

Post-RCAP follow-up report: Brazil

Reference RCAP report: Assessment of Basel III capital regulations in Brazil, December 2013

This follow-up report provides an overview of where the jurisdiction has taken, or plans to take, further actions to address findings raised in the RCAP assessment report. The report is based on self-reporting and the reported actions have not been reviewed by the Basel Committee.

Part A¹

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

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
Basel III, paragraph 132(d)	The Brazilian regulations do not include the Basel requirement for banks in normal times to not operate within the buffer range for competitive reasons.	ART. 9º § 9º of Resolution 4193/2013	Amendment to Resolution 4193/2013 specifying that the BCB might set a time during which it is admissible not to comply with the Conservation Buffer and Countercyclical Buffer.
53–56: Claims on Sovereigns	The BCB does not depend on credit ratings from ECAs or risk scores assigned by ECAs. The Brazilian regulations instead use the national discretion and alternative methodologies for the risk-weighting of exposures to sovereigns. The exposures to other sovereigns and Brazil not denominated and funded in local currency are	BCB Circular 3644/13 Art.19, Art.21 and Art.25	Circular 3714 of August 2014 refines Article 19 in that it inserts a clause that operations with central governments of foreign countries and their central banks as well as securities issued by them, whose external risk rating are awarded by a rating agency recognised in Brazil by the Securities Commission, are either: a) equal or equivalent to a AA grade to; or b) equivalent to investment grade, provided that: 1. the reference currency in the operation,

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

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

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
	<p>assigned a risk weight of 20% if none of the four listed credit events have been witnessed in the last five years (suspension of payment with respect to external obligations, unilateral alteration of the contractual term, moratorium or any other modality of rejection to accept the term of the external obligation, anticipation because of contract clause, or change in expiry date of obligation). For exposures to sovereigns that have witnessed any of the credit events, a 100% risk weight is assigned. Out of total exposures to sovereigns that are not denominated and funded in domestic currency, 74.68% of them would require a higher risk weight than 20% (ranging from 50% to 150%) if applying the external ratings of those sovereigns under the Basel approach. However, the exposures to such claims are not currently material. Also, in view of the unlikelihood of a significant increase in total exposures to sovereign that are not denominated and funded in the domestic currency in the three-year period, the Assessment Team considered the deviation as not material.</p>		<p>note or security is the local currency of the foreign country; 2. the institution's fundraising is carried out abroad in local currency. Sole paragraph. The external rating should be: I –of the highest degree of risk, if there is more than one available; II – of the securities operation, if available.</p>

Part B

The findings described in part A were considered to be not material. Nonetheless, the BCB is constantly scrutinising, revising, and monitoring its current regulation and if it considers appropriate it will modify the regulation accordingly so that it can correspond ever more closely to Basel recommendations.

In the plan of issues to be addressed in 2015 are:

- (i) regulation to govern the setting of the countercyclical buffer, its level fixing and how to deal with cross-jurisdictional exposures (Basel III, paragraphs 139–140);
- (ii) review of the credit risk mitigation framework that is expected to address the following issues pointed out in the RCAP report:
 - (a) eligibility of collateral and its revaluation (Basel II, paragraph 145/182–187);
 - (b) requirements on CRM techniques relating to first-to-default and second-to-default credit derivatives (Basel II, paragraphs 207–210);
- (iii) implementation of the new counterparty credit risk framework (CCR-SA) that is expected to address the effective notional amounts issue for the current exposure method (CEM) (Basel II – Annex 4, paragraph 92(ii));
- (iv) full review of the securitisation framework according to the new standard published in December 2014 by the BCBS that is expected to address the following issues pointed out in the RCAP report:
 - (a) definition of exposures that can be included as securitisation and re-securitisation exposures (Basel II, paragraphs 538–552 (as amended by Basel 2.5));
 - (b) application of the six operational criteria concerning the use of external credit assessments (Basel II, paragraph 565: (as amended by Basel III));
 - (c) definition of the criteria to qualify off-balance sheet securitisation exposures (Basel II, paragraphs 577–582 (as amended by Basel 2.5));
 - (d) definition of eligible guarantors in the standardised models (Basel II, paragraph 586);
 - (e) definition of capital requirement for early amortisation provisions and determination of CCFs for both controlled and non-controlled early amortisation features (Basel II, paragraphs 590–605);
 - (f) definition of the relation of external ratings to the Ratings-Based Approach (RBA) (Basel II, paragraphs 611–618: (as amended by Basel 2.5 and Basel III));
 - (g) definition of the relation of external ratings to the Internal Assessment Approach (IAA) (Basel II, paragraphs 619–622).