RESOLUTION CMN 4,677 OF JULY 31, 2018

Establishes maximum limits for client exposure and a maximum limit for the amount of large exposures.

The Central Bank of Brazil, pursuant to art. 9 of Law 4,595 of December 31, 1964, announces that the National Monetary Council, in a meeting held on July 31, 2018, based on art. 4, items VIII and X of this Law, arts. 9 and 10 of Law 4,728 of July 14, 1965, art. 20, paragraph 1, of Law 4,864 of November 29, 1965, arts. 7 and 23, sub-item "a", of Law 6,099 of September 12, 1974, art. 1, paragraph 1, and art. 12 of Complementary Law 130 of April 17, 2009, and art. 1, paragraph 2, of Provisional Measure 2,192-70 of August 24, 2001,

R E S O L V E D:

TITLE I
OBJECT AND SCOPE

Art. 1. This Resolution establishes maximum limits for client exposure and a maximum limit for the amount of large exposures.

Art. 2. Financial institutions and other institutions licensed by the Central Bank of Brazil must comply with the maximum limits for client exposure and with the maximum limit for the amount of large exposures in accordance with the following articles of this Resolution:

I - arts. 3 to 18, 24 and 25, for institutions allocated to Segment 1 (S1), Segment 2 (S2), Segment 3 (S3) and Segment 4 (S4), in the terms of Resolution CMN 4,553 of January 30, 2017; or

II - arts. 19 to 25, for institutions allocated to Segment 5 (S5), in the terms of Resolution CMN 4,553 of 2017.

Paragraph 1. The provisions established in this Resolution do not apply to:

I - institutions not subject to the calculation of Regulatory Capital (PR), as prescribed in Resolution CMN 4,192 of March 1, 2013, or Simplified Regulatory Capital (PR_{S5}), as prescribed in Resolution CMN 4,606 of October 19, 2017; and

II - consortium administrators and payment institutions, which are subject to regulation issued by the Central Bank of Brazil, in the exercise of its regulatory competence.

Paragraph 2. Compliance with the limits mentioned in the heading must occur permanently.

Paragraph 3. Compliance with the limits mentioned in the heading must be attained in a consolidated basis for institutions in a same prudential conglomerate, as defined in the Accounting Plan for Financial Institutions (Cosif).

TITLE II
REQUIREMENTS APPLICABLE TO INSTITUTIONS ALLOCATED TO S1, S2, S3 AND S4

CHAPTER I
LIMITS

Art. 3. An institution mentioned in art. 2, item I, must limit the amount of its exposures to a single client to a maximum of 25% (twenty-five percent) of the Tier 1 component of its PR.

Paragraph 1. In case of a credit cooperative that is not affiliated to a central cooperative, the maximum amount mentioned in the heading must be limited to 15% (fifteen percent) of the institution's Tier 1.

Paragraph 2. A central credit cooperative that performs financial centralized services for the liquid assets of its affiliated singular cooperatives, in terms of Resolution CMN 4,434 of August 5, 2015, art. 17, item VII, sub-item "c", under the adoption of a system of reciprocal guarantees between these affiliates, may consider the limit of exposures to a client to a maximum of 10% (ten percent) of the amount of the Tier 1 of its affiliates, limited to the Tier 1 of the central cooperative, for exposures related to the following operations:

I - deposits and securities of the responsibility of or issued by a financial institution, its affiliated and parent companies and their subsidiaries, subject to the provisions established in art. 8, paragraph 1, item VII; and

II - credit and guarantee granted to its affiliates, in operation previously approved by the board or, in its absence, the senior management of the central cooperative, when the resources referred in art 8, paragraph 1, item VI, are not involved.

Paragraph 3. The board or, in its absence, the senior management must decide on the incurrence of an exposure that results in the total exposure to a client exceeding:

I - 20% (twenty percent) of Tier 1, in the case of an institution mentioned in the heading; and

II - 10% (ten percent) of Tier 1, in the case of a cooperative mentioned in paragraph 1.

Art. 4. An institution mentioned in art. 2, item I, that is listed as global systemically important by the Financial Stability Board (FSB) must limit its exposures to other institution also listed as global systemically important at a maximum amount of 15% (fifteen percent) of its Tier 1.

Paragraph 1. The provision established in the heading applies to an institution twelve months after its inclusion in the annual list of global systemically important institutions published by the FSB.

Paragraph 2. The limit established in the heading does not apply to a Brazilian subsidiary or branch of a foreign institution listed as global systemically important by the FSB.

Paragraph 3. The board or, in its absence, the senior management of an institution listed as global systemically important by the FSB must decide on the incurrence of an exposure that results in the total exposure to another institution also listed as global systemically important exceeding 10% (ten percent) of Tier 1.

Art. 5. An institution mentioned in art. 2, item I, must limit the total of its large exposures to a maximum amount of 600% (six hundred percent) of its Tier 1.

Solo paragraph. A large exposure is defined as an exposure amount to a single client that equals or exceeds 10% (ten percent) of Tier 1.

CHAPTER II
DEFINITION OF CLIENT

Art. 6. A client is any natural or legal person that is a counterparty in an exposure.

Solo paragraph. The following entities are considered as single clients:

I - the Federal Government, including the Central Bank of Brazil;

II - each entity whose voting stock is directly owned in more than 50% (fifty percent) by the Federal Government together with the legal persons controlled by or economically dependent on this entity, according to criteria established in art. 7;

III - each state of the Federation or the Federal District together with:

a) its controlled or economically dependent legal persons, according to criteria established in art. 7; and

b) entities that are economically dependent on its controlled legal persons, according to criteria established in art. 7;

IV - each Brazilian municipality together with:

a) its controlled or economically dependent legal persons, according to criteria established in art. 7; and

b) entities that are economically dependent on its controlled legal persons, according to criteria established in art. 7;

V - the central government of a foreign jurisdiction;

VI - the central bank of a foreign jurisdiction, if not comprised in item V;

VII - each entity whose voting stock is directly owned in more than 50% (fifty percent) by the central government of a foreign jurisdiction together with the legal persons controlled by or economically dependent on this entity, according to criteria established in art. 7;

VIII - each subnational government entity of a foreign jurisdiction together with:

a) its controlled or economically dependent legal persons, according to criteria established in art. 7;

b) entities that are economically dependent on its controlled legal persons, according to criteria established in art. 7.

Art. 7. Counterparties that induce the same credit risk to an institution, in the terms of art. 22 of Resolution CMN 4,557 of February 23, 2017, must be considered as a single client.

Paragraph 1. In addition to the provision established in the heading, for an individual counterparty with an exposure amount that equals or exceeds 5% (five percent) of the institution's Tier 1, the inducement of credit risk is substantiated by means of an economic dependence relationship with other counterparties.

Paragraph 2. Two counterparties are deemed economically dependent when financial problems experienced by one counterparty may result in similar problems in the other, including those related to funding, repayment of liabilities or insolvency.

Paragraph 3. Indicatives of an economic dependence relationship include:

I - a relevant part of one counterparty's annual gross receipts or expenditures derives from transactions with the other counterparty;

II - the partial or full honor of a guarantee given by one counterparty to an exposure with significant value of the other counterparty is likely to result the guarantor's failure to meet its own obligation;

III - the majority of one counterparty's production is sold to the other counterparty, which cannot be easily replaced as a customer;

IV - the insolvency of one counterparty has a high probability of causing the insolvency of the other;

V - both counterparties mostly rely on the same source of funding and do not have an alternative provider of funding.

Paragraph 4. In exceptional cases, the institution is waived from considering as a single client counterparties connected by control or by an economic dependence relationship, as long as it can be demonstrated that such counterparties do not induce the same credit risk to the institution.

Paragraph 5. The periodicity of verification of compliance with the requirement established in paragraph 1 must be documented and subject to an assessment of its adequacy.

Paragraph 6. The Central Bank of Brazil has the discretion to determine:

I - that two or more counterparties have to be considered as a single client, given that they verifiably induce the same credit risk to the institution; and

II - adjustments to the periodicity mentioned in paragraph 5.

Paragraph 7. The concept of credit risk inducement does not apply to exposures mentioned in art. 8, paragraph 1, item II, sub-items “a” to “c”, regardless of the characterization of the counterparty as a qualifying central counterparty (QCCP), in terms of regulation issued by the Central Bank of Brazil.

CHAPTER III
EXPOSURES CONSIDERED FOR THE PURPOSE OF COMPLYING WITH THE LIMITS

Art. 8. The limits mentioned in arts. 3 to 5 apply to:

I - exposures considered in the calculation of RWA_{CPAD} and RWA_{CIRB} components, as established in Resolution CMN 4,193 of March 1, 2013, that have as counterparty a natural or a legal person;

II - exposures related to securities in the trading book, as defined in Resolution CMN 4,557 of 2017, which are not considered in the calculation of RWA_{CPAD} and RWA_{CIRB} components.

Paragraph 1. For the purpose of compliance with the limits mentioned in the heading, the following exposures are not considered:

I - exposures to a client mentioned in art. 6, solo paragraph, items I, V and VI, including those related to provisions established in Law 9,703 of November 17, 1998;

II - the following exposures to a QCCP related to clearing activities:

a) trade exposures to be settled in this entity;

b) assets posted as an initial margin guarantee; and

c) commitments to a mutualized default fund;

III - exposures of savings and loans association arising from an agreement authorized by the Central Bank of Brazil, within the scope of the Habitation Financial System;

IV - intraday interbank exposures;

V - interbank repasses provided by an institution allocated to S2, S3 or S4, except for institutions in a same credit cooperative system subject to the provision in item VI, when there is an automatic subrogation prescribed in law to any rights on credits and guarantees constituted in favor of the financial agent in case of its bankruptcy, extrajudicial liquidation or intervention;

VI - interbank repasses between institutions in a same credit cooperative system and designated for loans to associates, involving funds raised under the provisions of rural credit regulation, interest rate equalization and other credit lines, as long as the condition established in paragraph 3 is satisfied.

VII - deposits and investments made by a credit cooperative in the central cooperative, in the confederation or in the cooperative bank of its credit cooperative system;

VIII - exposures deducted in the calculation of Tier 1, in terms of Resolution CMN 4,192 of 2013;

IX - exposures related to operations funded by the amount set apart from Tier 1 by institution allocated to S2, S3 or S4, under the provisions established in Resolution CMN 4,589 of June 29, 2017;

X - the exposure to the issuer of securities in an initial public offering by an institution allocated to S2, S3 or S4 that is responsible for the offer, for 60 (sixty) days after the distribution period;

XI - the exposure to the issuer of securities in a public acquisition offering by an institution allocated to S2, S3 or S4 that responsible for the offer, for 60 (sixty) days after the settlement date;

XII - exposures related to judicial deposits made by an institution allocated to S2, S3 or S4;

XIII - exposures related to investments with a maturity up to 1 (one) year made by a subsidiary or branch of a foreign institution allocated to S2, S3 or S4 in its parent.

Paragraph 2. After the 60 (sixty) days mentioned in paragraph 1, items X and XI, exposures to the issuer of securities must be considered for the purpose of compliance with the limits mentioned in the heading.

Paragraph 3. The exercise of the provision established in paragraph 1, item VI, is conditioned on the contracts signed between the transferring institution and the receiving institution and between the receiving institution and the associate borrower containing clauses that establish a prerogative in favor of the transferring institution, which can be independently activated at any time and allow the direct collection of payments from the associate, in the form of an endorsement of the credit instrument or other legal act that allows for such collection.

CHAPTER IV
VALUE OF EXPOSURES SUBJECT TO GENERAL TREATMENT

Art. 9. Except for the provisions applicable to exposures subject to a specific treatment, the exposure value must correspond to:

I - the respective value subject to the Risk Weighting Factor (FPR) for the purpose of calculation of the RWA_{CPAD} component mentioned in Resolution CMN 4,193 of 2013, in the case of exposures considered in the calculation of capital requirement under the standardized approach;

II - the respective value of the parameter that indicates the credit risk exposure considered in the calculation of the RWA_{CIRB} component mentioned in Resolution CMN 4,193 of 2013, in the case of exposures subject to the calculation of capital requirement under internal rating systems for credit risk (IRB approaches) approved by the Central Bank of Brazil; and

III - the accounting value of the exposure related to a security in the trading book that is not considered in the calculation of the RWA_{CPAD} and RWA_{CIRB} components.

Solo paragraph. For the purposes of the heading, the Credit Conversion Factor (FCC) must be the one considered in the calculation of the RWA_{CPAD} component, limited to a minimum of 10% (ten percent).

CHAPTER V
VALUE OF EXPOSURES SUBJECT TO A SPECIFIC TREATMENT

Section I
Exposures related to derivatives in the trading book, except credit derivatives

Art. 10. For a derivative instrument in the trading book, except for an option and a credit derivative, there must be a distinct recognition of:

I - the counterparty associated to the counterparty credit risk; and

II - the counterparty associated to the underlying asset, when issued by a natural or legal person, in the case of a long position.

Paragraph 1. For the purpose of the provision in the heading, item I, the exposure value assigned to the counterparty must be calculated in the terms of art. 9.

Paragraph 2. For the purpose of the provision in the heading, item II, the exposure value assigned to the counterparty must correspond to the market value of the long position leg.

Art. 11. For options in the trading book, there must be a distinct recognition of:

I - the counterparty associated to the counterparty credit risk; and

II - the counterparty associated to the underlying asset, when issued by a natural or legal person, in the case of a long position in a call option or a short position in a put option.

Paragraph 1. For the purpose of the provision in the heading, item I, the exposure value assigned to the counterparty must be calculated in the terms of art. 9, considering the provision established in paragraph 4.

Paragraph 2. For the purpose of the heading, item II, the exposure value assigned to the counterparty must correspond to:

I - the replacement cost of the option in the case of a long position in a call option; or

II - the total strike value of the option minus its replacement cost in the case of a short position in a put option.

Paragraph 3. In the case of an exposure associated to a short position in a call option or a long position in a put option, the institution may deduct the following values from the amount of exposures to other instruments in the trading book whose counterparty is the same one associated with the underlying asset of the option:

I - the replacement cost of the option in the case of a short position in a call option; or

II - the total strike value of the option, in the case of a long position in a put option.

Paragraph 4. Once the discretion mentioned in paragraph 3, item II, is exercised the exposure value assigned to the counterparty mentioned in the heading, item I, must correspond to the deducted value.

Section II
Exposures to credit derivatives

Art. 12. An exposure related to a credit derivative, regardless of the book to which it is allocated, must comply with the treatment established in art. 9.

Section III
Exposures to covered bonds

Art. 13. The exposure value associated to securities that permanently comply with the following requisites must be considered at 20% (twenty percent) of their accounting value:

I - if in Brazil, they are issued by universal banks, commercial banks, investment banks, finance and investment companies, saving banks, mortgage companies and savings and loan association;

II - if in a foreign jurisdiction, they are issued by banks or mortgage institutions;

III - they are legally subject to a specific regulation designed to protect bond holders;

III - their pool of underlying assets must exclusively consist of:

a) exposures to:

1. the entities mentioned in art. 6, solo paragraph, items I, V and VI;

2. a regional government of a national or a foreign jurisdiction; or

3. multilateral development banks, in the terms of regulation in force;

b) exposures guaranteed by the entities mentioned in sub-items 1 to 3;

c) exposures that qualify for a FPR of 35% (thirty five percent) in the calculation of capital requirements; or

d) exposures related to non-residential real estate credit with a loan-to-value ratio of less than 60% (sixty percent) on the credit granting date and subject to a FPR lower than or equal to 100% (one hundred percent) in the calculation of capital requirements;

V - the total value of their underlying assets is permanently and verifiably 10% (ten percent) higher, at least, than the total value of bonds guaranteed by them;

VI - the rights associated to the bonds are integrally covered by the underlying assets; and

VII - in the event of a failure of their issuer, the underlying assets must be primarily used to the reimbursement of the principal and payment of the accrued interest.

Section IV
Exposures associated to investment funds and securitization

Art. 14. In the case of an exposure associated to the acquisition of quotas of an investment fund or a securitization instrument, the underlying assets must be identified.

Paragraph 1. For the purpose of the provision established in the heading, the following counterparties must be recognized:

I - the investment fund itself or the issuer of the securitization instrument, for those underlying assets whose participation in the fund or in the securitization structure is below 0.25% (twenty five hundredths percent) of the institution's Tier 1; or

II - the issuer of an underlying asset included in the portfolio of the investment fund or in the securitization structure, for underlying assets whose participation in the fund or in the structure is equal to or above 0.25% (twenty five hundredths percent) of the institution's Tier 1.

Paragraph 2. For the purpose of the provision established in the heading, item I, the exposure value assigned to the counterparty must be equal to the pro rata share, in the fund or in the securitization structure, of the amount of the underlying assets whose value is below 0.25% (twenty five hundredths percent) of the institution's Tier 1, multiplied by the value of the corresponding quotas or instruments.

Paragraph 3. For the purpose of the provision established in the heading, item II, the exposure value assigned to the counterparty must be equal to the pro rata share, in the fund or in the securitization structure, of the underlying assets issued by such counterparty whose value is equal to or above 0.25% (twenty five hundredths percent) of the institution's Tier 1, multiplied by the value of the corresponding quotas or instruments.

Paragraph 4. If the institution is unable to identify the underlying assets of the fund or the securitization structure, the exposure value must correspond to the acquired amount of quotas of the fund or of securitization instrument, recognizing as a counterparty:

I - the fund itself or the issuer of the securitization instrument, if the amount of quotas or instruments is below 0.25% (twenty five hundredths percent) of the institution's Tier 1; or

II - the unknown client, if the amount of quotas or instruments is equal to or above 0.25% (twenty five hundredths percent) of the institution's Tier 1.

Paragraph 5. The impossibility of the identification of the underlying assets included in the portfolio of an investment fund or in a securitization structure must be documented and verifiable.

Paragraph 6. Each institution must recognize only one unknown client, to which the limits established in arts. 3 and 5 apply.

Paragraph 7. The treatment established in this article must be extended to the underlying assets that are quotas of an investment fund.

Paragraph 8. Provisions established in this article apply to any other structure that issues securities whose payments are associated to cash inflows deriving from credit rights, from other securities or from credit derivatives.

Art. 15. An agent that brings on an additional risk inherent to the acquisition of quotas of an investment fund or of a securitization structure must be also recognized as a distinct counterparty from those mentioned in art. 14.

Paragraph 1. The additional risk mentioned in the heading may be associated to the following agents related to the investment fund or the securitization instrument:

I - its issuer, originator or manager; and

II - a liquidity provider or a credit protection provider.

Paragraph 2. For the purpose of the provision established in the heading, the exposure to the counterparty must be the value invested in the corresponding fund or securitization instrument.

Paragraph 3. The criteria established for verification of a credit risk inducement mentioned in art. 7 apply to the exposure associated to an agent mentioned in the heading.

Paragraph 4. The absence of additional risk inherent to the acquisition of quotas of an investment fund or of a securitization instrument must be adequately documented and verifiable.

CHAPTER VI
OFFSETTING OF EXPOSURES

Art. 16. The offsetting of long and short positions is admitted only for instruments in the trading book, in terms of Resolution CMN 4,557 of 2017, proceeding from the same issuer, as long as the following requisites are met:

I - the long and short positions refer to instruments with the same coupon arrangement, currency of reference and maturity; or

II - the long and short positions refer to instruments with a different coupon or currency, as long as the short position is junior to the long position, or if the positions have the same seniority, including positions hedged by credit derivatives.

Paragraph 1. For the purpose of exercising the discretion established in the heading, item II, instruments must be segregated according to their seniority.

Paragraph 2. In the case of positions hedged by a credit derivative, the provisions established in art. 17 also apply.

Paragraph 3. The limits established in arts. 3 to 5 do not apply to the net value associated to an offsetting that results in a short position to an issuer.

CHAPTER VII
CREDIT RISK MITIGATION

Art. 17. The credit risk mitigation using a mitigant instrument considered for the purpose of the calculation of RWA_{CPAD} component, established in Resolution CMN 4,193 of 2013, must be also recognized for the purpose of this Resolution.

Paragraph 1. The recognition of the credit risk mitigation related to the original counterparty in the terms of the heading implies the concomitant recognition of an exposure to the provider of the corresponding mitigant instrument, except in the following cases:

I - the mitigant instrument takes the form of:

a) a bilateral netting agreement for settlement and payment of obligations;

b) deposits held in the institution and credit linked notes; and

c) instruments issued and held by the institution itself or held by a third party on its behalf; and

II - the provider of the instrument is one of the clients mentioned in art. 6, solo paragraph, items I, V or VI.

Paragraph 2. The value of exposure to the provider of the mitigant instrument, in the terms of paragraph 1, must correspond to:

I - the portion protected by the instrument, in the case of a guarantee or a credit derivative;

II - the portion protected by the market value of a financial collateral, in the case of its recognition under the simple approach for the calculation of capital requirement;

III - the value of a financial collateral, in the case of its recognition in the calculation of capital requirement for the counterparty credit risk;

IV - the value of a financial collateral, considered the haircuts, in the case of its recognition under the comprehensive approach for the calculation of capital requirement; and

V - the value of the exposure to the counterparty credit risk considered in the calculation of RWA_{CPAD} component mentioned in Resolution CMN 4,193 of 2013, when the provider of the instrument is a non-financial entity that issues credit derivatives in the form of credit “swap”.

Paragraph 3. In the case of credit risk mitigation in the form of bilateral agreement for settlement and payment of obligations, the balance of the netting that results in a long position must be recognized as an exposure to the corresponding counterparty.

Paragraph 4. In the case of an exposure mentioned in art. 8, paragraph 1, protected by a credit derivative, the protected portion must be recognized as an exposure to the provider of the corresponding mitigant instrument.

Paragraph 5. The non-protected value of the exposure must be considered as an exposure to the original client.

CHAPTER VIII
REPORTING

Art. 18. Reporting on the following subjects must be presented to the Central Bank of Brazil, in the form established by this authority:

I - compliance with the limits mentioned in arts. 3 to 5;

II - large exposures and corresponding counterparties, in terms of art. 5;

III - exposures amounts and corresponding counterparties mentioned in art. 8, paragraph 1, except interbank exposures, with values equal to or above 10% (ten percent) of Tier 1; and

IV - the largest 20 (twenty) exposures amounts and corresponding counterparties included in the scope of application of the limits mentioned in arts. 3 to 5.

Paragraph 1. The report mentioned in the heading must refer both to the original values of exposures and their respective values considering the effect of credit risk mitigation instruments, when utilized.

Paragraph 2. The Central Bank of Brazil may request additional information to the established in the heading when deemed necessary to verify compliance with provisions in this Resolution.

TITLE III
REQUIREMENTS APPLICABLE TO INSTITUTIONS ALLOCATED TO S5

Art. 19. An institution mentioned in art. 2, item II, must limit the amount of its exposures to a single client to a maximum of 25% (twenty-five percent) of its PR_{S5}.

Paragraph 1. In case of a credit cooperative that is not affiliated to a central cooperative, the maximum amount mentioned in the heading must be limited to 15% (fifteen percent) of the institution's PR_{S5}.

Paragraph 2. The board or, in its absence, the senior management must decide on the incurrence of an exposure that results in the total exposure to a client exceeding:

I - 20% (twenty percent) of PR_{S5}, in the case of an institution mentioned in the heading; and

II - 10% (ten percent) of PR_{S5}, in the case of a cooperative mentioned in paragraph 1.

Art. 20. An institution mentioned in art. 2, item II, must limit the total of its large exposures to a maximum amount of 600% (six hundred percent) of its PR_{S5}.

Solo paragraph. A large exposure is defined as an exposure amount to a client that equals or exceeds 10% (ten percent) of the institution's PR_{S5}.

Art. 21. A client is defined as the natural or legal person that is a counterparty to an exposure.

Paragraph 1. The following entities are considered as single clients:

I - the Federal Government, including the Central Bank of Brazil;

II - each entity whose voting stock is directly owned in more than 50% (fifty percent) by the Federal Government, together with the legal persons controlled by this entity;

III - each state of the Federation or the Federal District together with its controlled legal persons; and

IV - each Brazilian municipality together with its controlled legal persons;

V - the central government of a foreign jurisdiction;

VI - the central bank of a foreign jurisdiction, if not comprised in item V;

VII - each entity whose voting stock is directly owned in more than 50% (fifty percent) by the central government of a foreign jurisdiction together with the legal persons controlled by this entity; and

VIII - each subnational government entity of a foreign jurisdiction together with its controlled legal persons.

Paragraph 2. Counterparties under a control relationship, in the terms of Resolution 4,606 of 2017, must be considered as a single client.

Paragraph 3. The Central Bank of Brazil has the discretion to determine that two or more counterparties be considered as a single client, given that they verifiably induce the same the credit risk to the institution.

Art. 22. The limits mentioned in arts. 19 to 20 apply to the credit risk exposures considered in the calculation of RWA_{RCSimp}, as established in Resolution CMN 4,606 of 2013, that have as counterparty a natural or a legal person;

Paragraph 1. For the purpose of compliance with the limits mentioned in the heading, the following exposures are not considered:

I - exposures to a client mentioned in art. 21, paragraph 1, items I, V and VI, including those subject to the provisions established in Law 9,709 of November 17, 1998;

II - interbank repasses, except for institutions in a same credit cooperative system, subject to the provision in item III, when there is an automatic subrogation prescribed in law to any rights on credits and guarantees constituted in favor of the financial agent in case of its bankruptcy, extrajudicial liquidation or intervention;

III - interbank repasses between institutions in a same credit cooperative system and designated for loans to associates, involving funds raised under the provisions of rural credit regulation, interest rate equalization, and other credit lines, as long as the condition established in paragraph 2 is satisfied;

IV - deposits and investments made by a credit cooperative in the central cooperative, in the confederation or in the cooperative bank of its credit cooperative system; and

V - exposures deducted in the calculation of PR_{S5}, in terms of Resolution CMN 4,606 of 2017; and

VI - exposures associated to judicial deposits.

Paragraph 2. The exercise of the provision established in paragraph 1, item III, is conditioned on the contracts between the transferring institution and the receiving institution and between the receiving institution and the associate borrower containing clauses that establish a prerogative in favor of the transferring institution, which can be independently activated at any time and allow the direct collection of payments from the associate, in the form of an endorsement of the credit instrument or other legal act that allows for such collection.

Art. 23. The value of exposures mentioned in art. 21 must correspond to the respective value subject to the Risk Weighting Factor (FPR) for the purpose of the calculation of RWA_{RCSimp}, established in Resolution CMN 4,606 of 2013;

TITLE IV
FINAL PROVISIONS

Art. 24. The occurrence of an excess to the limits established in this Resolution implies:

I - the prohibition of new operations that increase the excess;

II - the immediate communication to the Central Bank of Brazil, in the form established by this authority, for an institution allocated to S1, S2, S3 or S4;

III - the preparation of a plan to reduce the excess, for institution allocated to S1, S2 or S3; and

IV - the preparation, when deemed necessary by the Central Bank of Brazil, of a plan to reduce the excess, for an institution allocated to S4 or S5.

Solo paragraph. The reduction of the excess mentioned in the heading, items III to IV, must occur in an adequate time lapse.

Art. 25. The institution mentioned in art. 2 or the prudential conglomerate must appoint a director responsible for compliance with the provisions established in this Resolution.

Art. 26. The provisions established in this Resolution must be observed:

I - from January 1st, 2019, for institution allocated to S1 or S2; and

II - from January 1st, 2020, for institution allocated to S3, S4 or S5.

Solo paragraph. From January 1st, 2019, the institutions mentioned in the heading, item I, are exempt from complying with the provisions of Resolution CMN 2,844 of June 29, 2001.

Art. 27. In January 1st, 2020, the following provisions are revoked:

I - art. 1, item II of Resolution CMN 2,283 of June 5, 1996;

II - Resolution CMN 2,884 of 2001; and

III - arts. 23 to 25 of Resolution CMN 4,434 of 2015.

Solo paragraph. From January 1st, 2020, any citation to Resolution CMN 2,884 of 2001 refer to this Resolution.

Art. 28. This Resolution enters into force in the date of its publication.

Ilan Goldfajn
Governor of the Central Bank of Brazil