BANCO CENTRAL DO BRASIL

Main concerns from a prudential discipline perspective

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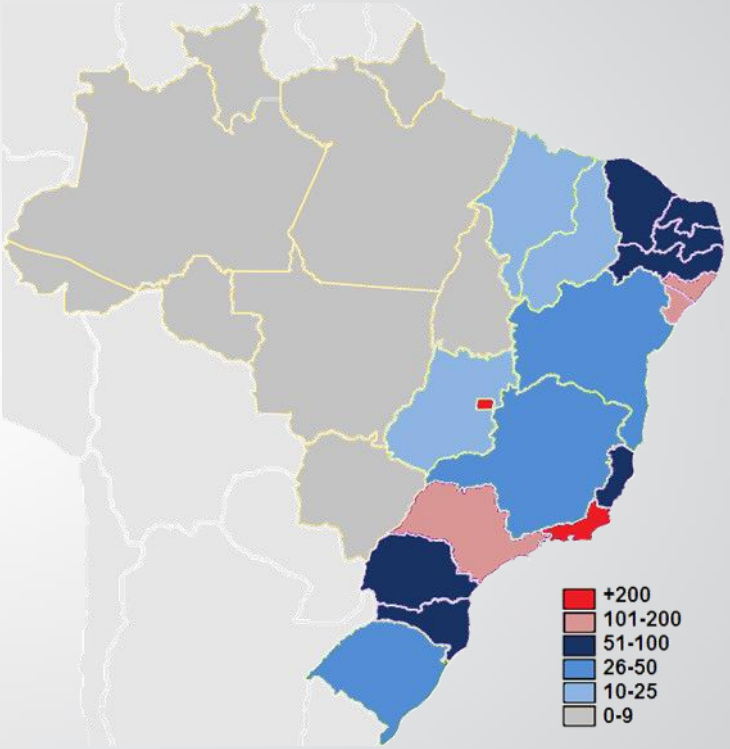
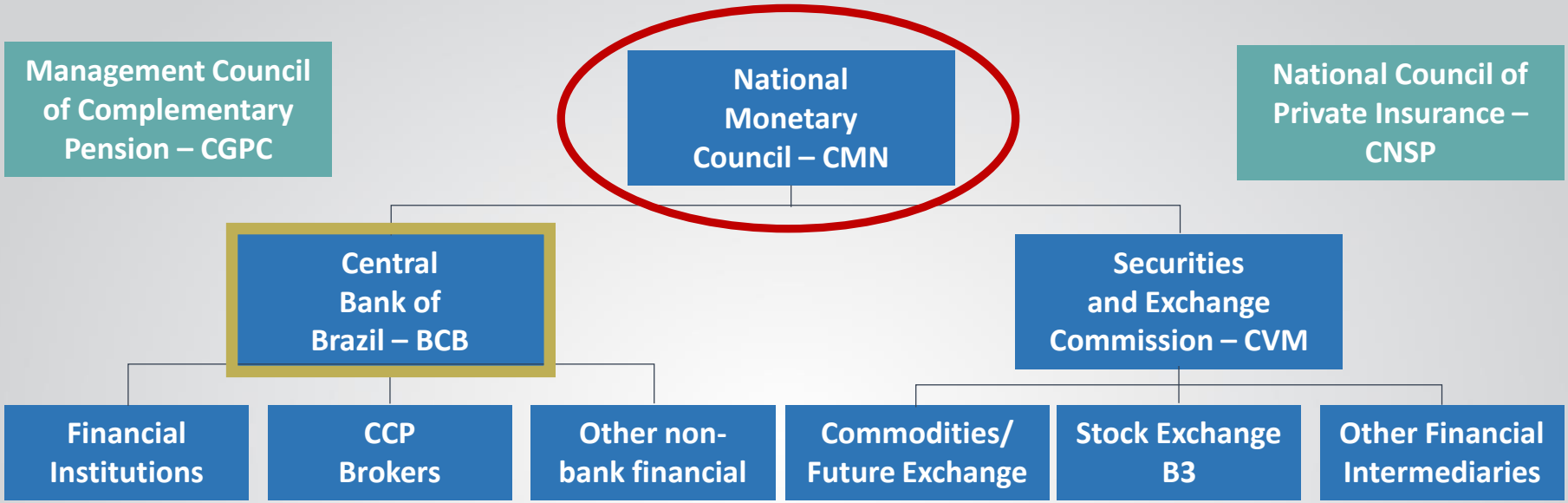
Brazil Demographics

- One of the largest countries in terms of territory, population and GDP
  - GDP: US$ 1,799 billion (2016)
  - 5th largest area: 8.5 million km2
  - 5th largest population: 206 million inhabitants (2016)

Demographic Density - 2016



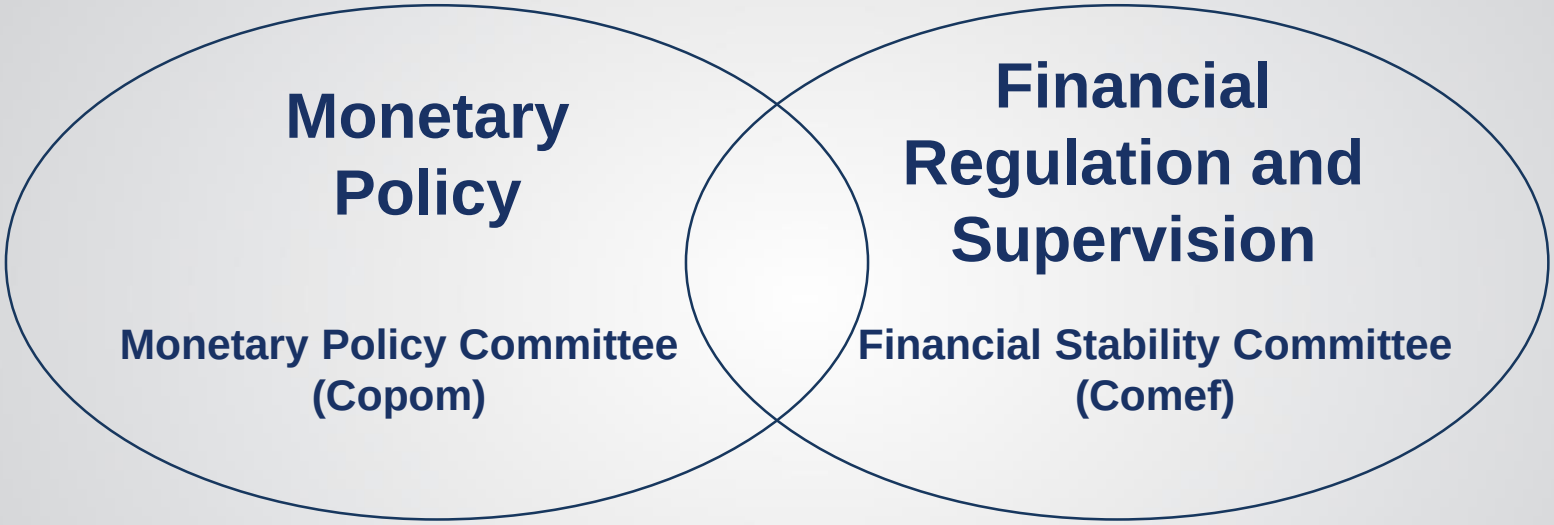
Brazilian Financial System (National Financial System)



- **National Monetary Council (CMN)**
  - Composed by the Minister of Finance, the Minister of Planning, Budget and Management and the Governor of the Central Bank of Brazil
  - Establishes the inflation target for monetary policy, prudential rules and credit policy

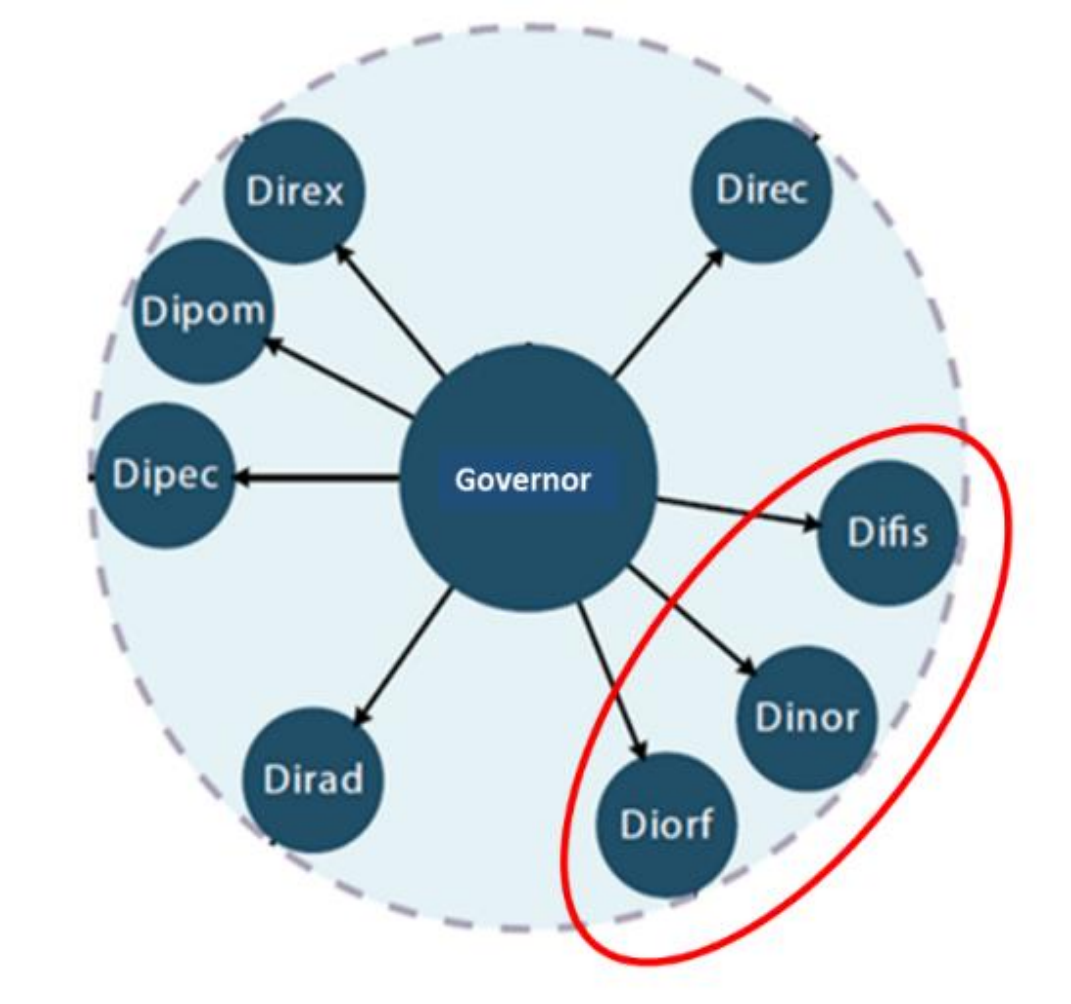
Central Bank of Brazil

Mission: To ensure the stability of the currency's purchasing power and a **solid and efficient financial system**



- **What are we not in charge?**
  - Investment funds, securities markets, pension funds

BCB – Board of Governors: Governors and Deputy Governors



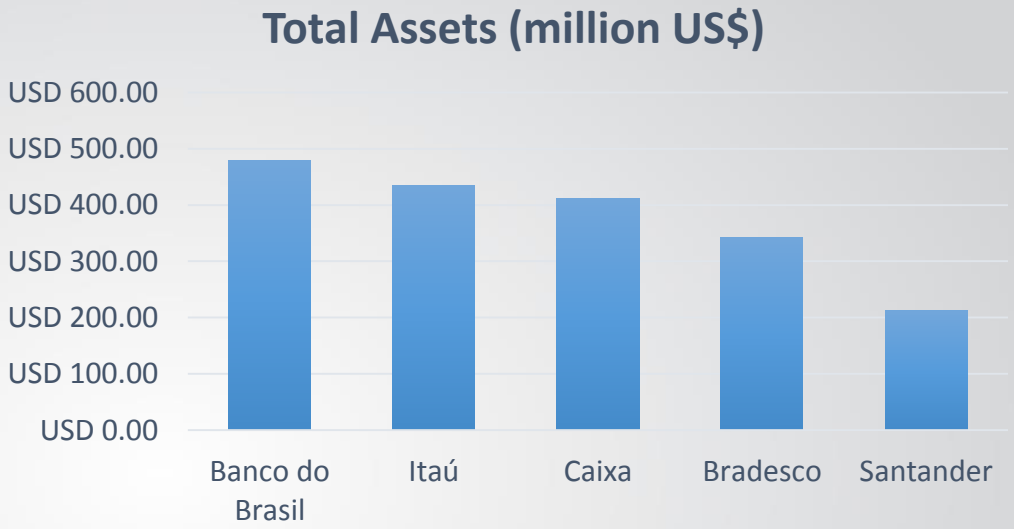
- **Difis** – Deputy Governor for **Supervision**
- **Dinor** – Deputy Governor for **Regulation**
- **Diorf** – Deputy Governor for **Licensing and Resolution**

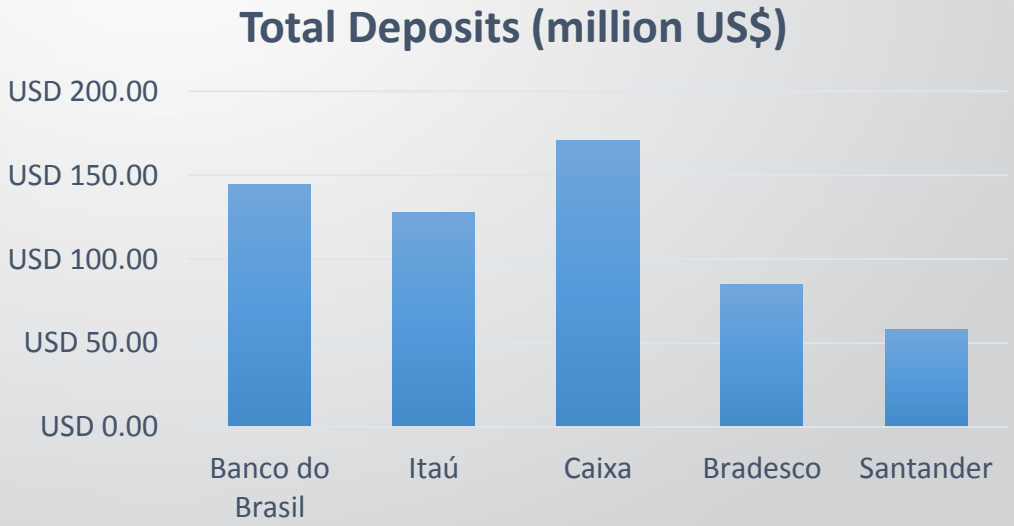
Financial System – Number of Institutions by Type

Banking Segment		Non-Banking Segment	
63	Conglomerate	186	Securities/Exchange
9	Commercial bank	1,247	brokerage company
53	Multiple bank	217	Credit unions
5	Investment bank	116	Pool of goods and services
4	Development bank		(consortium)
1	Savings bank		Others
135	**Total Banking**	**1,766**	**Total Non-Banking**
		1,901	**Total Institutions**

BCB banking sector (jun/17)

- 135 Banks;
- 5 D-SIBs (around 80% of total assets and 85% of total deposits):
  - 2 state owned banks (Banco do Brasil and Caixa);
  - 1 subsidiary of G-SIB (Santander);
  - 2 Brazilian private banks (Itau and Bradesco).
- 5 D-SIBs total assets = US$ 1,762 billion.





Banking Supervision

Difis

- **DESIG - Financial System Monitoring Department**
- **DESUP - Banking Supervision Department**

- DESUC - Credit Unions and Non-banking Financial Institutions Supervison Department
- DECON - Conduct Supervison Department
- DEGEF - Strategic Management, Integration and Support

DESIG - Monitoring Inputs

Information quality (on timely basis) is the KEY!

All financial instruments issued or held by FIs must be registered in clearing houses or register centers.

All securities and derivatives transactions are registered and traded at clearing houses. BCB gets info daily (1-day lag).

All securities transactions must be settled through the Brazilian Payments System, operated by the Central Bank.

All loans are informed to the credit information system (SCR).

All FX operations and credit lines are registered online at the Central Bank.

DESUP – On site banking supervision

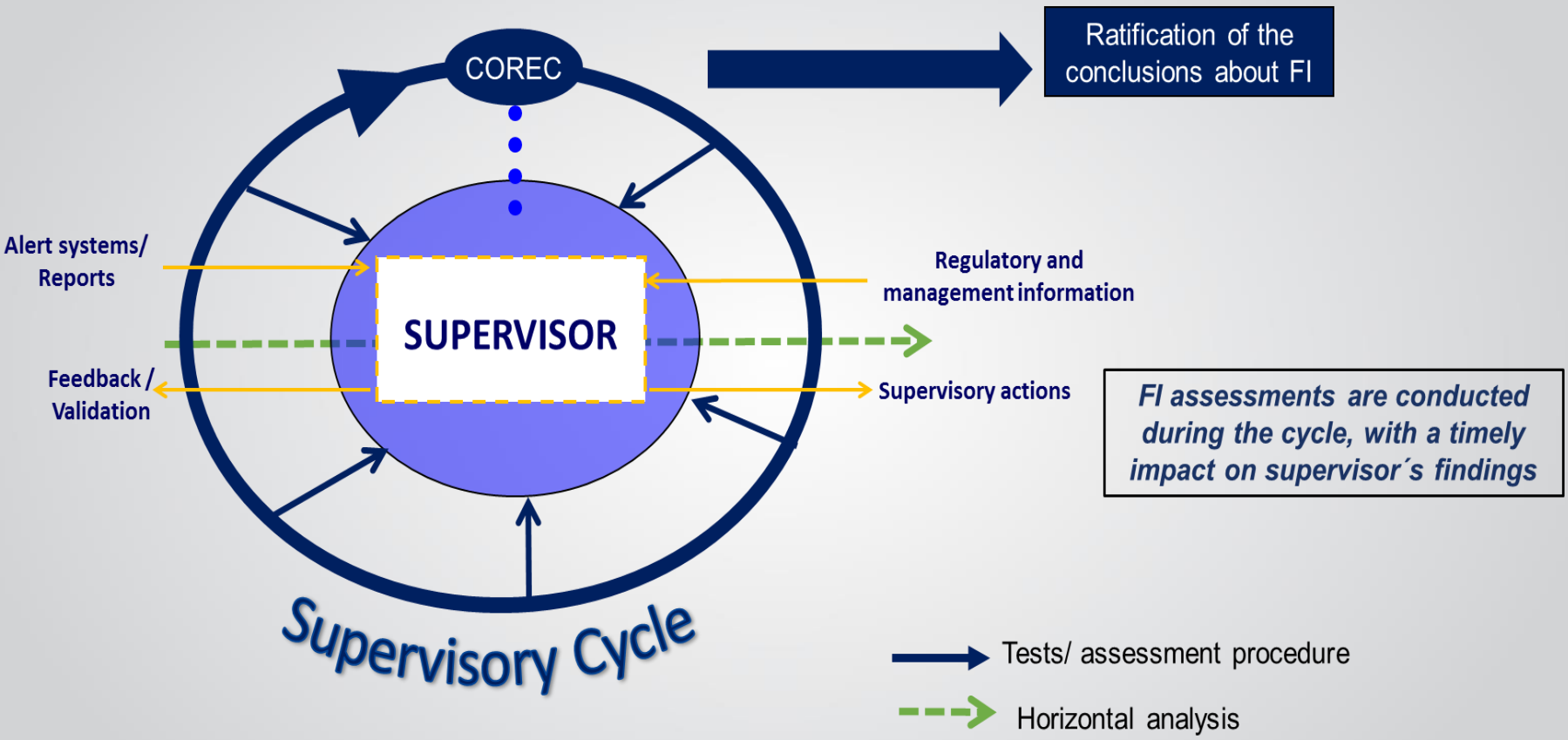
Brazilian FI are divided into five groups according to the size of the institution in terms of the Brazilian GDP.

This segmentation orients prudential regulation and supervision efforts.

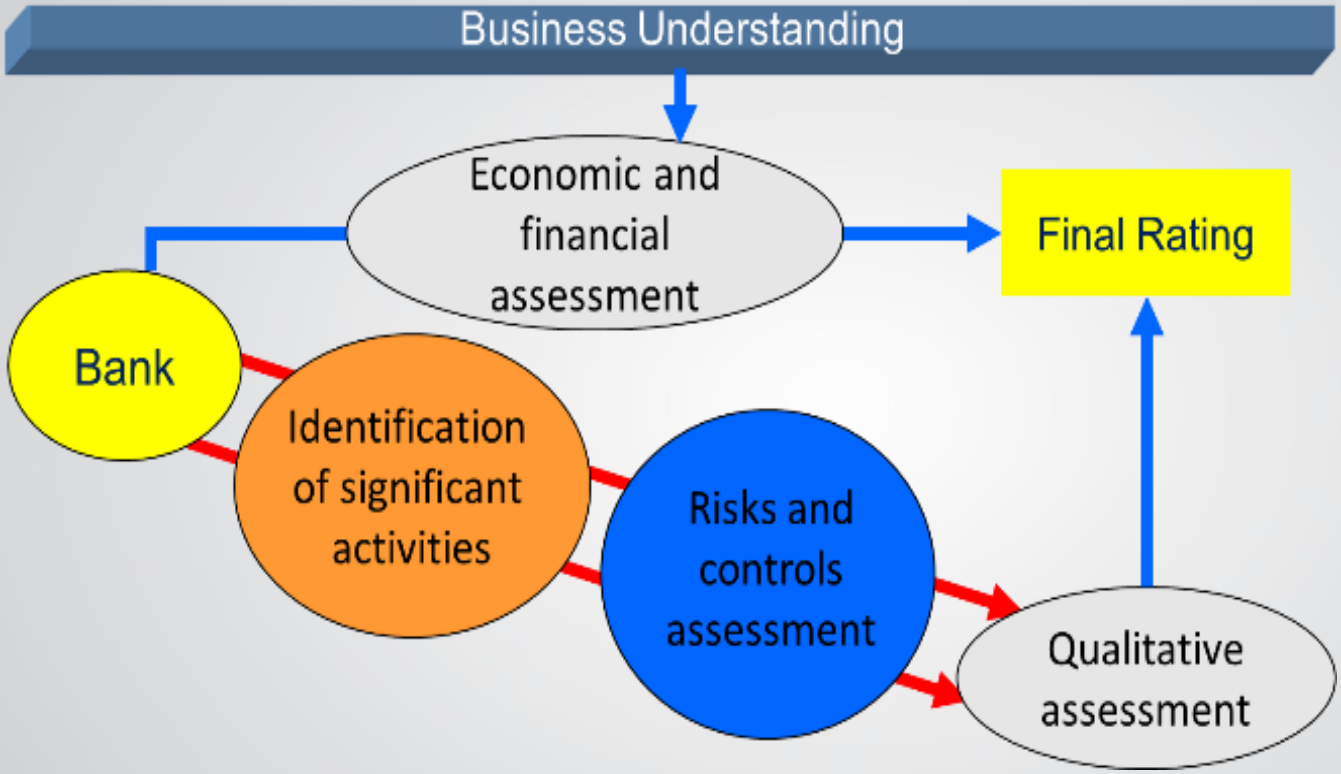
- S1 - banks larger or equal to 10% of the Brazilian GDP or that are internationally active, regardless of the size of the institution.

- S2 - banks larger or equal to 1% and lower than 10% of the GDP.
- S3 - banks larger or equal to 0.1% and lower than 1% of the GDP.
- S4 - lower than 0.1% of the GDP.
- S5 – FI that are lower than 0.1% of the GDP and adopt simplified methodology for minimum capital requirements calculation (non-banking segment).

Banking Supervision Process in Brazil



Risk and Control Assessment System (SRC)



Early Intervention - Resolution CMN 4.019/2011

- Supervision may determine the adoption of preventive measures (MPP) when verifying the occurrence of one of the following situations:
  - Non-compliance with regulatory limits: capital, liquidity, etc.
  - Deterioration of the economic and financial situation
  - Risk exposure incompatible with risk management structures and internal controls
  - Serious weaknesses in internal controls
  - Other situations that may entail risks to the soundness of the institution, to the regular functioning or stability of the Financial System

Early Intervention - Resolution CMN 4.019/2011

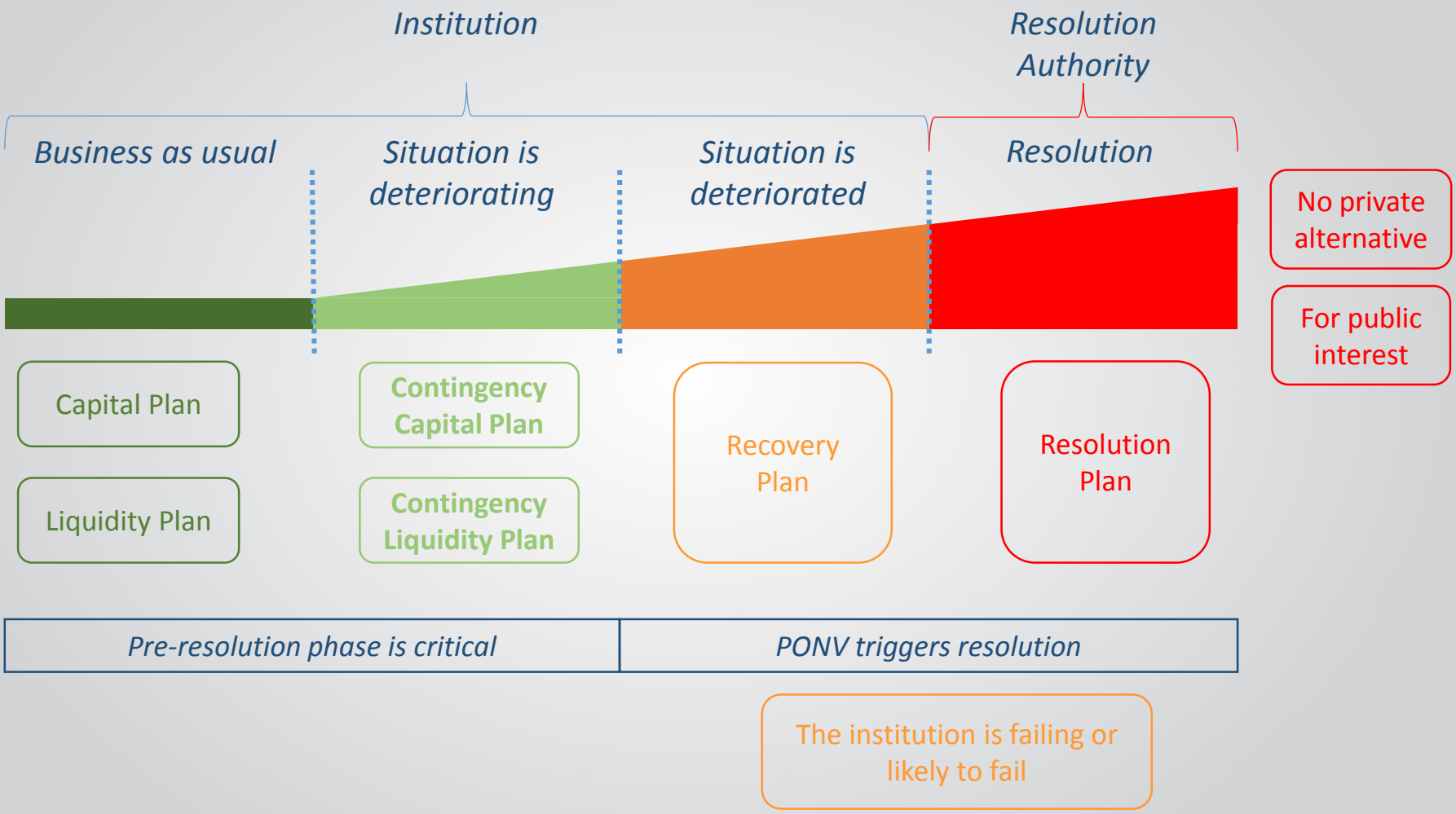
- Supervision authority can determine a broad range of preventive measures (MPP), such as:
  - Reduction of exposures risk;
  - More restrictive operational limits;
  - Suspension of: some business lines, exploration of new business lines, acquisition of participation, opening of new branches;
  - Limitation to or suspension of remuneration increase, payment of variable remuneration and dividends payment;
  - Assets sale

Current Resolution Framework in Brazil

Three resolution regimes:

Temporary Special Administration Regime - Raet (1987)	Intervention (1974)	Extrajudicial Liquidation (1974)
Aims to preserve the institution's critical functions.	Suspends the bank´s operation to evaluate the possibility of its operational continuity. Not suitable for preserving critical functions.	Interrupts banks' regular activities. Its main objective is to sell assets in order to pay creditors. Not suitable for preserving critical functions.
No payout by the Deposit Guarantee Fund (FGC).	Payout by the FGC.	Payout by the FGC.

Our goal on recovery and resolution



BANCO CENTRAL DO BRASIL

The BTG Pactual Case

Reputation Crisis x Liquidity Crisis

Before the crisis (november 2015)

- 7th Brazil´s largest bank in total assets (US$ 72,589 billion).
- Very complex corporate and organizational structures: 195 vehicles distributed in 39 countries, including 34 commodities companies distributed in 18 countries, trading 19 products.
- And a Swiss Bank, with US$ 85 billion on AUM and presence in 21 countries from Europe, Asia and Latin America.
- BTG Latin America operated at Chile, Colombia, Mexico and Peru.
- Manager of Macro Hedge Fund GEMM with almost US$ 4,2 billion of assets.
- Relevant investments in non-financial corporations as Rede Dor (the largest hospital group in Brazil), Petrobras and others.

During the event

Supervision – Main actions

- Recovery plan requirement;
- Enhanced monitoring of the institution – DESIG & DESUP;
- Daily monitoring of expected cash flow ;
- Monitoring recovery plan implementation;
- Early intervention with restriction to distribution of dividends, payments and loans to administrators and partners of the bank;
- Providing regular information to foreign regulators (Chile, Colombia and Mexico), mainly to Swiss regulator (daily calls);
- Swiss regulator increased the pressure on the BTG's liquidity by requiring the individual Swiss bank LCR of 120%, although local legislation required 100%.

Discussion Highlights

- Speed, magnitude and unpredictability of a liquidity crisis of this nature.
- The complexity of the corporate structure and the conglomerate can amplify the problem.
- Need for coordination and relationship with other local authorities.
- Listed companies and communication to the market.
- Coordination and relationship with foreign supervisors are essential, as he can put pressure on local liquidity.
- Possible contagion between the bank and the asset (step-in risk).
- Governance structure: key man risk.
- Prudential Conglomerate: consolidation of physical commodities business requires high regulatory capital e worsens the LCR.