



*XII Annual Seminar on*  
**Risk, Financial Stability and Banking**

# **How the Central Bank of Brazil Works to Safeguard Financial Stability**

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# Disclaimer

*This presentation was prepared by Enrico Vasconcelos in his personal capacity. The views and opinions expressed in this presentation are the author's own and do not reflect the view of the Central Bank of Brazil.*

# Roadmap

- Overview of National Financial System
- BCB's Institutional Arrangements
- Main Activities
- Financial Stability Committee (Comef)
- Crisis Management
- Concluding Remarks

# I. National Financial System

# National Financial System

Regulating entities	Supervision Entities	Operators			
National Monetary Council (CMN)	Central Bank of Brazil (BCB)	Financial institutions taking demand deposits	Other financial institutions Foreign exchange banks	Other financial intermediaries and entities administering financial assets of third parties	
	Securities and Exchange Commission (CVM)		Commodities and futures exchanges		
National Council for Private Insurance (CNSP)	Private Insurance Superintendence (SUSEP)	Reinsurance Companies	Insurance companies	Capitalization companies	Entities operating private open pension funds
National Council for Complementary Pension (CNPC)	National Complementary Pension Superintendency (PREVIC)	Entities operating private closed pension funds			

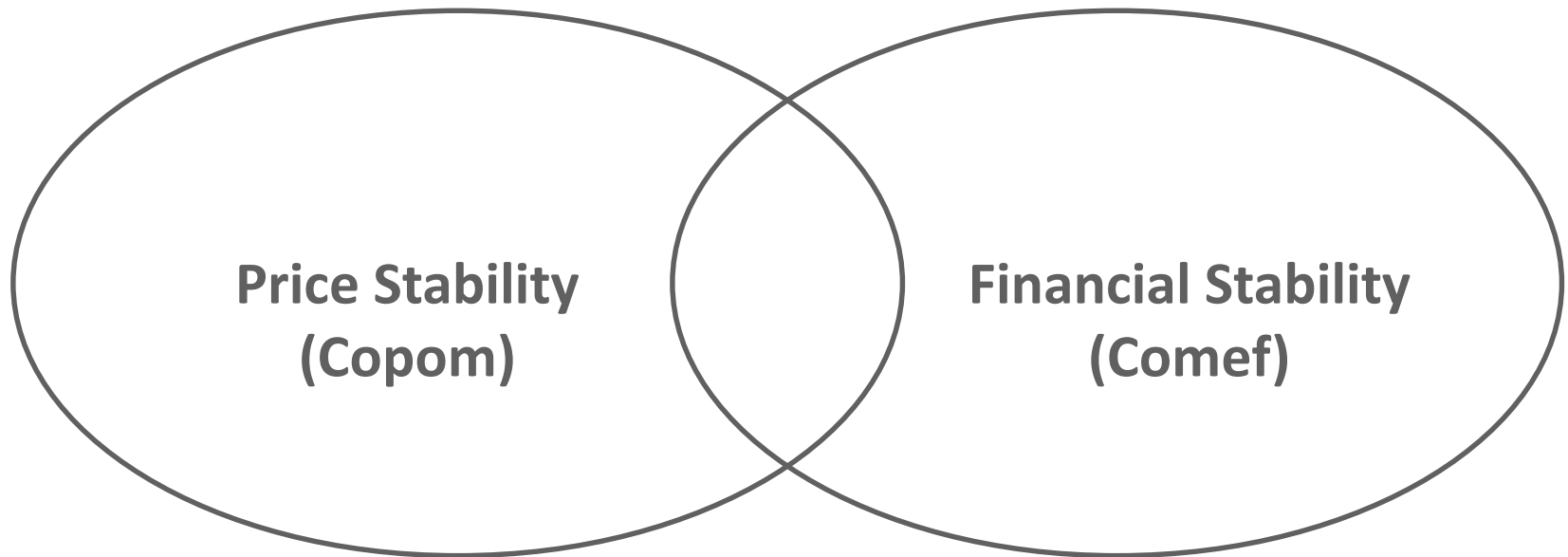
## National Monetary Council (CMN)

- 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
- The Central Bank of Brazil is the supervisory authority of financial institutions

## II. BCB's Institutional Arrangements

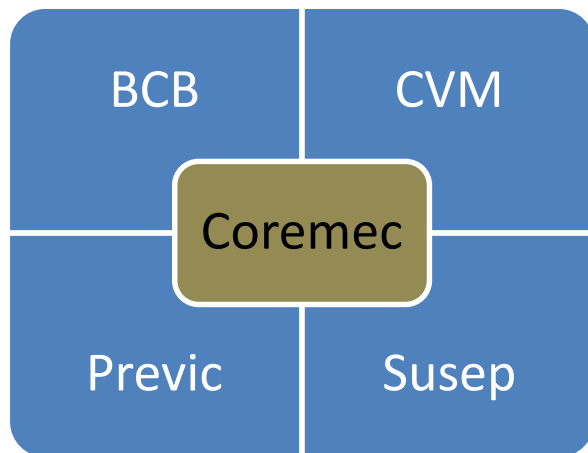
# BCB - Mission

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



# Coordination with other entities

## Domestic entities



**Objective:** coordinating and improving the operation of markets regulators and supervisors

**Members:** governor and one deputy governor from each agency

**MoUs with other 15 domestic entities**

## Foreign entities

**Participation in International fora:**

- G20, FSB, BCBS, Asba

**Convergence to International Standards:**

- Basel III, IFRS, IOSCO
- FSAP and RCAP compliant
- FSB Peer review Assessment

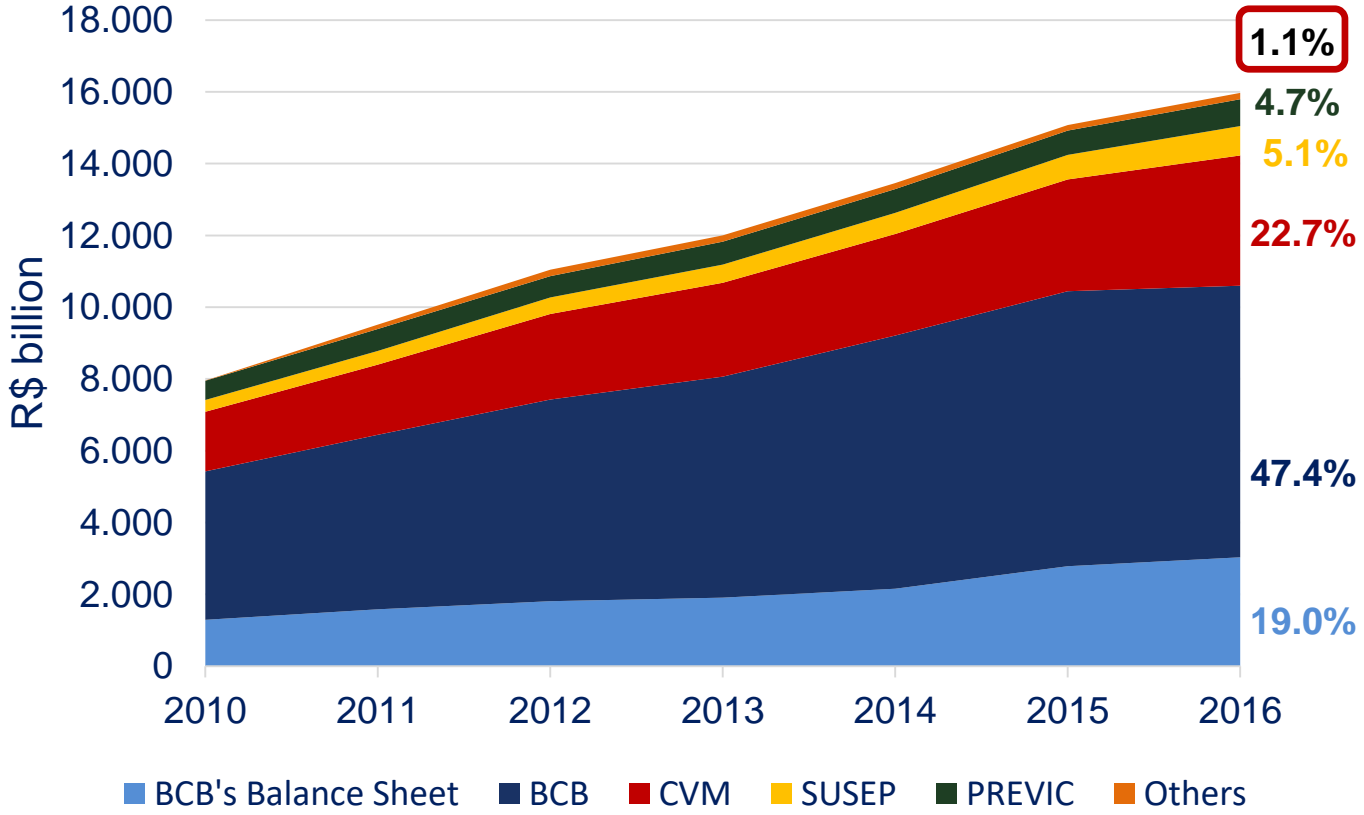
**MoUs with 29 foreign supervisors**



# Wide Regulatory Perimeter

Coremec regulates almost all financial activity

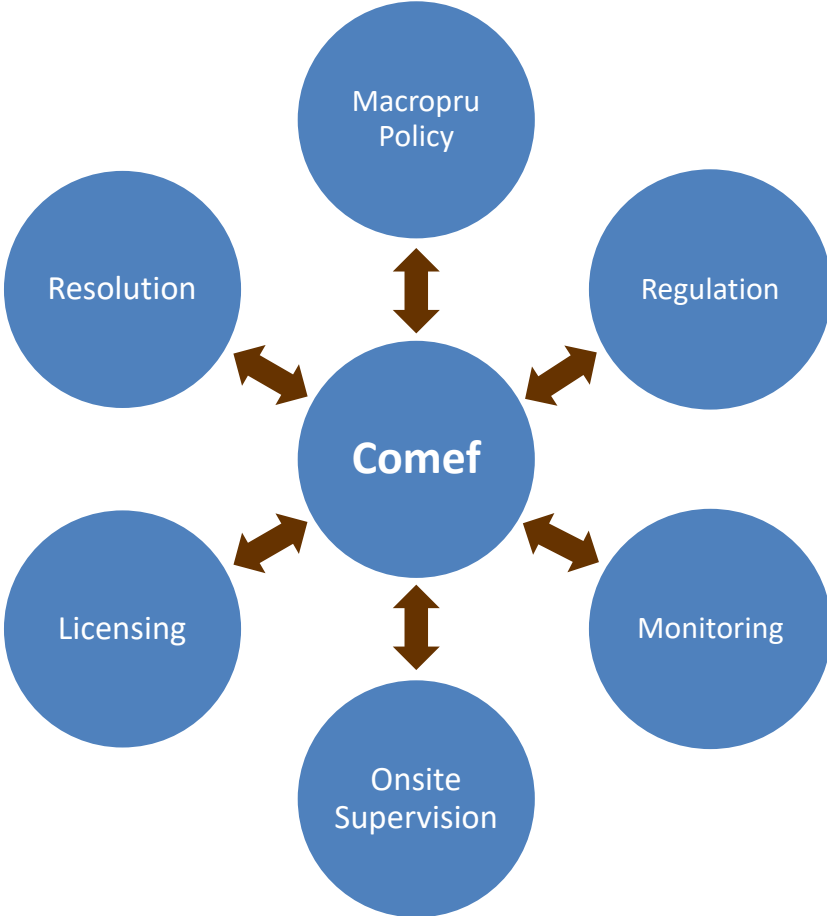
## Financial Assets by Regulator



# III. Main Activities

# BCB – Main Activities

Wide scope of Central Bank’s authority helps policy coordination

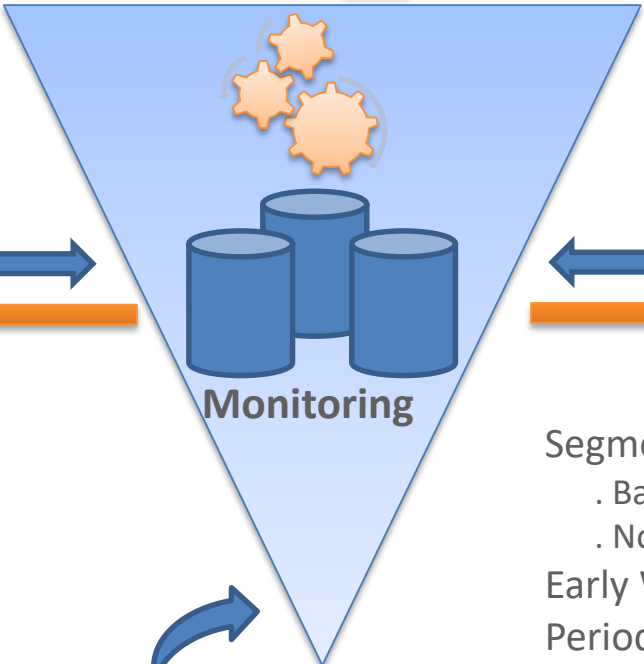


# Financial and Prudential Regulation – Highlights

- Wide-range infra-legal regulation
- Preventive Prudential Measures
- All stocks, securities, bonds and derivatives are registered and traded at clearing houses.
  - Data includes the final holder.
- Forward-looking provisioning rules
- Prudential Conglomerate
- Segmentation and proportionality
- Integrated risk management

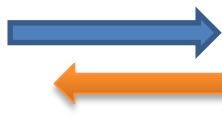
# Monitoring

Comef ↔ Copom



Sources:

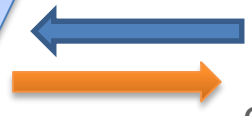
- Financial institutions
- Regulators
- Clearinghouses
- Register centers
- Deposit insurance
- External Auditors
- Rating agencies
- International entities – FSB
- Government databases
- Private databases - SERASA
- Entities not regulated by BCB
- Credit Registry (SCR)
- Payment System



Monitoring



other BCB areas



Segment Analyses:

- . Banking
- . Non-Banking FIs

Early Warnings

Periodic Stress Tests

- . Liquidity, Solvency and Contagion



Supervision



# Databases and analytical systems

## Credit Operations - SCR

- Receives monthly, from **1,400 FIs**:
  - Outstanding loans from **105 million clients**.
  - **640 million transactions** (each transactions contains **36 information items**).

## Forex System

- **199 licensed institutions**
- **88,931 transactions a day**
- **22 million primary transactions in 2016**

## Market Trading

- Receives data from TRs: Selic, CETIP, BM&F Bovespa, SPB and others
- **53 million registers a day**
- **more than 900 docs** processed each month (Statments of Market and Liquidity Risks).

## Accounting Info

- Receives monthly **1,800 accounting docs and 1,440 reports on operational limits**, reaching **more than 950 thousand entries**
- Received quarterly **more than 4,800 docs**, representing over **1.3 million entries** to be analyzed

## Consortium Groups

- **14 million participants** distributed in **18,500 groups**, in addition to data from **11 million clients for allocation of the groups' resources**.
- Receive **974 million items of data every quarter**

## Outputs

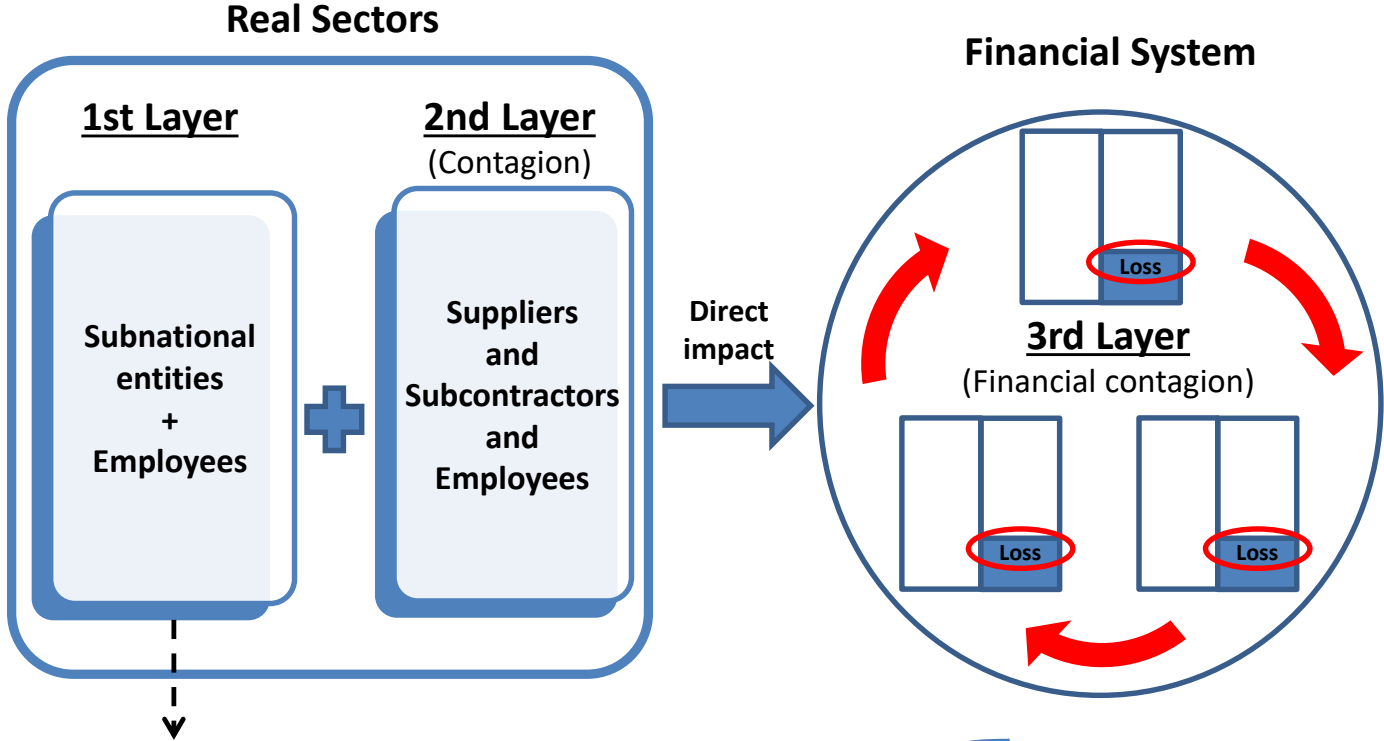
- Tools and systems of analysis and early warning:
  - PM
  - Analisador
  - DirimNet
  - Monitor/SIM
  - Others

# Monitoring

- Contributes to the on-site supervision agenda
- Specific monitoring of market and liquidity risks
  - uses information on all assets, liabilities and derivatives
  - conciliation with FIs' accounting information
- Monitoring of evolution of systemic risk
- FSB Peer Review 2017

*“Brazil stands out among its FSB peers for the pioneering work it has carried out on trade reporting and its use in systemic risk monitoring”*

# Example of Stress Test on Contagion (1)



- Three scenarios based on subnational entities' payment capacity classification from the National Treasury Secretariat (STN)

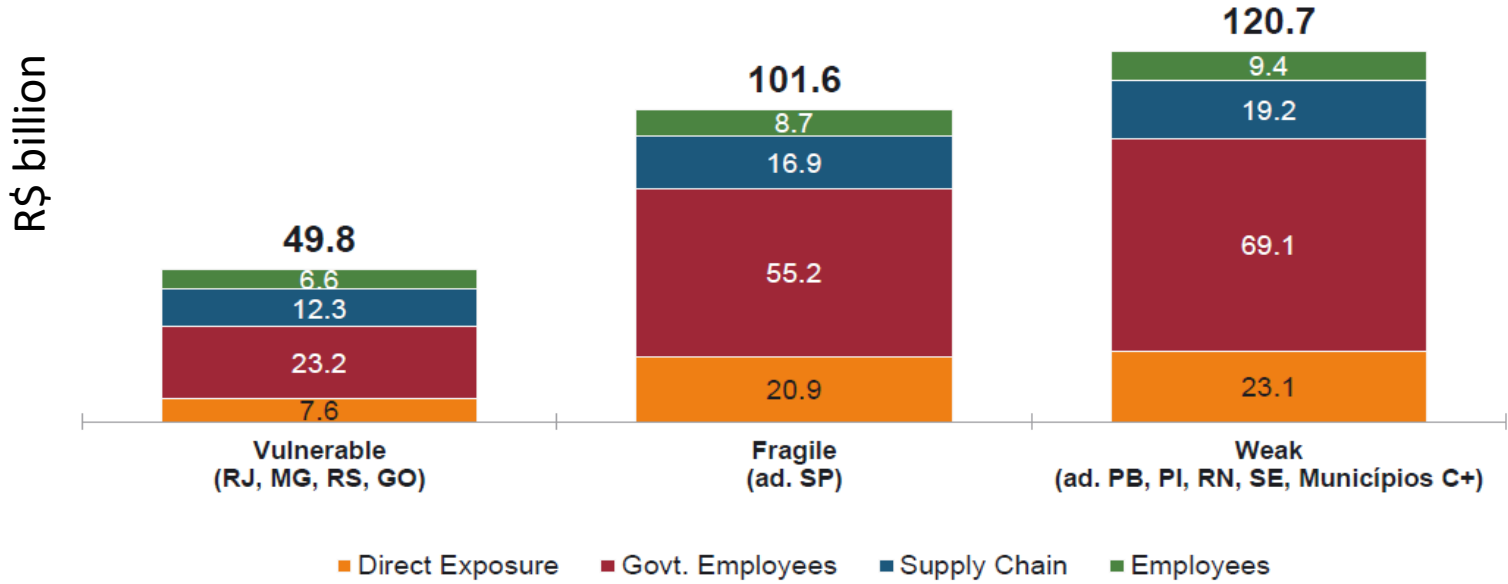
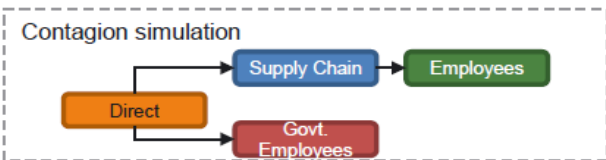
- Indebtedness
- Loans and guarantees
- External debt
- Capital markets and derivatives
- Securities issued abroad

Source: BCB/FSR (March 2017 )



# Example of Stress Test on Contagion (2)

## SFN Exposures (net of collaterals)



Source: BCB/FSR (March 2017 )

# Example of Stress Test on Contagion (3)

## Cumulative Impacts on the SFN

Contagion	Vulnerable	Fragile	Weak
<i>Exposure SFN</i>	49.8	101.6	120.7
% Assets Not Compliant	17.7%	17.8%	18.0%
% Assets Failed	0.3%	0.3%	0.3%
Capital Requirement (to restore compliance)	9.3	19.4	24.3
Capital Requirement (% PR SFN)	1.1%	2.3%	2.9%
Impact on Aggregate Total Capital Ratio	-0.8%	-1.5%	-1.8%

Source: BCB/FSR (March 2017 )

# Onsite Supervision

- Risk-based supervision
- Examinations
  - Frequent onsite examinations (one-year cycle for large FIs)
  - Rating of supervised institutions
    - qualitative assessment of governance and risk management
    - analysis of financial and economic indicators
  - Identification of areas to be assessed
  - Examination by specific topics (horizontal)

# Licensing

- Practices are compliant with international standards
  - Core Principles 5 and 6 were graded as compliant in the last FSAP
- Licensing process is transparent and standardized, which renders uniformity to decisions
  - Legal risk is minimized

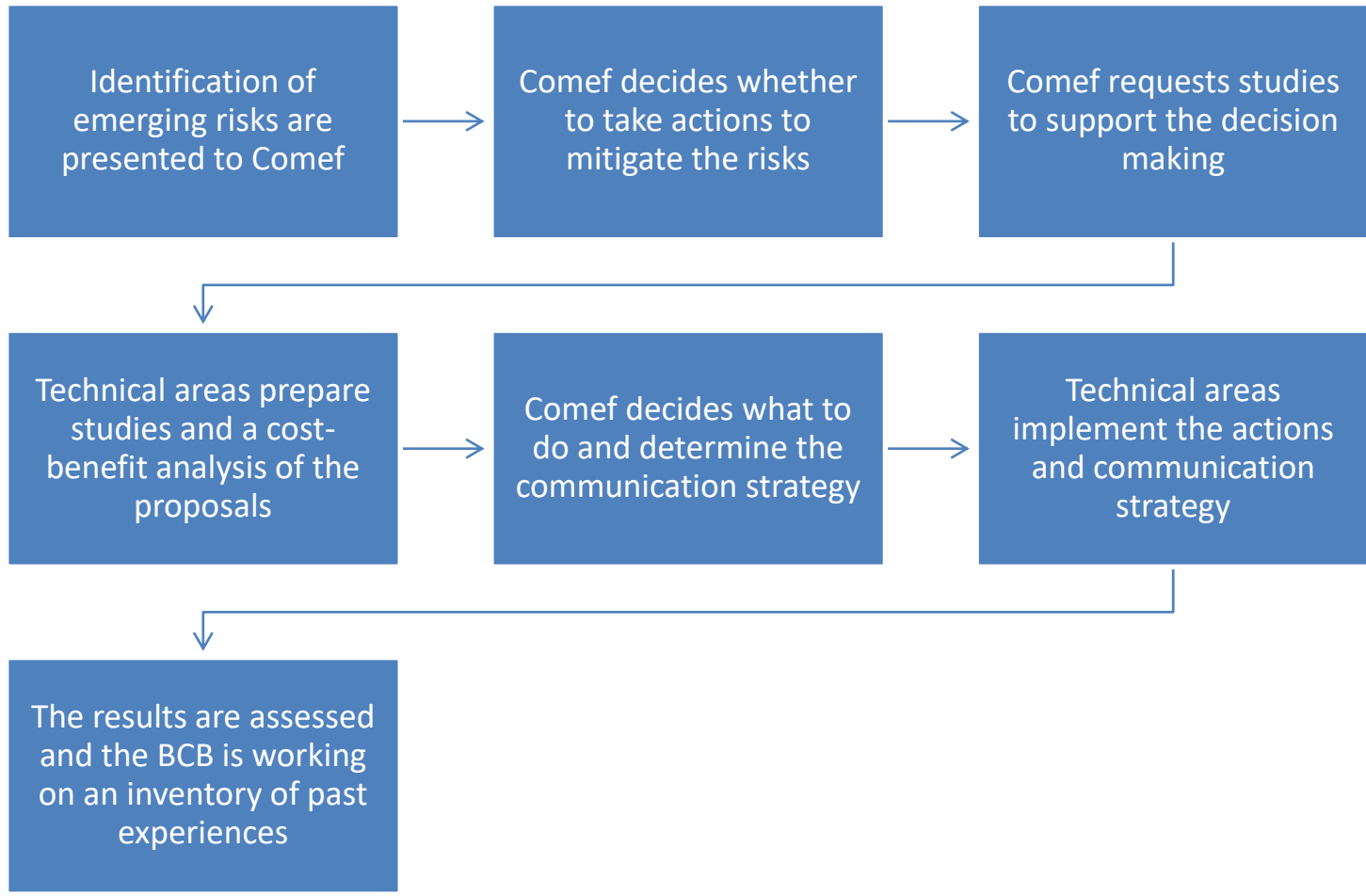
# Resolution

- Resolution Regimes:

Temporary Special Administration Regime - Raet (1987)	Intervention (1964)	Extrajudicial Liquidation (1964)
<p>Aims to preserve the institution's critical functions.</p> <p>No payout by the Deposit Guarantee Fund (FGC).</p>	<p>Interrupts the bank's operation to evaluate the possibility of its operational continuity. Not suitable for preserving critical functions.</p> <p>Payout by the FGC.</p>	<p>Interrupts banks' regular activities. Its main objective is to sell assets in order to pay creditors. Not suitable for preserving critical functions.</p> <p>Payout by the FGC.</p>

- A proposal of new Resolution Framework must be sent to the Congress soon

# Stages of Macroprudential Policy Implementation



# IV. Financial Stability Committee

# Financial Stability Committee (Comef)

- Objectives
  - Define strategies and guidelines to maintain financial stability
  - Issue recommendations on preventive mechanisms, contingency plans, and crisis management
  - Determine the research agenda related to financial stability
  - Coordinate the areas involved with financial stability
  - Instruct the BCB's conduct in fora related to financial stability affairs (Coremec, FSB, BCBS, etc.)
  - Operate the countercyclical capital buffer



# Comef Meetings

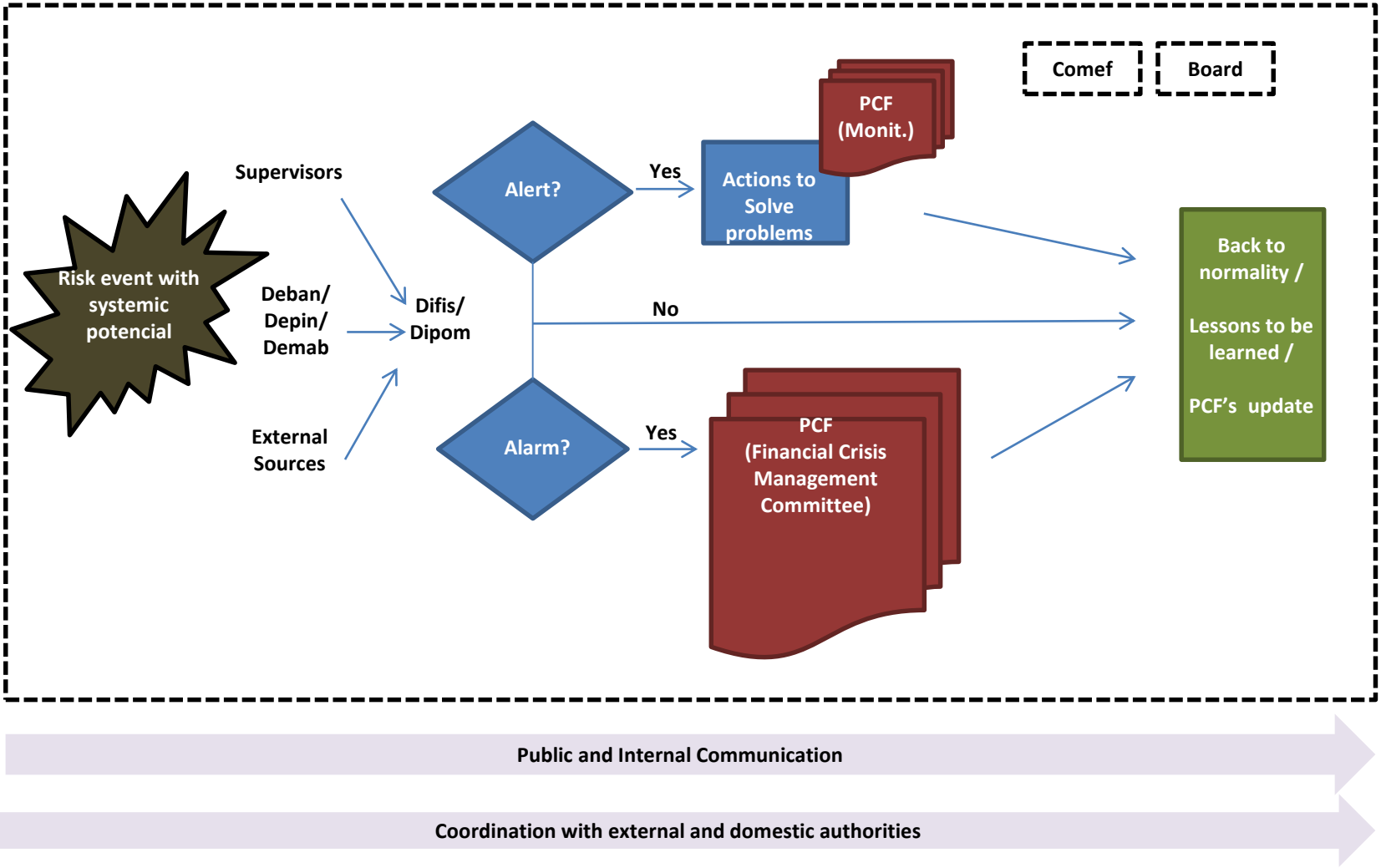
- Aspects covered in the first session
  - The external risks to global and domestic financial stability
  - Survey on market participants' sentiment about financial stability
  - Panoramic view of the fundamentals of financial system
  - Presentation of simulations and stress tests results
  - Discussion about specific risks to financial stability
- Aspects covered in the second session
  - The Board discusses relevant risks
  - Set up new initiatives and studies
  - Set up of countercyclical capital buffer

# Communication Channels

- Hearings of the Senate Committee on Economic Affairs (quarterly)
- Sessions of the Joint Budget Committee (semi-annual)
- Speeches of the members of the Board
- This seminar (annual)
- Financial Stability Report (semi-annual)
  - Announcement in press conference
  - The FSR has two chapters
    - Financial system overview and Selected issues
  - Revision in March 2017 – **more** forward-looking and risk-focused

# V. Crisis Management

# Contingency Plan for Financial Crises (PCF)



# VI. Concluding Remarks

# Concluding Remarks

- Wide scope of CB's authority helps policy coordination
- Coordination among supervisory agencies is suitable for the current financial structure, but there is room for improvements
- The risk-focused regulation/supervision and monitoring tools are remarkable highlights
- The BCB is committed to improving the Brazilian resolution framework
- Comef is continuously engaged on enhancing the BCB's capacity to identify risks at early stages, be preemptive, and be prepared for turbulences