities as of March 2017, 40% of which was foreign bank financing to local entities and 15% of which was non-resident investments in bank bonds through transactions in the primary market.

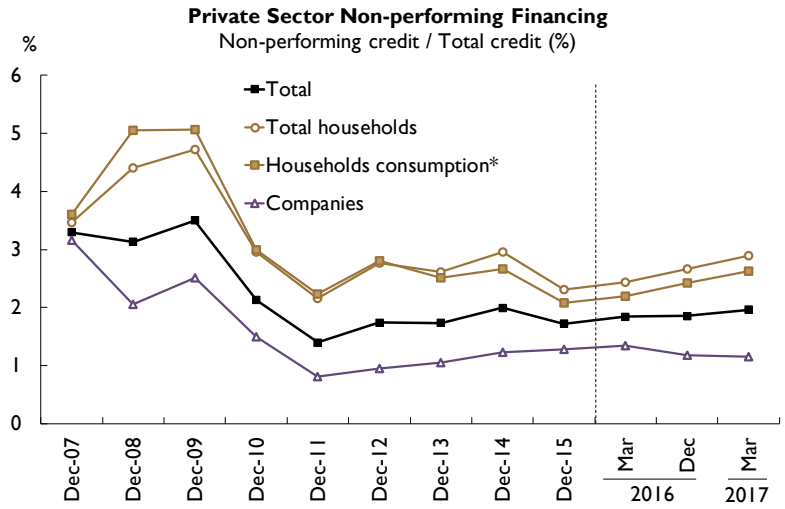
Non-performing loans to the private sector stood at 2% of total financing by the end of the first quarter of 2017, below the levels seen, on average, over the last twenty years; and also below levels in many emerging and developed economies.



*Note: Private sector non-performing loans as percentage of total private sector financing del mismo sector. Emerging Asia: China, India, Indonesia. Developed: Australia, Canada, France, Germany, USA, Japan, Spain and Italy. Emerging Europe: Bulgaria, Romania, Hungary and Turkey. Data to 2016, except: Uruguay (2015), Mexico (2017) and Argentina (Mar-17)
Source: BCRA and IFS (IMF).

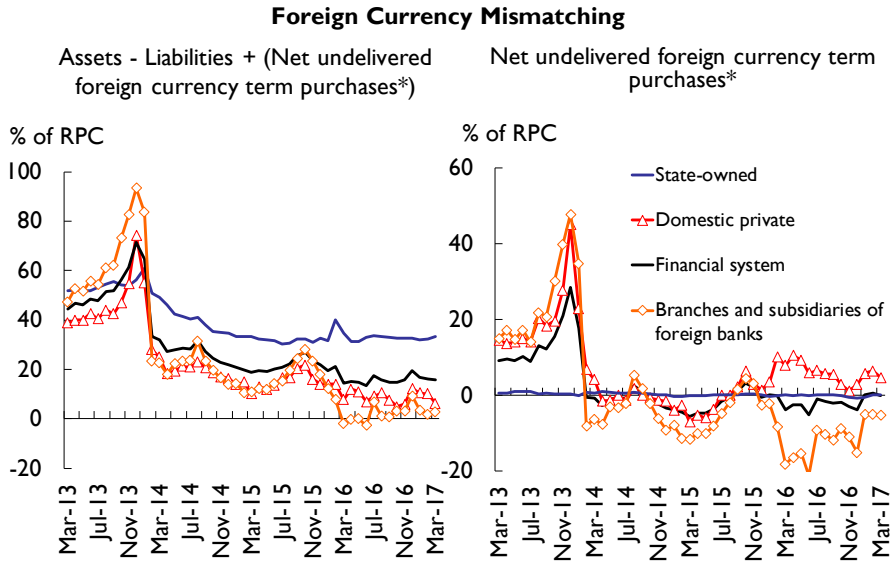
Loan loss provisioning exceeds the minimum regulatory requirement. The stock of provisions[74] represented 78% of non-performing loans to the private sector, which was 30% higher than the requirement for this part of the portfolio.

[74] Excluding provisions required for performing loans.



Source: BCRA

Foreign currency risk is limited by the implementation of macroprudential policies to address foreign currency mismatches, given Argentina's floating exchange rate regime. In March 2017, the aggregate banking system foreign currency mismatch stood at 16% of capital (adjusted stockholders' equity), down 27% compared to 2012 year-end.[75]



*Off balance sheet accounts
Source: BCRA

[75] For a more detailed analysis of banking activity, profitability etc., please see the BCRA monthly banking report, available at http://www.bcra.gob.ar/PublicacionesEstadisticas/Informe_mensual_sobre_bancos.asp.

Capital market developments

The local capital market shows relatively low depth and liquidity compared to others in Latin America, with the outstanding amount of private sector corporate bonds and equity market capitalisation representing less than 10% of GDP.

Capital Markets in the Region				
Dec 2015	Market Cap/ GDP	Companys' Shares Turnover / Market Cap	Private bonds oustanding/ GDP	Public bonds outstanding/ GDP
Chile	79%	11%	45%	19%
Mexico	31%	32%	28%	38%
Colombia	29%	17%	25%	47%
Brazil	26%	102%	31%	68%
Peru	24%	3%	30%	31%
Argentina	9%	9%	5%	45%

Source: Bloomberg, WFE, World Bank.

Since the enactment of the Capital Market Law and its corresponding Rules in 2013, capital market dynamics have been positive, as indicated by the volume of outstanding instruments as well as the increase in principal accounts and the number of investors in mutual funds.

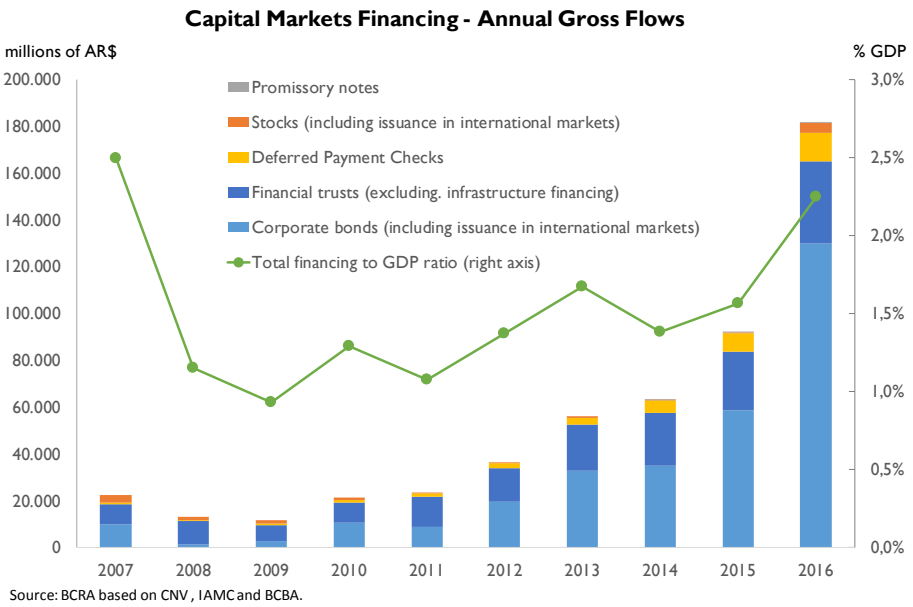
Argentinian Capital Markets - Amount of outstanding instruments (in US$ millions) and other indicators

	Dec 13	Dec 14	Dec 15	Jun-16
Stocks - free float	14.913	19.346	22.196	21.579
Corporate Bonds	13.784	15.251	17.080	18.663
Trust funds	9.506	9.990	7.967	7.408
Deferred payment checks	192	458	485	475

	Dec 13	Dec 14	Dec 15	Jun-16
Quantity of principal accounts	265.647	253.945	255.728	281.315
Quantity of mutual funds holders	111.436	121.607	141.665	184.844

Source: CNV

Securities issuance rose in recent years in nominal terms, although in terms of GDP the annual gross flows to the private sector (including the issuance of debt by Argentinian firms in international markets) remains at low levels. The most relevant securities in terms of issuance are corporate bonds, followed by securities associated with financial trusts. The issuance of equities, on the other hand, has not been significant.



Following the Argentine government's resolution of the dispute with government debt holders, corporate debt issuance in international markets gained momentum since 2016. This was mirrored by the issuance activity of the public sector (National Treasury and provinces), whose debt issuance in 2016 far exceeded the figures registered in the last 10 years. The firms that placed new debt in international markets were, in all cases, active in these markets in the past. A significant part of the amount raised in 2016 was used to refinance existing debt, thus taking advantage of favourable conditions in international markets.

Institutional investors increased their holdings of fixed income instruments in 2016. For the FGS, public sector instruments (representing more than 60% of its portfolio) was the asset class that registered the highest increase. Similarly, fixed income and blend funds registered a significant increase. This trend is related to the increasing interest in BCRA bills, which is the component of mutual funds' portfolio that changed the most in 2016.

Annex 3: Follow-up of other key FSAP recommendations

This Annex presents the follow-up actions reported by the Argentine authorities to key FSAP recommendations that are not covered in sections 2 and 3. The actions mentioned below have not been evaluated as part of the peer review and are presented solely for purposes of transparency and completeness.

Recommendations	***Steps taken to date and actions planned (including timeframes)***
Banking Oversight	
Develop capital plans with banks to ensure compliance with the new Basel standards, and in conjunction, remove the limit restriction on dividend payments and transform it to the capital distribution constraints under Basel III.	The BCRA standards on capital requirements for financial entities[76] and LCR[77] meet the Basel standards, based on a recent RCAP assessment published in September.[78,79] The restriction on the payment of dividends was lifted by Communication "A" 5985. For prudential reasons, as pointed out in the answer to question 17, this provision accelerated the deadlines for the implementation of capital buffers.
Cap *Lineas de Credito* program at 10 percent of bank deposits and phase out this program as the loans are repaid.	The "Credit line for production and financial inclusion" continues to be in force. Capacity and financial conditions were adjusted through Communication "A" 6084.
For regulatory capital, restore risk weights on lending to levels for other credit.	Risk weights for the determination of minimum capital comply with BCBS provisions. No preferential treatment is given to the "Credit line for production and financial inclusion"
Strengthen rules to nominate and remove members of the BCRA board and the Superintendent, and financial autonomy; eliminate the ability of Ministry of Treasury and Public Finance (formerly known as MECON) to overrule BCRA's decisions.	No steps have been taken to change the nomination and removal procedure, since the current rules already contemplate a process that requires the intervention of the National Executive Power with the Senate's consent. The above mentioned goes in line with similar provisions set forth in the National Constitution, which states the power of the National Executive Power to designate some public servants, with the Senate's consent (such as justices of the Supreme Court and other judges of the lower federal courts, ambassadors, ministers' plenipotentiary and commercial attaches, the military posts of the Nation, posts or ranks for the higher officers of the Armed Forces). Additionally, the Charter sets forth the specific events by which the members of the Board may be removed from office by the National Executive Power. Those events include exclusively: (i) the failure

[76] http://www.bcra.gov.ar/Pdfs/Texord/t-capmin.pdf.

[77] http://www.bcra.gov.ar/Pdfs/Texord/t-ratio.pdf.

[78] http://www.bis.org/bcbs/publ/d382.pdf.

[79] http://www.bis.org/bcbs/publ/d381.pdf.

	to comply with the provisions of the BCRA Charter; (ii) falling within the incompatibility criteria established in Section 8 of the Charter; (iii) incurring in misconduct or in the failure to comply with the duties incumbent on civil servants. Even though such a decision is taken by Executive Power, it requires the advice of a committee of the National Congress, which is chaired by the President of the Senate and formed by the chairs of the committees of Budget and Treasury and of Economy of the said house, and by the chairs of the committees of Budget and Treasury and of Finance of the House of Representatives. Such procedure grants certainty since the dismissal requires the advice of the said committee on the existence of a just cause based on the improper performance of its duties. Regarding the recommendation to eliminate the ability of the Ministry of Treasury and Public Finance (formerly known as MECON) to overrule BCRA's decisions, it should be recalled that the BCRA is a self-administered National Government entity subject to the provisions of its Charter and other related legal rules. Accordingly, while carrying out its functions and powers, the BCRA shall not be subject to any order, indication, or instruction from the National Executive (Section 4 of the BCRA's Charter). Finally, the administrative acts or regulations issued by the BCRA, as any administrative act, are presumed to be legal and valid and are thus enforceable. Article 97 of Regulatory Decree 1759/1972 determines that any remedy or recourse available for interested parties may only be reviewed by the Ministry of Treasury and Public Finance in case they are related to legitimacy claims; but even in that case, the resolution is limited to revoke the act (the Minister of Economy is not allowed to modify it, except in the case of public interest). In this scenario, timing, merit and convenience arguments will not be revisable. Hence, it is not correct to affirm that there is hierarchy between the said Ministry and the BCRA that allow the Ministry to overrule the BCRA's decision in any case. Moreover, in cases such as the revocation of a license of a financial entity, this decision may only be appealed to the Federal Court of Appeals for Administrative Matters but the filing of the appeal does not suspend the revocation.
Move to a forward looking provisioning rule.	As pointed out in the answer to question 3, the BCRA published the roadmap for convergence with the IFRS. However, at this stage provisions in IFRS 9 on "Loan Loss Provisioning" are not to be implemented.
Raise the threshold for lawsuits to gross negligence for BCRA staff's legal protection.	The Personnel Regulations of the BCRA establish that its officials and employees must take appropriate legal actions whenever they are publicly accused of wrongdoing in connection with their work for the BCRA by parties not belonging to the BCRA, in which case they are entitled to receive free legal aid from the BCRA's legal

	service. The Personnel Regulations also provide that if an official or employee of the BCRA is the subject of a criminal proceeding arising out of the exercise of his or her functions, the BCRA may advance the funds needed for the legal defense if the circumstances warrant it, but the official or employee must repay such funds if convicted. This provision also applies to the members of the Board of Directors of the BCRA if needed for criminal defense purposes. Also it has to be mentioned that according to section 1766 of the Civil and Commercial Code of Argentina, the liability of officials and public employees is governed by local administrative law. At a national level, section 9 of Law No. 26944 establishes that officials and public employees shall be held liable for the damages caused by their actions or omissions arising from their own neglect or default in the questionable performance of their duties. Moreover, labour law provides that employers must reimburse workers for the expenses incurred while duly performing their duties, and compensate them for any damages to their property arising from any such circumstance. Notwithstanding the foregoing, the BCRA's working group mentioned before is also analysing the staff's standing on legal protection.
Public Pension Fund and Insurance Oversight	
Auction fixed-term deposits in banks on a market price return base. Increase the maturity of these deposits to provide stable funds to the banking system (FGS).	Since 2016, liquidity management improved, reducing cash to 0.1% of portfolio and increasing exposure to short-term Central Bank debt (LEBACs). Also, allocation to Term Deposits decreased (0.2% of portfolio), an interest rate survey is conducted and placement is made at market rates, with public and private financial institutions. Tenor was initially 30 days given curve inversion and currently six month variable Certificates of Deposit were placed in response to a rise in mortgage demand by banks.
Discourage unsupervised direct credit activities. Register all credit and debtor information from FGS loan programs in the credit bureau (FGS).	FGS to schedule meeting with Central Bank with the purpose of reporting credit origination via ARGENTA and confirm construction loan activity originated via PROCREAR.
Establish a limit of 5% for the FGS exposure to banks in equity (FGS).	Since enactment of Law 27,260 in July 2016, FGS is allowed to sell equities down to a floor of 7% (now 14%) and ceiling of 50%. The current equity strategy is to maintain FGS exposure in light of future index rebalancing.
Adopt a single mandate as a pension reserve fund, and need to make investment decisions driven by a strong and	A single mandate has been adopted in line with meeting obligations from Law 27,260. Investment decisions are made on the basis of strict due diligence, process and profitability criteria (no subsidies),

independent governance structure (MECON).	authorised by an Investment Committee and performance monitored by appropriate area.
Strengthen independence of the FGS preferably by creating a separate legal structure with recognition of actuarial liabilities, and with independent Board (MECON).	As of 2016 FGS has gained considerable autonomy, governance and processes have improved and structural changes have been made to set higher standards. Further institutional improvements are currently under discussion.
Apply technical premiums and efficiency, disallow more than two months of unpaid premia (SSN).	Resolution SSN Nº 38935 (26.02.2015) modified the technical provision for premium deficiency and state new requirements and restrictions when the insurer present a negative technical results.
Lift the recent investment guidelines for insurances and allow risk-transfer reinsurance (SSN).	The mandatory investment guidelines established in October 2012 regarding the reorientation of investment to the productive sector were lifted by Resolution SSN Nº 39,645 (January 2016). By resolutions N° 40,163 and 40,422, reinsurance requirements have been modified in line with the international standards. Reinsurance can be made with local firms or with foreign admitted firms. For each insurance company, reinsurance with foreign admitted firms can reach up to 50% of its ceded premiums from year 2017; 60% in 2018; and up to 75% in 2019. Local insurance companies can cede directly to an admitted reinsurance risks of more than USD 35 million among other changes, in force since January 2017.
The adoption of a risk-based supervisory approach (SSN).	No change to date. The SSN is analysing different options on external technical assistance and training for building capacity regarding risk-based supervisory approaches.
Enhance operational independence and increase legal protection to SSN's staff (SSN).	No change.
Securities market oversight	
Strengthen legal protection for CNV staff (CNV).	Section 153 of Law No. 26,831 prescribes that in civil or criminal cases against CNV's staff arising from acts or omissions in the discharge of their duties, either the CNV or the National Government will pay the reasonable legal costs required by the defence of the officer, subject to the final decision of the legal process. When the officer is found liable, s/he must return the money that had received for the defence plus the interests accrued. In addition, Section 153 of Law No. 26,831 explains that "Staff" encompasses both the Commissioners and rest of staff of the CNV. Lastly, the CNV is currently analysing a comprehensive review of all the rules with an aim at enhancing its staff's standing and protection.

Strengthen independence and resources of CNV (CNV, MECON).	The aforementioned review has also among its priorities to strengthen the independence and resources of the CNV. The CNV will provide an update on these topics in due course.
Rescind article 20 of the capital markets law so that the CNV cannot veto decisions approved by the boards of listed companies (CNV).	The CNV is currently aligning its corporate governance principles to those of OECD and G20 and therefore will seek to repeal all provisions which may be contrary to them. The proposed modification of the Capital Market Law, in review by Congress, eliminates discretionary faculties conferred to the CNV to remove members of the entity's management bodies and to appoint inspectors with power to veto any resolutions adopted by the entity's management bodies, whose decisions will be subject to appeal in sole instance to the Chairman of the CNV. The proposed elimination is based on the incompatibilities with the right to due process and the right of defence of the regulated agents that, in all, jeopardises both judicial certainty and the capital markets participants' confidence.
Financial infrastructure	
Improve the legal and regulatory framework and oversight of payments and settlement systems and credit reporting; modernise the secured transactions framework (BCRA).	The Central Bank is strongly committed to the modernisation of the National Payments System (*Sistema Nacional de Pagos*- SNP) and has introduced reforms to improve its agility, efficiency, security and competition, encouraging the use of new technology. Progress is being made to align the SNP infrastructure with international standards. Work is also under way regarding payment system oversight mechanisms, so as to broaden and encourage the availability of safe means of payment that can replace cash. The BCRA continues to participate in the permanent working group at the Western Hemisphere Payments and Securities Settlement Forum coordinated by CEMLA, promoting cooperation with other institutions that are active on an international level. While the use of cash is still widespread, alternative means of payment have grown consistently in the last semesters. The total amount of pesos in circulation amounts to around ARS 502 billion, equivalent to 6% of GDP. Of this amount, ARS 450 billion are held by the public. The cheque is still the most common non-cash instrument (35% of the number of non-cash payments, down from 50% in 2013). Direct debits have grown steadily in recent years (up 50% in number of transactions from 2013) and instant transfers have more than duplicated in the last three years. Among the latter, internet banking channel accounts for more than two thirds and mobile banking represents 4.4% of the total, up 1.5% in the last 12 months, also duplicating in number of transactions in the period. At the beginning of 2016 a Platform for Mobile Payments (PPM) was implemented whereby financial institutions can offer their sight account customers an immediate funds transfer service through the use of debit cards or other means as long as they guarantee the genuine nature of the transactions and the customer is provided with confirmation of the transaction.

	Financial institutions offering Internet banking must: (i) provide their customers at no cost with an application for mobile devices that enables the processing of such transactions; (ii) offer their customers the possibility of making instant funds transfers using security devices to validate the transactions; and (iii) place at the disposal of payment service providers or customers receiving funds an application similar to a "payment button" that allows purchasers to perform their transactions at virtual points of sale using instant transfers from their accounts. This application should be made available at no cost for the customers originating the payments. A series of BCRA decisions have promoted client mobility between banks. As from April 2016 all savings accounts should be free, including a debit card. There are no restrictions on amounts, or costs linked to opening, maintaining or renewing this service. As from August, employees can decide on the bank where their payroll deposits are made, with no intervention of the employer. As from November, financial institutions should allow for account opening and closing through internet and voluntarily through other channels such as phones, e-mail or ATM. Transfers should be free of charge when made by individuals or not-for-profit legal entities, regardless of the amount and channel used. In the case of companies, the threshold to charge a fee has been raised to ARS 250,000. All transfers for an amount of up to $100,000 are instant, and can be made at any time of day. The BCRA introduced new currency notes worth ARS 500 and ARS 200 to ease daily cash payments. A series of measures have eased ATM replenishing services and have lowered operating requirements on cash transportation services. As from November, cheques can be deposited into bank accounts using electronic channels (mobile devices and internet). The BCRA has recently allowed electronic transfers that can be initiated by the funds receiver and accepted by the payer. This new technology should be fully operational by July 2017. The low-value electronic clearinghouse Cámara Electrónica de Compensación de Bajo Valor (CEC BV) will implement the system, i.e. it will be independent of the two networks managing ATM operations, BANELCO and LINK. Banks client are now allowed to identify their accounts with an alias, instead of the 22 digit unique banking key (Clave Bancaria Uniforme). This simple chosen name will be linked to one single account and will facilitate electronic transfers. Finally, interbank ultimate settlement continues to take place on the books of the central bank using banks' current accounts at the monetary authority. These represent a very high level of liquidity and guarantees a very minor settlement risk.

	A list of changes to the legal and regulatory framework can be found below: • New Civil and Commercial Code of the Nation (CCCN) Law 26,994, enacted in October 2014, contains general rules on securities (Articles 1815 and more). The rules arising from the new Code are subsidiaries of the specific regulations (Article 1834 CCCN). • Capital Market Law 26,831, enacted in late 2012, generated a profound change in the Capital Market mainly through the end of the demutualisation and self-regulation. Among the relevant regulations issued by the BCRA Communications and ordered texts, we can mention: • Communication A5622 of 08/26/14, refers to check truncation and image transmission, setting the amount at which it is necessary to send image documents. • Communication A5775 of 07/10/15 implements the Principles for financial market infrastructures and systems important payment systems under the aegis of the Central Bank, defining the methodology of its determination and self-evaluation and adjustment mechanisms. • Communication A5778 of 07/17/15, establishes the feasible amounts take immediate transfers through ATMs and home banking. • Communication A5779 of 07/17/15 updates the maximum amount allowed for the Universal Free Account. • Communication A5780 of 07/17/15, updated the Amended Text (TO) transfer. • Communication A5927 of 03/21/16, refers to the adequacy of the scheme applicable to bank charges and commissions transfers. • Communication A5928 of 03/21/16, ordered different texts corresponding to the "Protection of users of financial services" are modified, including. Among other things, the gratuity of all savings accounts are regulated, including the use of a corresponding debit, seeking "a level of basic banking services that will be universal and freely accessible to all citizens." • Communication A5982 of 03/06/16, which provides a framework to allow financial institutions to offer immediate fund transfers through a new channel called "Mobile Payment Platform" (PPM). • Communication A5989, issued on 06/13/16, clarifies the cessation of free transfers for courses taken by new channels implemented.

	• Communication A5990 of 06/14/16. • Communication A5093of 06/22/16, a new chapter related to the reporting system of transparency, related fees, charges and fees for financial services users is incorporated. • Communication A6017, issued in 07/15/16, modify various operational aspects of the rules on "Minimum requirements management, implementation and control of the risks related to information technology, information systems and associated resources for financial institutions" in particularly regarding "Electronic Channels". • Communication A6043, issued on 08/16/16, published the text of the regulations on Immediate Funds Transfer by Channel "Mobile Payments Platform". • Communication A6044, issued on 08/17/16, creates the feature called "alias CBU" available on Internet banking and mobile banking, which will allow the bank client, running the option "Transfer Accounts Management", add an alias to each of their bank details uniforms. • Communication A6050, issued on 08/26/16 makes a change in the rules on "Savings deposits, wage and special account" in order to adapt to the provisions of Resolution UIF No. 94/16, which defined anti-money laundering measures due diligence customer identification when opening a savings account. • Communication A6052 of 08/30/16, adjustments depending on the different changes that took place regarding the use of such accounts by the electronic payment system (MEP) and evolution of compensation were performed task done by Electronic Clearing Houses (CEC). In addition, updates were made from the enactment of the new Civil and Commercial Code of the Nation. • Communication A6055 of 08/31/16 updated the text on Protection of Users of Financial Services. • Communication A6059, the 08/09/16, enables opening of savings without going to a bank branch. • Communication A6060, the 09/09/16, suitable complementary aspects of customer due diligence Prevention of money laundering, terrorist financing and other illicit activities. • Communication A6064, 09/12/16 updated the text of bills, including changes aimed at speeding up the closure of accounts with financial institutions or credit unions by their holders, as well as to deregister credit cards.

	• Communication A6071, issued on 09/22/16 regulates check deposits electronically, without presenting the physical document in the window or at an ATM. Moreover, it is noteworthy that the duties and legal powers of BCRA about the National Payments System, are part: • In the Central Bank Charter (Law No. 26,739) enacted in 2012; • Law of Financial Institutions No. 21526 and its amendments; • Checking law No. 24,452 with the modifications introduced in the subject Law No. 24,760; • Law No. 25,065 and Decree on amendments and bills of exchange (Decree Law 5,9651963 and amendments). A company exclusive cards and debit cards are applied the provisions of the same law, the Central Bank's enforcement authority of the Act, in all matters that relate to financial aspects (Art. 50).