



## Administration Report 2017



When we created “BC+ Agenda” we wanted to formally state our public commitment to Brazilian society.

Next, you will see the results of that effort. Not to mention the low inflation scenario, falling interests rates and growing economy.

*Man Goldfajn*  
**ILAN GOLDFAJN**  
Governor of the BCB

ACCOUNTABILITY 2017





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The Banco Central do Brasil (BCB) performance in 2017 brought major benefits to Brazilian society. Three positive phenomena have simultaneously occurred: reduction in inflation, decreased interest rates and economic recovery.

The official Extended National Consumer Price Index (IPCA) fell from 10.7 percent per year in December 2016 to 2.95 percent per year in December 2017, evidencing the lowest inflation rate since the implementation of the inflation targeting regime in 1999. With inflation under control, there was room to reduce the Selic rate, which has closed the year at 7.00 percent per year. The consequent increase in confidence induced a reversal in the declining path of the economy, which resumed growth again.

Also in 2017, the BCB implemented several measures from the BC+ Agenda, focusing its operations on four pillars: a more modern legislation, less expensive credit, a more efficient SFN and more financial citizenship.

Due to these significant developments and accomplishments, the work of the BCB has been widely recognized. For instance, the Basel Committee granted Brazil the maximum grade (“compliant”) for its regulations on the short-term liquidity index (LCR) and the second place in the Financial Inclusion Ranking of developing nations. In addition, the BCB’s Governor was considered the Central Banker of the Year 2018, in the global context.

	<p>Central Bank leadership in Latin America</p>		<p>Maximum grade for the regulations on the short-term liquidity index</p>
	<p>BCB’s best rating in history</p>		<p>2<sup>nd</sup> place in the financial inclusion ranking of developing countries</p>
	<p>TOP 10 best global companies to work for</p>		<p>Highlight at <i>Prêmio Brazil de Ouvidorias</i> (Brazilian Ombudsmen Award)</p>
	<p>Economist of the year</p>		<p>Entrepreneur of the year</p>
			<p>Central Banker of the Year 2018</p>

In this edition of the Administration Report, you will know the major BCB’s accomplishments in 2017.





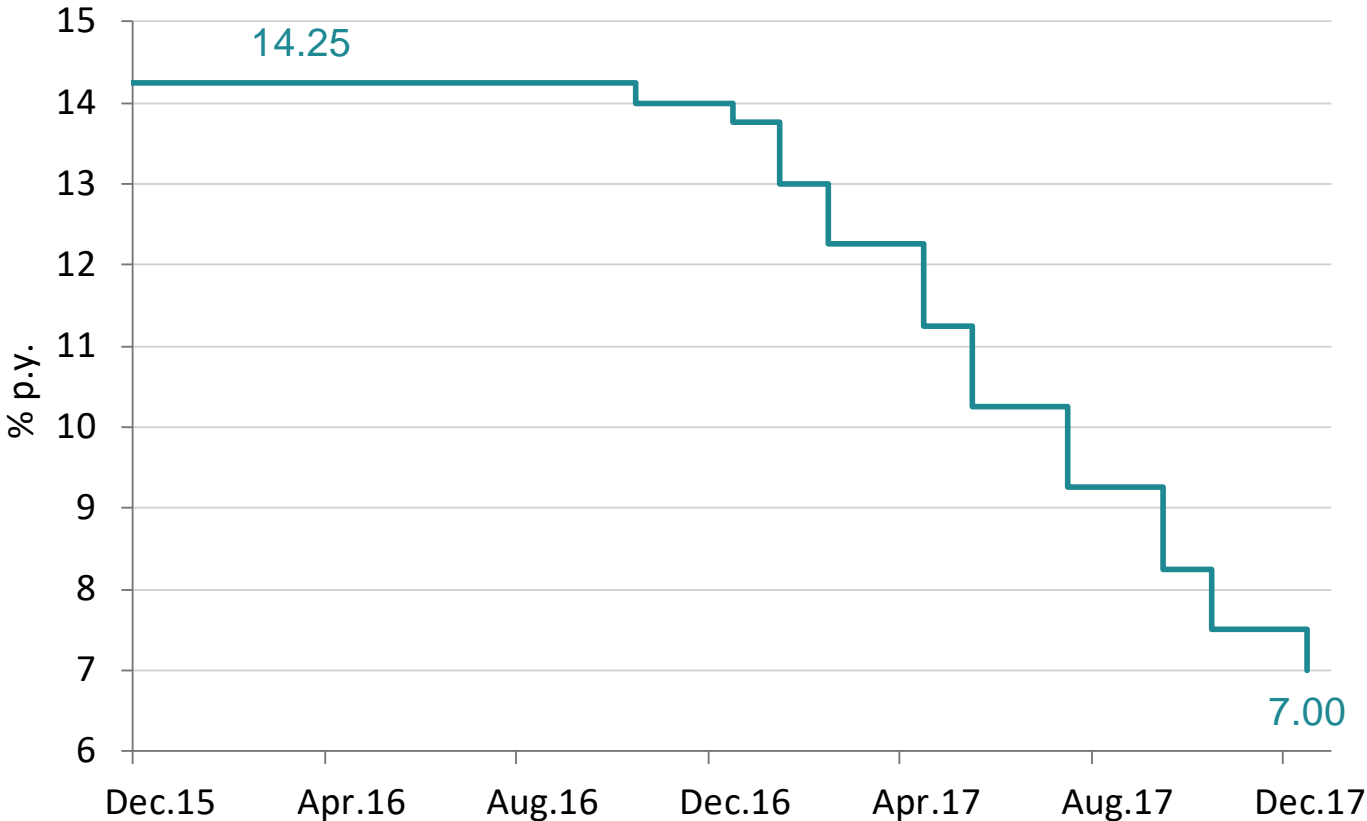
## Remarkable retreat in inflation results in the lowest Selic rate of the inflation targeting regime and fosters economic recovery

Inflation declined markedly from 10.67 percent in 2015 to 6.29 percent in 2016, and to 2.95 percent in 2017, as measured by the annual variation of the Extended National Consumer Price Index (IPCA). In an open letter to the president of the National Monetary Council (CMN), the Governor of the Banco Central do Brasil (BCB) justified the noncompliance with the target, as inflation reached a rate below the lower limit of the tolerance interval.

As a result, the base interest rate (Selic) decreased by 725 basis points in less than a year. Selic rate ended 2017 at 7 percent per year, the lowest level since the adoption of the inflation targeting regime in 1999.

When this rate falls, the cost of credit also reduces. For individuals, it encourages consumption, while for corporations, it reduces costs – stimulating investment and production. Consequently, economic activity and labor market boost.

Selic Rate

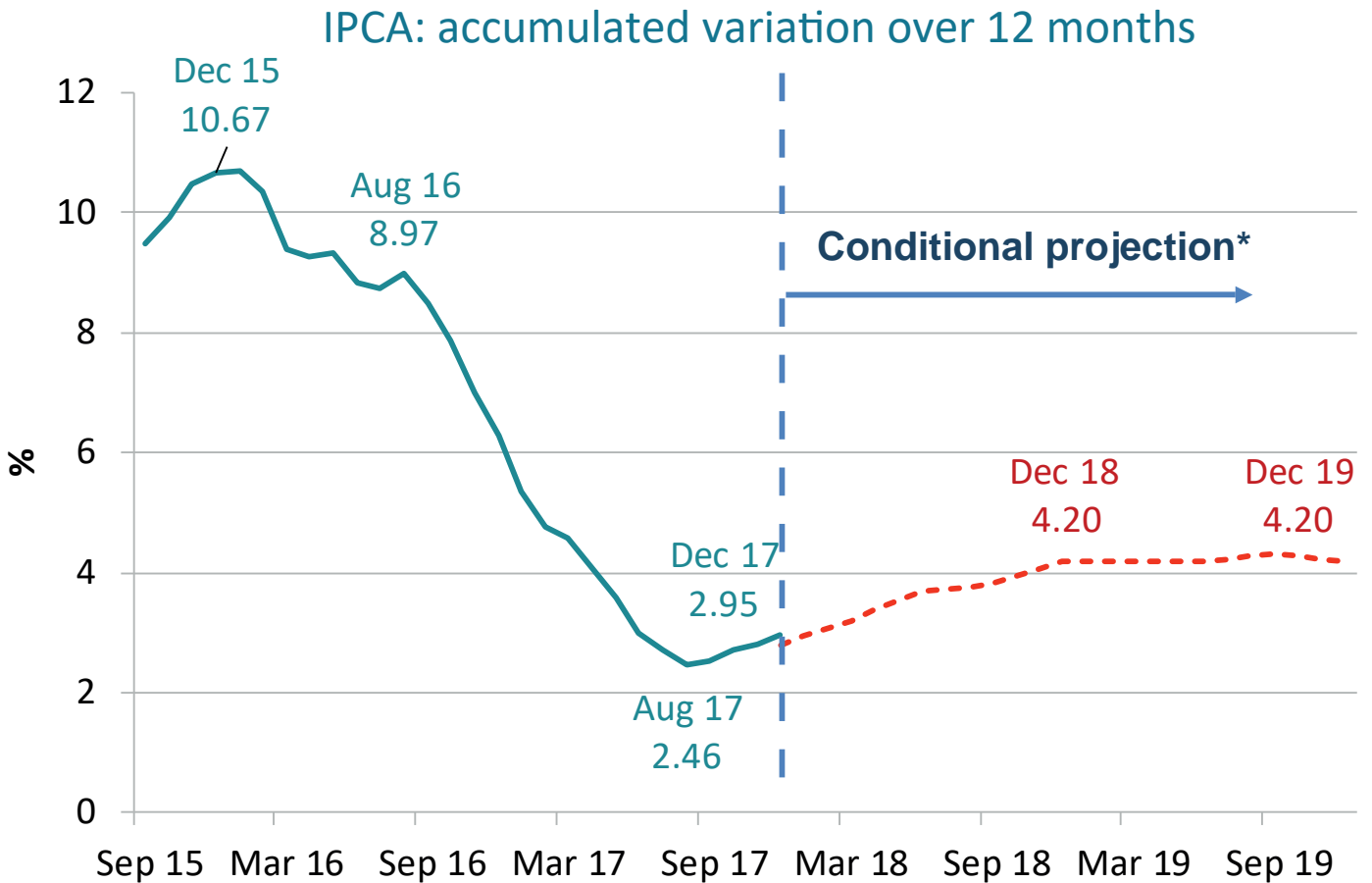


## Agreed targets seek lower inflation rates

The CMN set the 2019 inflation target at 4.25 percent, and the 2020 target at 4.00 percent. Considering the 1.5 percentage point tolerance interval, the upper limit for 2019 will be 5.75 percent, and the lower limit 2.75 percent. The inflation target horizon has also been extended from two and a half years to three and a half years. The 2018 inflation target remains at 4.50 percent.

The setting of lower inflation targets allows the Brazilian economy to move towards lower inflation rates gradually and consistently. The lengthening of the term was adjusted to enable society to make better plans, reducing uncertainties and contributing to economic growth.

Under an inflation targeting regime, the BCB is committed to act in order to ensure that the effective inflation rate remains in line with the pre-established target, as measured by the Extended National Consumer Price Index (IPCA) and calculated by the Brazilian Institute of Geography and Statistics (IBGE).



\* Scenario with interest rate and exchange rate extracted from the Focus survey  
Sources: BCB / IBGE  
Graph based on data from 1/19/2018



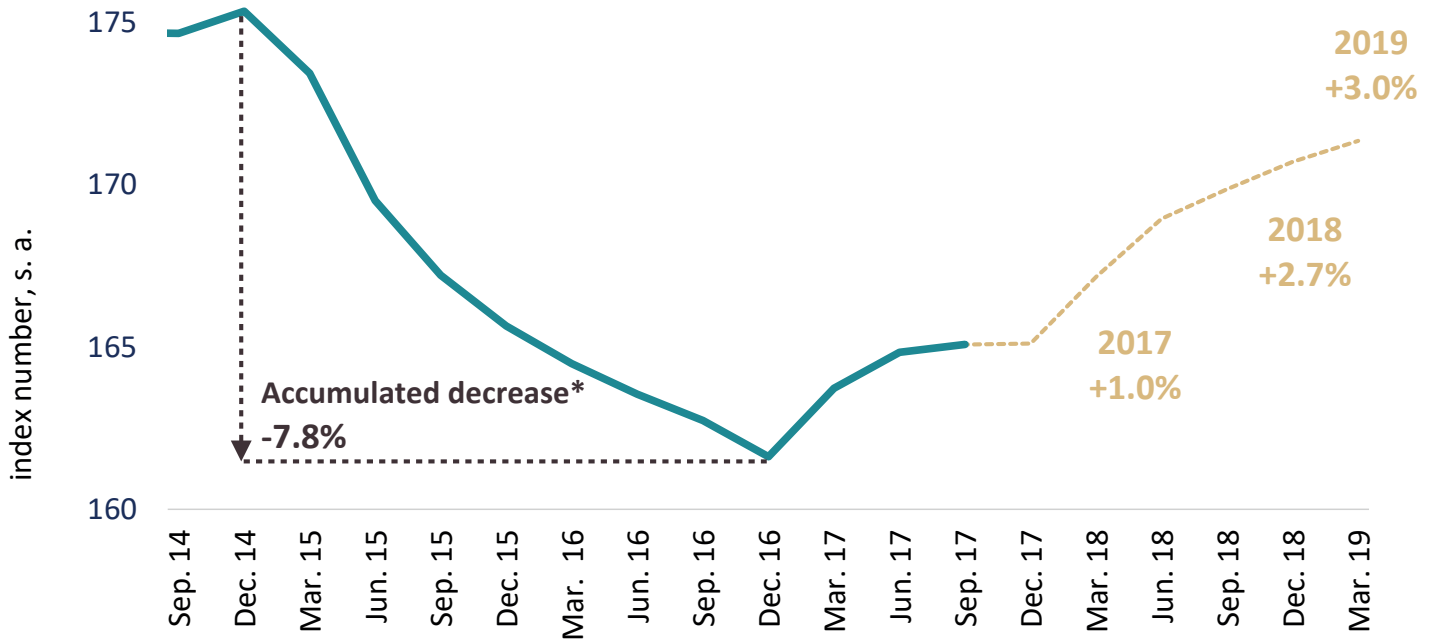
MACROECONOMIC ACHIEVEMENTS

Other economic data

Average Cost of Outstanding Loans (ICC)

		Dec/2017
Interest rate (% p.y.)	Total	21.4
	Corporate	15.6
	Households	26.6
Spread (p.p.)	Total	14.1
	Corporate	8.1
	Households	19.5

Gross Domestic Product (GDP)



Market expectations in orange (Focus survey, 1/19/2018)

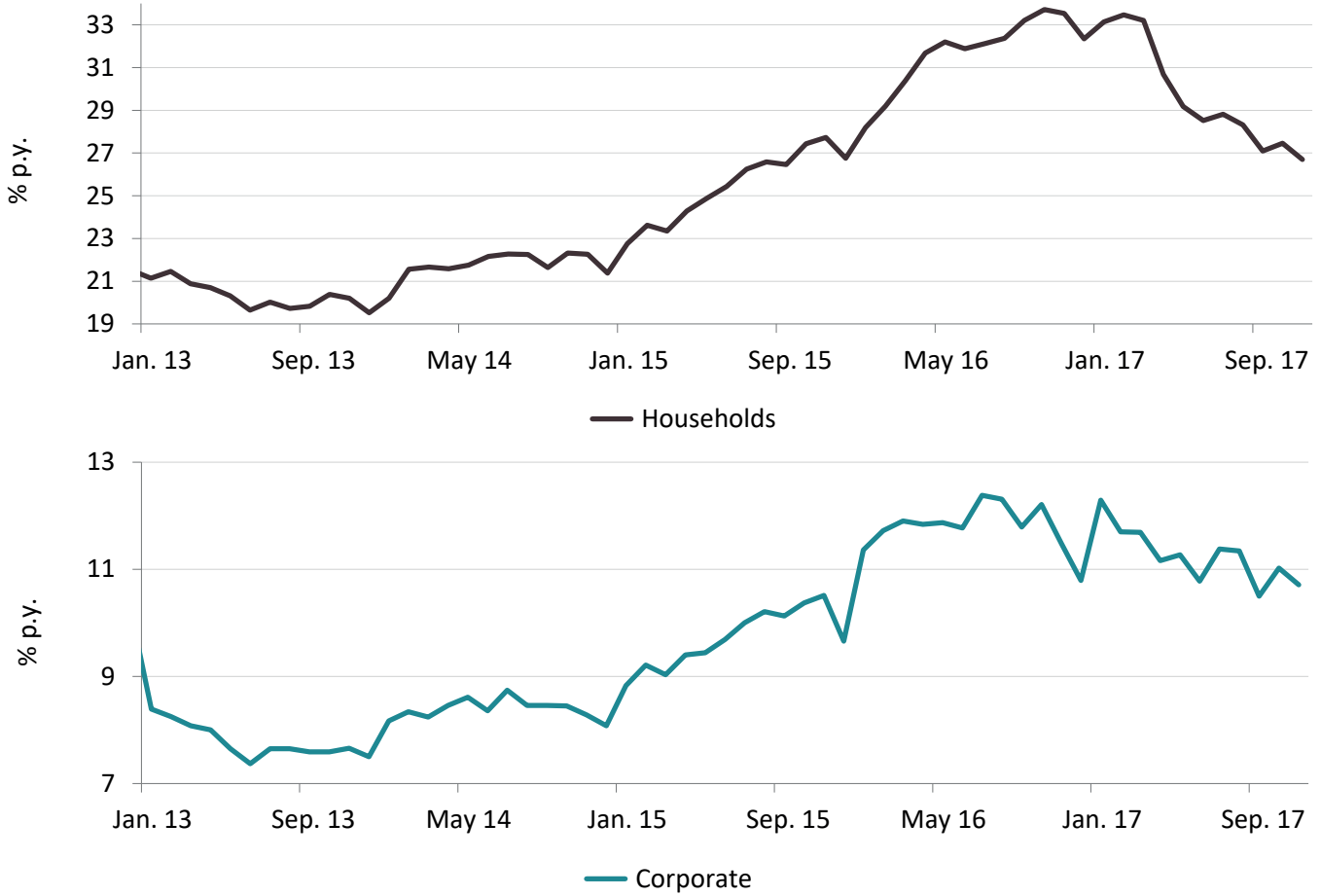
\* 4Q2017 over 4Q2016 Variation

Sources: BCB / IBGE



# MACROECONOMIC ACHIEVEMENTS

### Average interest rate spread on credit operations\*



\* Total credit  
Source: BCB





## A MORE MODERN LEGISLATION

### Punitive legal framework of the National Financial System becomes stricter and more agile

The BCB has new supervisory mechanisms to investigate and punish any administrative infringements committed within the SFN, the Brazilian Payments System (SPB) and the Consortium System (SC). New instruments are available to the monetary authority, such as the term of commitment, the administrative agreement within supervision proceedings and other coercive and precautionary measures. The improvements were introduced by Law 13,506 of November 13<sup>th</sup>, 2017.

The maximum fine imposed by the BCB has been significantly increased, and may go up to R\$2 billion or 0.5% of the revenues from services and financial products accrued in the year immediately before the consummation of the infringement.

Under the new law, the BCB may adopt coercive and precautionary measures, such as requiring suspects to provide information or clarification, or even requiring their withdrawal from their workplace at the institution under investigation. The BCB may also determine the replacement of the independent auditor or of the company responsible for accounting audit or for the cooperative audit. Noncompliance may result in a fine of up to R\$100,000 per day of delay.

#### Closure of institutions

The new legal framework also helps to speed up the closure of financial institutions under extrajudicial liquidation. Altogether, the BCB ended the year of 2017 with 23 extrajudicial liquidations, compared to 32 in 2016.

#### LAW 13506/2017 STRENGTHENS THE PUNISHMENT OF UNLAWFUL ACTS

##### Understanding the main points



##### More modern proceedings

New rules of procedure are quicker and safer



##### More effective penalties

New fines of up to R\$2 billion are more proportionate and dissuasive



##### Term of commitment

An alternative means of conflict resolution.



##### Administrative agreement under supervision proceedings

Encourages the collaboration of the investigated parties



##### Coercive and precautionary measures

Noncompliance may result in a fine of up to R\$100 thousand per day of delay



### Daily bulletin displays notifications to those involved in punitive administrative proceedings

The BCB started to publish on its website notifications to citizens and banks involved in ongoing punitive administrative proceedings. The online disclosure of activities pertinent to punitive administrative proceedings reinforces transparency and efficiency. The measure also contributes to reduce paper consumption, postage expenses and expenses with the Official Federal Gazette (DOU).

The Bulletin discloses names of the interested parties, docket numbers, grounds of the administrative proceedings, penalties applied by the BCB and other relevant information on the course of the proceedings. The BCB initiated 519 punitive administrative proceedings in 2017 and 1,133 in 2016.





## A MORE MODERN LEGISLATION

### Approved bills became laws





## LESS EXPENSIVE CREDIT

### New long-term rate entered into force

The Long-Term Rate (TLP) – which entered into force on January 2018 – will replace the Long-Term Interest Rate (TJLP) as the index of the main funding sources in the country, such as the PIS-PASEP (Contributions to the Social Integration Program and the Civil Service Asset Formation Program), the Workers Support Fund (FAT) and the Merchant Marine Fund (FMM), in addition to credit operations granted by these sources. Contracts signed up to the end of 2017 are still indexed to TJLP.

The TLP is composed of the IPCA variation and a previously fixed real interest rate, based on the real yield of the National Treasury Notes - Series B (NTN-B) for a five years term.

Following market rules, the TLP gives monetary policy more weight by expanding the credit portion that responds to the evolution of the base interest rate. In this regard, the TLP contributes to the continued reduction of the economy's

structural interest rate and favors the fiscal balance, as it reflects in a more appropriate way the National Treasury cost of funding.



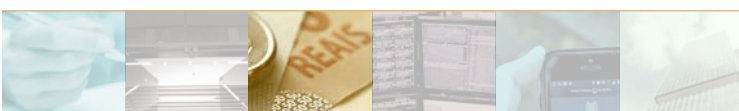
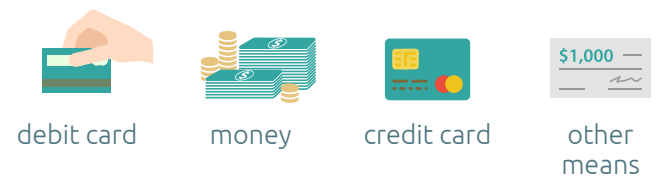
LONG-TERM RATE (TLP)  
MORE TRANSPARENCY, MORE DEMOCRACY

### Changes in payment card's usage foster competitiveness and benefit consumers

**Price differentiation** for goods and services based on the payment instruments used – money, debit card or credit card – became law. Merchants must inform the customers about discounts based on the different payment instruments in a highly visible place and display.

The possibility of price differentiation was already in force in the country since December 2016, through Provisional Measure 764/2016, which was later converted into law. In case of noncompliance, the commercial establishment is subject to legal penalties under the Consumer Defense Code, such as fines and even cancellation of the business license.

**Universal** card payment machines also became a standard. This means that payment machines used on business premises must be compatible with all credit card flags, preventing exclusivity of issuers and accreditors. The measure benefits consumers by increasing competition in payment cards' markets and reduces the machine's rental costs for merchants.



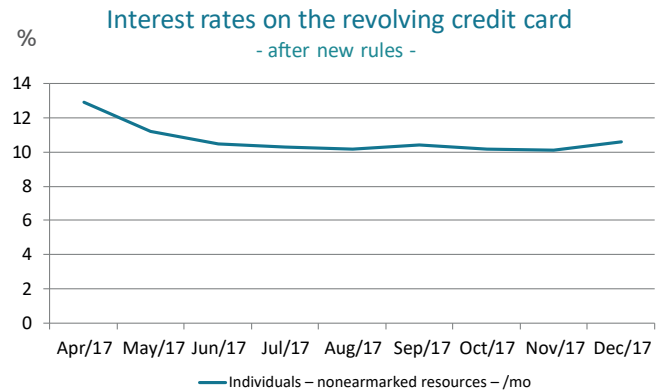


LESS EXPENSIVE CREDIT

## Regular revolving balance of credit cards features lower interest rates

Rules regulating the use of credit card have changed, limiting to thirty days the revolving credit. Under the new rules, the cardholder must settle or pay in installments the debit balance until the next invoice due date. This prevents the continued use of the revolving credit, which brings uncertainty to financial institutions and higher costs to users.

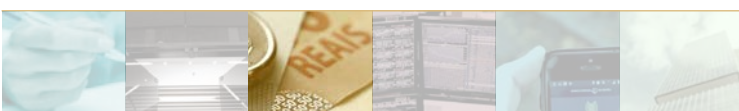
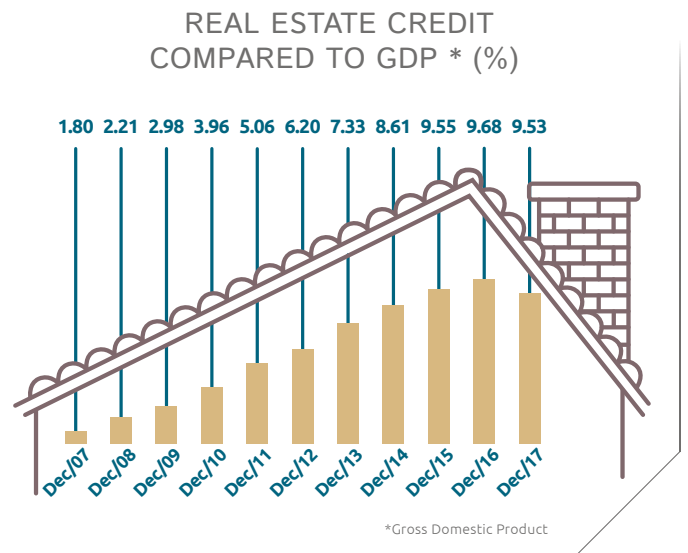
The new rules encourage the option to pay in installments the debit balances of the cards, with interest rates lower than those of the revolving cards. The rules demand that installments must be offered under conditions that are more advantageous to the customer. As a result, the revolving credit card interest rates were reduced, while the share of installment cards balances increased and of the revolving cards balances decreased.



## Guaranteed Real Estate Letter may expand the housing market in the country

The housing funding market has received an important reinforcement with the regulation of the Guaranteed Real Estate Letter (LIG). This has the potential to supplement traditional sources of funding for the real estate sector, fostering credit growth in coming years and attracting foreign investors to the financing structure of the bond issuing institutions.

The LIG has the features of a covered bond – a long-term financing instrument with long international tradition and recognized soundness, particularly in Europe. Of note, the characteristic of double guarantee, derived from the equity of the issuing financial institution and of a specific portfolio of assets, on which investors have preference over creditors in the event of discontinuity of the institution.





## Simpler reserve requirements rules may reduce the cost of credit to consumers

When a person makes a deposit in a bank, the financial institution transfers a fraction of this value to the BCB as reserve requirements. Over each type of deposit, a different reserve requirement ratio is applied. The ratio over demand deposits was reduced from 45% to 40%, and over time deposits, from 36% to 34%. Over savings deposits the ratios are 24.5%, for free savings account, and 21%, for rural savings account.

Among the simplification measures implemented by the BCB, are the unification of periods for calculation and transferring reserve requirements over time deposits, savings and additional liabilities – the latter were completely extinguished at a later date.

In addition, the possibility of new deductions for reserve requirements over time and demand deposits has been eliminated. Furthermore, any remaining balance of previous periods must be used until 2019, when all deductions will be definitively abolished. Likewise, financial institutions that are part of the Brazilian System of Savings and Loans (SBPE) no longer may deduct up to 18% of the 24.5% of the compulsory deposits required by law with real estate credit operations.

Reducing complexity in the management of reserve requirements provides the financial institutions with conditions to reduce compliance costs without compromising the effectiveness of the monetary policy instrument. Simplification also creates a favorable environment for a sustainable reduction of the cost of credit for the whole system.

## Get to know the **reserve requirements**

A tool used by the BCB to compel banks to hold a portion of their customers' deposits (demand deposits, time deposits, savings deposits) on the central bank



This way, when needed, the BCB reduces the amount of funds in the economy

Besides its traditional role, reserve requirements:



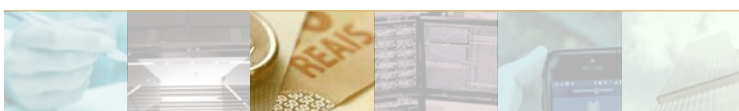
Work as a **payment flow instrument** throughout the day



Work as a **prudential instrument** for financial stability



Have **potential impacts** on credit market efficiency



# LESS EXPENSIVE CREDIT

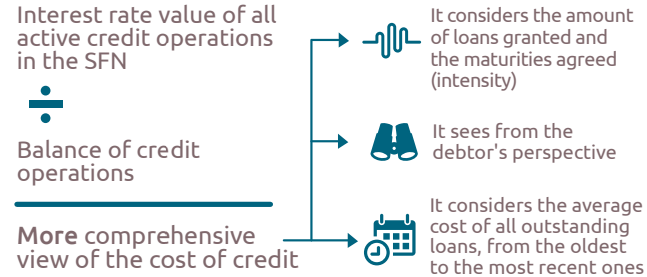
## Indicator improves the understanding of the cost of credit

The BCB has created a new indicator to monitor the cost of credit in the country. The calculation of the Average Cost of Outstanding Loans (ICC) is based on the amount spent with interest payments on all active operations registered in the National Financial System (SFN).

The ICC estimates the cost of credit operations from the debtor’s perspective, weighing the disbursements with interest payments, including tax and operating expenses derived from the loan’s contract.

The new indicator allows the analysis of the evolution of the average cost of outstanding loans, considering all operations, including the oldest contracts, in modalities with long-term maturities, such as real estate financing transactions, payroll loans, vehicles financing and working capital.

### AVERAGE COST OF OUTSTANDING LOANS – ICC



## Congress approves new rules for recording financial market operations

The government enacted Law 13,476, of August 28<sup>th</sup>, 2017, which established new rules for recording financial market operations, streamlining the process and reducing costs. Among other changes, custodians that hold portfolios of financial assets, such as Cetip, are now able to constitute liens on financial assets and securities. This operation identifies assets as legally tied to a specific loan agreement, preventing them from being used as collateral in more than one transaction.

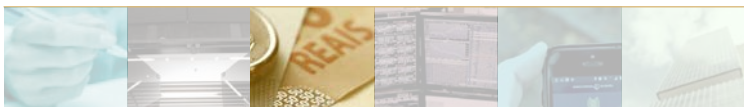
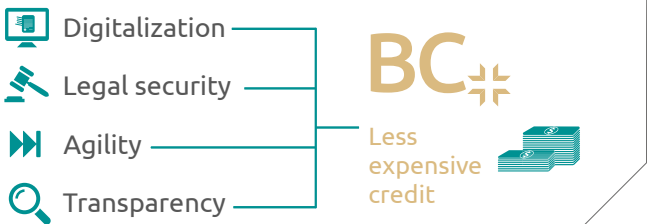
Before Law 13,476, this lien was not being made as the asset was not usually taken to a depositary and due to the difficulties of carrying out the transaction in a notary office. This could bring legal uncertainty to loan agreements. Conversely, custodians are highly integrated with financial institutions and can make the process more efficient and less expensive.

In the same measure, the National Monetary Council (CMN) defined which assets can be registered or deposited in financial market infrastructures and which could be used as collateral in credit operations, as is the case of negotiable invoice and credit card receivables.

The change reduces legal risk and consequently credit risk from operations carried out by banks with small and medium-sized enterprises (SMEs), which have less payment capacity and are required to provide extensive guarantees to be funded. The new law also allows the constitution of liens on registered assets, individually – asset by asset – or universally – for a group of assets.

### Electronic Records

Law 13,476/2017



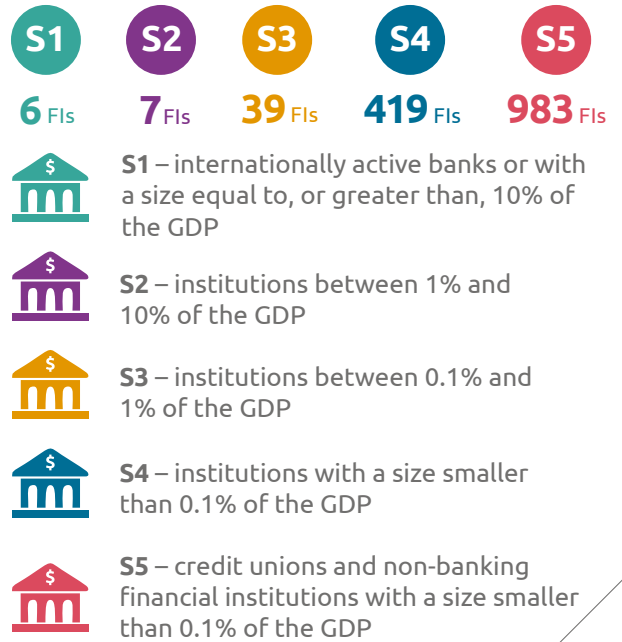


## Prudential regulation takes into account risk profile and size of supervised institutions

The CMN approved in February (Resolution 4,553/2017) the segmentation of all financial institutions operating in the country, for the purposes of proportionate implementation of prudential regulation. Institutions shall be allocated into five segments, according to their size, international activity and risk profile.

The segmentation provides a more appropriate regulatory context, especially for small-sized institutions, which are more dynamic and innovative. It will also guide further discussions on prudential regulation and facilitate competition among financial institutions. In practice, small-sized institutions do not have to follow the same regulation required from larger institutions, although they remain subject to prudential requirements.

### CHECK HOW SFN'S INSTITUTIONS ARE RANKED BY SIZE

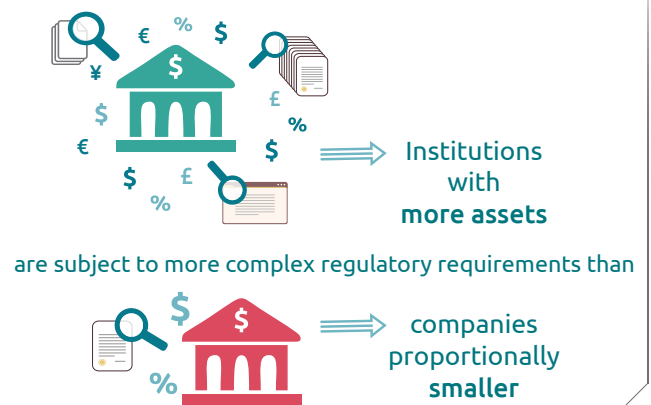


## Institutions will adopt risk and capital management criteria proportionate to their segment

Financial institutions and other institutions authorized by the BCB shall adopt risk and capital management criteria proportionate to their size, international activity and risk profile.

The approved CMN Resolution 4,557/2017 – which regulates on Integrated Risk Management and Capital Management (IRM) – was the first application of the proportionate prudential regulation rule in Brazil. Therefore, each institution must comply with the requirements according to its segment. Smaller and less complex institutions shall be subject to requirements consistent with their risk profile, albeit maintaining the necessary level of prudence in the management of their risks and capital.

### THE SMALLER THE INSTITUTION, THE SIMPLER IS THE REGULATION





## More financial institutions may opt for the simplified prudential regime

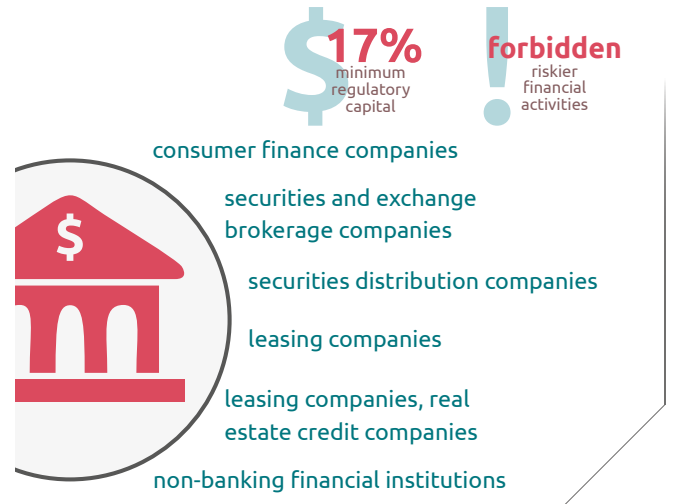
According to a resolution released in October by the National Monetary Council (CMN), from February 2018 on, non-banking financial institutions will be able to opt for simplified prudential regulation. The option implies a voluntary restriction on riskier financial activities, such as negotiation of derivatives, buying and selling securities and investing in credit securitization bonds. Until then, the BCB only – within the SFN – authorized credit unions to opt for a simplified prudential regime.

The simplification preserves prudential principles. Additionally, the change will bring reduction of monitoring costs for the non-banking financial institutions and optimization of working processes.

The following institutions will be able to participate: consumer finance companies, securities brokerage companies, exchange brokerage companies, securities distribution companies, leasing companies, real estate credit companies, in addition of non-banking financial institutions, including those operating in the credit, gold, and exchange markets and fiduciary agents.

By opting for the simplified regulation, the institution will be automatically classified as Segment 5 (S5), in accordance with the rules of segmentation established by Resolution 4,553/2017. For those institutions, the calculation of the required regulatory capital – now named Simplified Reference Equity (PRS5) –, will be performed exclusively with data from the institution’s financial statements, therefore eliminating the need of additional information. The minimum regulatory capital required capital will be 17 percent, except for credit unions affiliated to a central, whose requirement will be 12 percent.

THE S5 SEGMENT IS COMPOSED OF SMALLER FINANCIAL INSTITUTIONS













## Payment institutions' authorization becomes simpler

The BCB improved regulations on the processes of licensing payment institutions already in operation and authorizing financial institutions to provide payment services. Changes aim to expedite authorization proceedings of payment institutions by streamlining procedures and documents.

It is worthy of note, among the aspects altered, the exemption of submitting a business plan by the payment institutions already in operation. This measure speeds up BCB's evaluation of these proceedings.

### INSTITUTIONS AUTHORIZED BY BCB

	<b>175</b>	Banks and federal savings banks
	<b>1,030</b>	Credit unions
	<b>157</b>	Consortiums*
	<b>61</b>	Currency exchange shops (brokers)
	<b>169</b>	Securities distribution companies
	<b>56</b>	Credit, financing and investment companies
	<b>38</b>	Micro financing institutions
	<b>24</b>	Leasing companies
	<b>16</b>	Development agencies
	<b>7</b>	Mortgage companies
	<b>3</b>	Real estate credit companies and savings and loan associations
	<b>6</b>	Payment institutions*
<b>TOTAL</b>	<b>1,742</b>	

As at November 2017

\* although not financial institutions, their operation depends on the BCB's authorization



A MORE EFFICIENT SFN

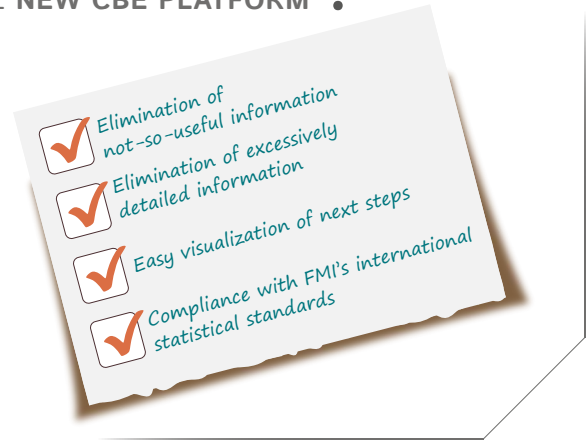
## BCB updates the Brazilian Capital Abroad declaration

The new application for reporting Brazilian Capital Abroad (CBE) is operating. One of the improvements is the elimination of excessively detailed information or not-so-useful information, from the analytical point of view. Informers now provide information in a simpler way, easily visualizing the steps that should be followed.

Data collected by means of the CBE allow the BCB to know the country's stock of assets abroad and to consolidate Brazil's International Investment Position, besides complying with commitments undertaken before international bodies.

The information required was streamlined and conformed to the requirements of new international statistical standards for the foreign sector, as defined by the International Monetary Fund (IMF). Additionally, the updated CBE shall allow the compilation of information on the ultimate country of destination of the direct investment abroad, similarly to the information about the ultimate investing country in respect of foreign direct investment in the country, which is obtained from data of the Census of Foreign Capitals in Brazil (Censo).

### WHAT HAS CHANGED WITH THE NEW CBE PLATFORM ?



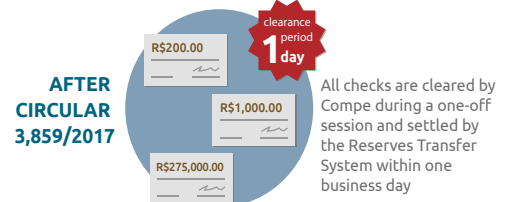
## Checks cleared in one business day

Checks of any value will be cleared within one business day. This is one of the effects from the centralization of checks clearing. Under the new procedure, checks will not be segregated by value. All documents will be cleared within the Clearance of Checks and Other Documents Centralizing Bureau (Compe) and the settlement will take place up to one business day from the date of exchange, with credit to the account at the bank of deposit during the night of the same day.

The centralized clearance will allow reduction of financial and operational costs. The new procedure became possible because of the reduction of checks in circulation and improvements in the processing technological capacity. Compe and banks intend to implement the new model in April 2018, ahead of the term established by Circular 3,859/2017.

### NEW PROCEDURE FOR CLEARING CHECKS

#### HOW IT IS TODAY



#### CHECKS ISSUED IN THE LAST 20 YEARS

	1997	2002	2007	2012	2017
Number of transactions	2.94 bi	2.40 bi	1.53 bi	0.91 bi	0.49 bi
Value in R\$	1.86 tri	1.68 tri	1.09 tri	1.16 tri	0.91 tri



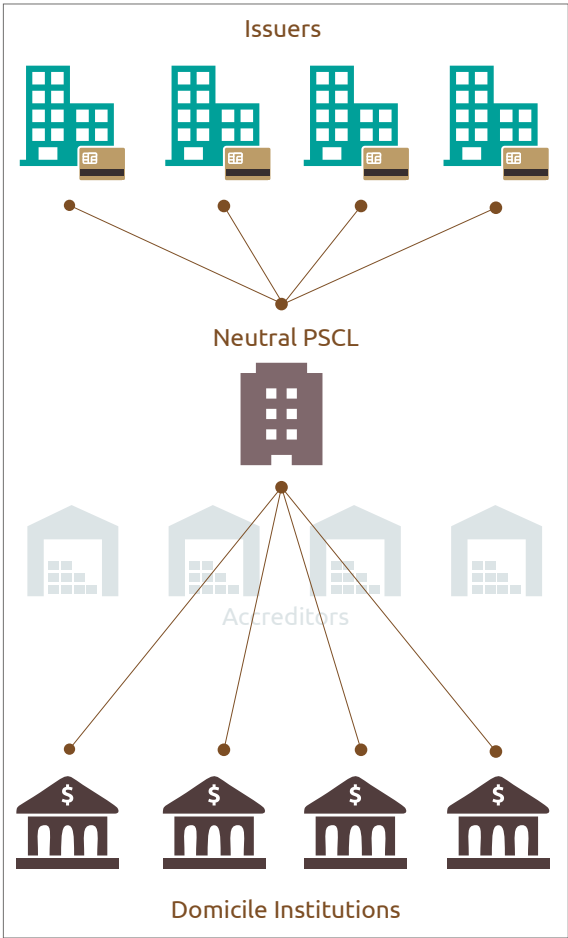
# Get to know the advantages of the centralized settlement of payment arrangements

Since November 2017, settlements involving financial institutions and institutions of payment of the transactions of credit and debit cards from the most used payment arrangements ("flags") have been centralized at the Interbank Chamber of Payments (CIP).

Centralized settlement reduces operational costs and asymmetric competitive conditions among market players, by homogenizing costs and increasing the safety of sensible commercial information used in the settlement process. Additionally, it provides standardization of procedures and schedules, fostering an equitable treatment when providing the final payment to commercial establishments and other users.

Before centralization, there were multiple Clearing and Settlement Services Providers (PSCL), which are entities in charge of clearing and settling orders for electronic funds transfers between financial institutions and payment institutions. The PSCL enabled the flow of funds from card issuers, through accreditors, to the accounts of affiliated commercial establishments at their respective domicile bank branches.

## GET TO KNOW THE CENTRALIZED SETTLEMENT OF PAYMENT ARRANGEMENTS



**Issuers**  
Companies that issue credit cards, whether banks or non-financial companies. Any issues regarding cards possession and usage should be addressed by the cardholders to the issuers



**PSCL**  
Clearing and Settlement Services Providers are financial market infrastructure entities that perform the settlement of arrangements between financial entities



**Accreditors**  
Companies that accredit providers of goods and/or services as card accepting establishments



**Domicile institutions**  
Entities at which the commercial establishment has an account for receiving payments performed by means of credit or debit cards. They are usually banks





## BCB approves systems for registering real state and used vehicles as collaterals for credit operations

The BCB has authorized BM&BOVESPA (Mercantile & Futures Exchange), CETIP S.A. (OTC Securities and Derivatives Settlement and Clearing House) and SERASA-EXPERIAN (Consumer Credit Reporting Agency) to implement systems for registering collaterals for credit operations. The financial institutions should choose one of these three certifier companies to register information about real state and vehicles offered as collaterals by credit borrowers.

The measure reduces risks of the financial institutions on credit lending. Overtime, it will also foster the reduction of costs associated to these operations.

### Electronic signature in exchange agreements

The BCB has granted authorized institutions the permission to formalize exchange operations contracts electronically, by means such as internet banking, tokens and digital certificates issued by several certification authorities. Until now, the electronic signature of exchange contracts was restricted to those technologies compatible with digital certification provided by ICP-Brasil.

### NEW RULES FOR REGISTERING OPERATIONS IN THE FINANCIAL MARKET



## Customer relationship policies strengthen financial institutions' ethics towards their users

It is in force the requirement that financial institutions – and other entities authorized to operate by the BCB – conceive and implement a policy of relationship with customers and users. This requirement intends to lessen information asymmetries and improve transparency in the supply of financial products and services.

This measure states that institutions should conduct their activities abiding by principles of ethics, responsibility, transparency and diligence. Institutions should establish procedures for monitoring, controlling and mitigating risks related to the implementation, follow-up and effectiveness of the policy proposed.

The regulation demands that the treatment of customers and users must be fair and equitable. Institutions should convey clear information on their products and services, which should be offered and recommended in accordance with the profile and needs of customers, and without impediments to the cancellation of contracts.



# EXTENDED FINANCIAL CITIZENSHIP

## Use your credit card consciously

In October, the BCB and the Brazilian Association of Credit Card Companies (ABECS) signed a technical cooperation agreement aimed at fostering coordinated actions in the areas of financial education and protection of financial services users. The first action of the cooperation was a 100% online public benefit campaign on the usage of credit cards, entitled "If you use it, don't go beyond the limit."

Targeted especially at more-than-25-years-old adults from classes C and D – a population segment especially vulnerable to over-indebtedness – the campaign was released in the social media networks, in e-commerce portals and through content distribution networks during three weeks. The goal was to provide guidance on rights and obligations, best practices for the conscious usage of credit cards, and the new regulations on revolving credit. Nine video classes were also available at Abecs channel on Youtube.



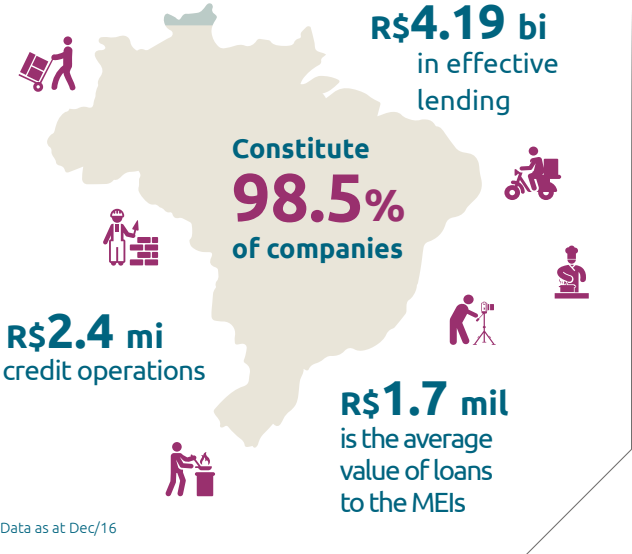
CLUELESS LITTLE GUY!

## BCB discloses indicators related specifically to small businesses

The BCB has made available more than 1,600 financial inclusion indicators related to micro and small businesses and to Individual Micro-entrepreneurs (MEI). The database is accessible at the Temporal Series Management System (SGS). Data comprises quarterly updated information on credit balance, number of operations, defaults, average interest rate of undertaken credit operations, among other.

Small businesses represent 98.5 percent of domestic firms. Therefore, the public disclosure of data provides more transparency, allowing society to monitor the evolution of the credit available to this segment. Furthermore, it allows better identifying the problems, opportunities and challenges in this field, promoting the implementation of more effective public policies – as it was the case with the study Outlook on the Credit Conceded to Individual Micro-Entrepreneurs.

### INDIVIDUAL MICRO-ENTREPRENEURS IN BRAZIL



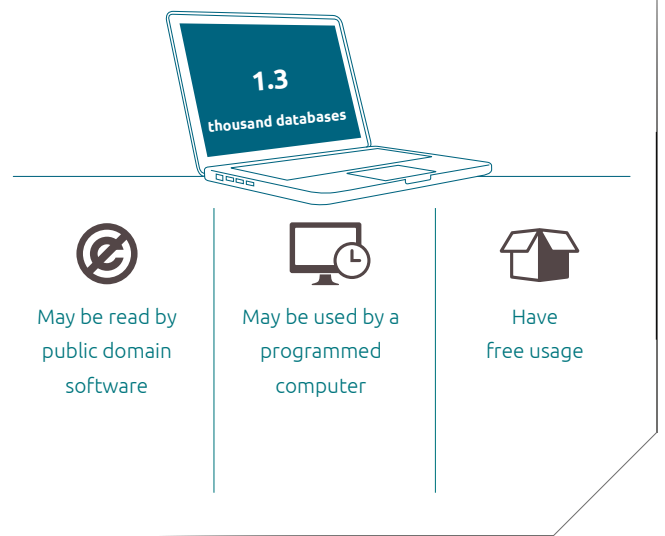


## BCB's Open Data Portal increases information volume threefold

The volume of information available at the BCB's Open Data Portal increased threefold, currently reaching more than 1.3 thousand databases published. The site displays a catalog of metadata describing the sets of data published and lists the links to the information sought, thus directing the user to the available content of the BCB's institutional site.

The easiness in locating and understanding a database widens the possibilities of analysis and data crossing. For instance, one may access a dataset containing the Total Effective Value (VET) ranking of exchange operations and cross it with a dataset containing the regional points of exchange in Brazil, in pursuit of comparing rates by region.

BCB'S OPEN DATA PORTAL



## Release of BCB's regulations reduces information asymmetry

The regulatory votes from the BCB's Board of Governors may now be accessed at the institution's portal. The public may find information related to circulars issued by the BCB, except those containing data protected by confidentiality aspects, whether fiscal, banking, personal or corporate. These documents contain the reasons underlying decisions on several issues under the Board's supervision. Releasing information in advance, even before the public demands it, is known as active transparency, which reduces asymmetry of information.

The content of votes will be published at the BCB's site, on the page available for searches on regulations. Other documents, including votes from the Board of Governor's published prior to July 1<sup>st</sup>, shall continue to be made available upon public request.

During 2017, the BCB received 358 requests for information related to the votes of the Board of Governor's. The decision to make public the content of regulatory votes is part of the policy of improving BCB's transparency, and it began as a response to the growing demand for information. For purposes of comparison, from 2012 to 2016 this demand increased more than 400 percent.



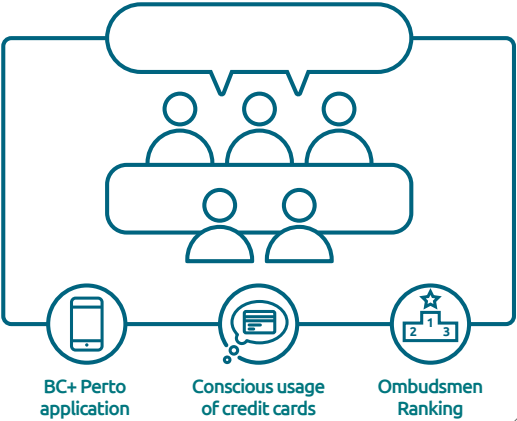
EXTENDED FINANCIAL CITIZENSHIP

# Citizen’s Committee improves the relationship of society with financial institutions and the BCB

The Citizen’s Committee – established to deal with matters involving the relationship of citizens with financial institutions (FI) and the central bank – helps to assure that BCB’s actions have a closer look at the general public.

The Committee performed several activities, such as: the development of an application that allows the online monitoring of requests registered at the BCB (Citizen Module), a campaign aimed at the appropriate usage of credit cards, and a study on the best methodological definitions for elaborating the Ombudsmen Quality Ranking

ACTIONS OF THE BCB PERFORMED WITH THE SUPPORT OF THE CITIZEN’S COMMITTEE



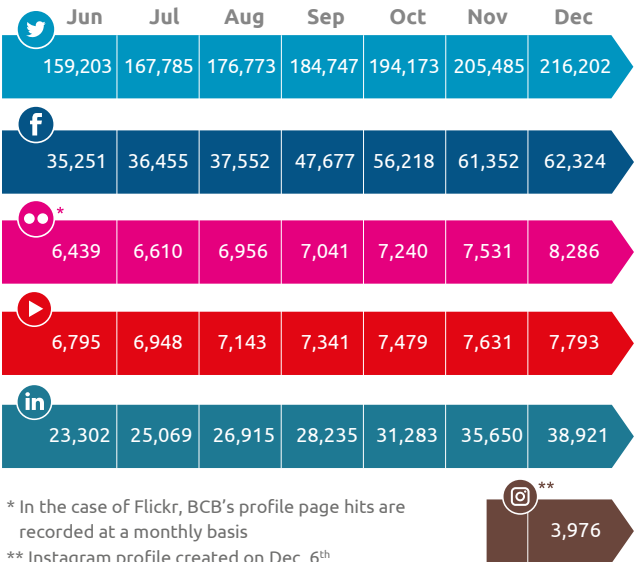
# Instagram profile: BCB displays its corporate look

In addition to its corporate profiles at Twitter, Facebook and LinkedIn, the BCB has recently joined Instagram, a social media network specialized in photographic images. The initiative is part of BCB’s institutional efforts to foster the dialogue with citizens.

The BCB also has a Youtube channel, in which it posts institutional videos that explain how the bank works, as well as press conferences and presentations on the Financial Stability Report and the Inflation Report.

A high-resolution image bank is also available at Flickr. The profile content is open to the public, provided the source is properly mentioned.

2017 EVOLUTION OF BCB’S FOLLOWERS IN SOCIAL NETWORKS



## Online tools allows monitoring complaints against financial system

The citizen may monitor online the status of his complaints against financial institutions. Available at the *BC+ Perto* application (Android and iOS) and hosted at the BCB's homepage on the Internet, the module allows the citizen to follow-up his demands for information, as well as his appraisals, suggestions, complaints and denunciations.

### Ranking of Complaints

The Ranking of Complaints is now quarterly published. A longer period of data collection yields better assessment of information, without the impacts caused by occasional events. The ranking also allows monitoring the historic performance of financial institutions.

Once running the tool at BCB's page, the user has immediate access to a preview of the three most complained about institutions under different rankings: banks with more than four million clients, banks with less than four million clients, and consortiums. The ranking of the most frequent complaints is also displayed. This format provides a fast comparison among different financial institutions groups and helps the citizen to choose the institution that best suits his needs.



## Agreement eases the resolution of conflicts between citizens and financial institutions

The main objective of the technical cooperation agreement co-signed by the BCB, the National Council of Justice (CNJ), and the Brazilian Federation of Banks (Febraban), is to reduce judicial disputes between consumers and financial institutions. The document fosters the usage of the Digital Mediation System of the CNJ, through which consumers may, free of charge, file their complaints against financial institutions (FIs) and seek conciliatory resolutions, before going to court.

Once informed about the demands registered in the system, the FI should contact the customer in an attempt to solve the problem, which might lead to faster and cheaper solutions. The financial institutions are among the three major litigants, in all court levels.



## BCB launches the Quality Ranking for Ombudsmen

The BCB launched a positive ranking with qualitative information on the performance of ombudsmen from the financial institutions (FIs). The Quality Ranking for Ombudsmen will allow citizens to know which institutions promote a good relationship with their customers.

The quarterly updated tool displays indicators on the performance of ombudsmen, when dealing with the complaints registered at the BCB. The quality of responses to customers; the average time of response; and the level of observance of regulatory aspects were the main aspects taken into account while designing the tool.

The indicator also provides a bonus for adhering to public mediation tools, such as the platform [www.consumidor.gov.br](http://www.consumidor.gov.br), sponsored by the National Consumer Secretariat from the Ministry of Justice. This incentive aims to mitigate litigations between consumers and banks.

### Quality Ranking for Ombudsmen

4<sup>th</sup> quarter  
2017

	Index <sup>1</sup>
1. BANCO DO NORDESTE DO BRASIL S.A.	4.94
2. VOTORANTIM (conglomerate)	4.27
3. MIDWAY S.A. CRÉDITO, FINANCIAMENTO E INVESTIMENTO	3.25
4. BRADESCO (conglomerate)	3.04
5. ITAÚ (conglomerate)	3.03

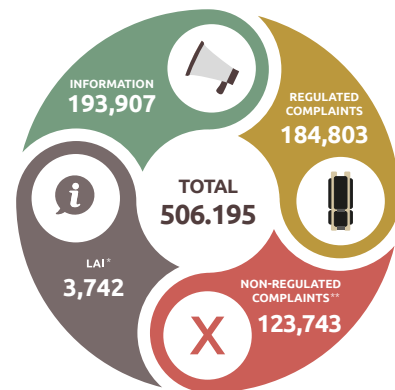
Banks and IFs with more than four million customers  
<sup>1</sup>Ombudsmen Quality Index

## More than 500,000 demands from citizens have been handled in 2017

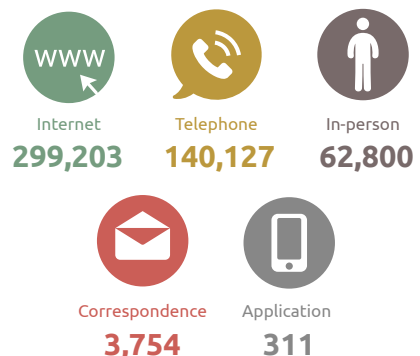
The BCB handled 506,195 demands, according to data from the Online Demand Registration System – Citizen Module (RDR). Credit portability – when the customer decides to transfer to another institution a loan already contracted – was the most frequent complaint, reaching almost 50,000 occurrences, 27 percent of total complaints related to the BCB activities.

The BCB handles citizens' demands on the Financial National System, such as complaints against products, services or financial institutions. Complaints represent 61 percent of registered demands.

### DEMANDS BY SEGMENT IN 2017



### COSTUMER'S CHANNELS



\* Information Access Law

\*\* Complaints on a matter not regulated by the BCB



## BCB introduces a Policy for Socio-Environmental Responsibility

The BCB introduced its Policy for Socio-Environmental Responsibility (PRSA), aimed at aligning and integrating initiatives and work processes related to the subject in the institution. The policy also intends to foster a socio-environmental responsible attitude within the financial system, especially among institutions regulated by the BCB.

The PRSA is based on three pillars: contributing to sustainable development on its three dimensions (social, environmental and economic); encouraging financial institutions to participate in the country's process of balanced development; and fostering the access to financial information, services and products appropriate to the needs of Brazilian citizens and corporations.

### ENVIRONMENTAL CONSERVATION



Simple attitudes related to the conscious consumption of resources generate savings and conservation results that, beyond causing a positive impact in the corporate day-by-day, help to create a culture of awareness that employees and collaborators incorporate into their daily routine

## BCB promotes a campaign for collecting school supplies and groceries

The third edition of campaign **Solidary Back to School** collected books and school supplies conveyed to charities dedicated to children and teenagers in a position of social risk. In 2017 the initiative collected 6,090 items, almost 1,000 units above the figures of 2016.

The campaign benefited around 300 children. Besides children and adolescents literature, textbooks and accompanying materials, were also collected school supplies such as notebooks, erasers, colored pencils, ballpoint pens, sharpeners, pencil cases, children modeling clay, paper, white glue, colored glue, crayons, backpacks, and related items.

Donations were delivered to several child care entities: *Creche da Associação dos Catadores de Lixo da Estrutural* and *Creche Escola Sociedade Estação Vida*, in Brasília; *Associação Manancial da Vida*, in São Sebastião; *Lar Ampare*, in Vila Planalto. In Salvador donations were conveyed to children assisted by *Instituição Beneficente Conceição Macedo*, which works in preventing of AIDS and supporting needy individuals susceptible to contamination by HIV.

During 2017, a campaign for groceries was also carried out. The items collected were delivered to *Associação Manancial da Vida*, in São Sebastião.

### 2017 SOLIDARY BACK TO SCHOOL CAMPAIGN





# Savings on electric power, water and paper demonstrate BCB's socio-environmental responsibility


Besides seeking for the environmental certification of its premises, actions regarding the saving of electric power, water and paper are in the center of the BCB's socio-environmental practices. It is the case of BCB's premises in Salvador – inaugurated in 2016 – which were granted the Leadership in Energy and Environmental Design Certification (LEED Certification), Silver Level, issued by the United States Green Building Council (USGBC).

The certification is granted to buildings that efficiently use energy and water and properly convey their solid waste by means of selective collection, recycling or composting. It was the very first certification of this kind in the Brazilian Federal Executive Branch.


The BCB was also a pioneer in delivering a Management Plan on Sustainable Logistics (PGLS) to the Ministry of Planning, Development and Management (MPDG). The document establishes practices on the sustainability and rationalization of expenses and processes.


Energy efficiency is a priority issue within the PGLS. The renovation and adaptation of the façades of BCB's premises in Fortaleza allowed insulating its interior from the external heat, which led to a 21 percent decrease in energy consumption. In addition, elevators were swapped and led lights gradually substituted incandescent and fluorescent lamps.

At BCB's headquarters in Brasilia, the usage of sensor taps and discharge valves with flow limiter led to a 31 percent decrease in water consumption. Moreover, UPS systems were replaced by more power-efficient equipment. BCB's premises in Rio de Janeiro adopted a new automatic internal ambient temperature control, which saves energy by optimizing the air conditioning system.




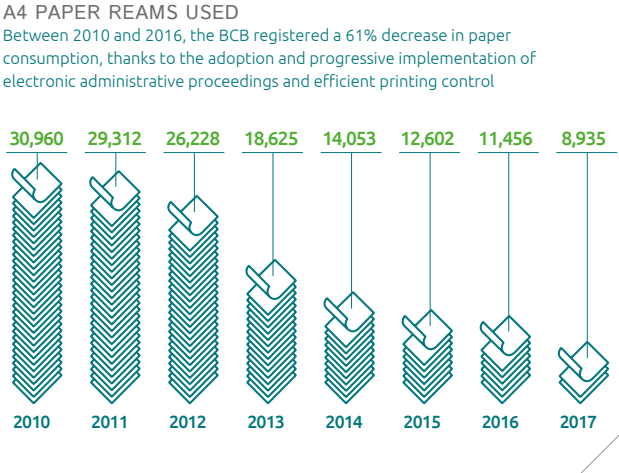
Façade renovation in **Fortaleza** reduced the building's internal temperature, which led to a **21% decrease in energy consumption**





At BCB's headquarters in **Brasilia**, the usage of sensor taps and discharge valves with flow limiter led to a **31% decrease in water consumption**





### Sustainable services contracts

At the Rio de Janeiro's premises, since December 2017 a new contract is in force, for the collection, transportation, reception and final conveyance and co-processing of solid waste derived from the fragmentation of bank notes unsuitable for circulation.

Co-processing is a technology of burning the waste in cement kilns, which does not generate new waste material and, therefore, contributes to the conservation of natural resources by replacing raw material and fossil fuels traditionally used in the cement manufacturing process.

In 2017, the Rio de Janeiro branch was responsible for 17 percent of the total solid waste derived from the fragmentation of unsuitable bank notes.

This new model for the final destination of unsuitable bank notes residues will be used as a benchmark when implementing the same scheme at other BCB's branches. Currently, those branches still convey their residues to sanitary landfills.



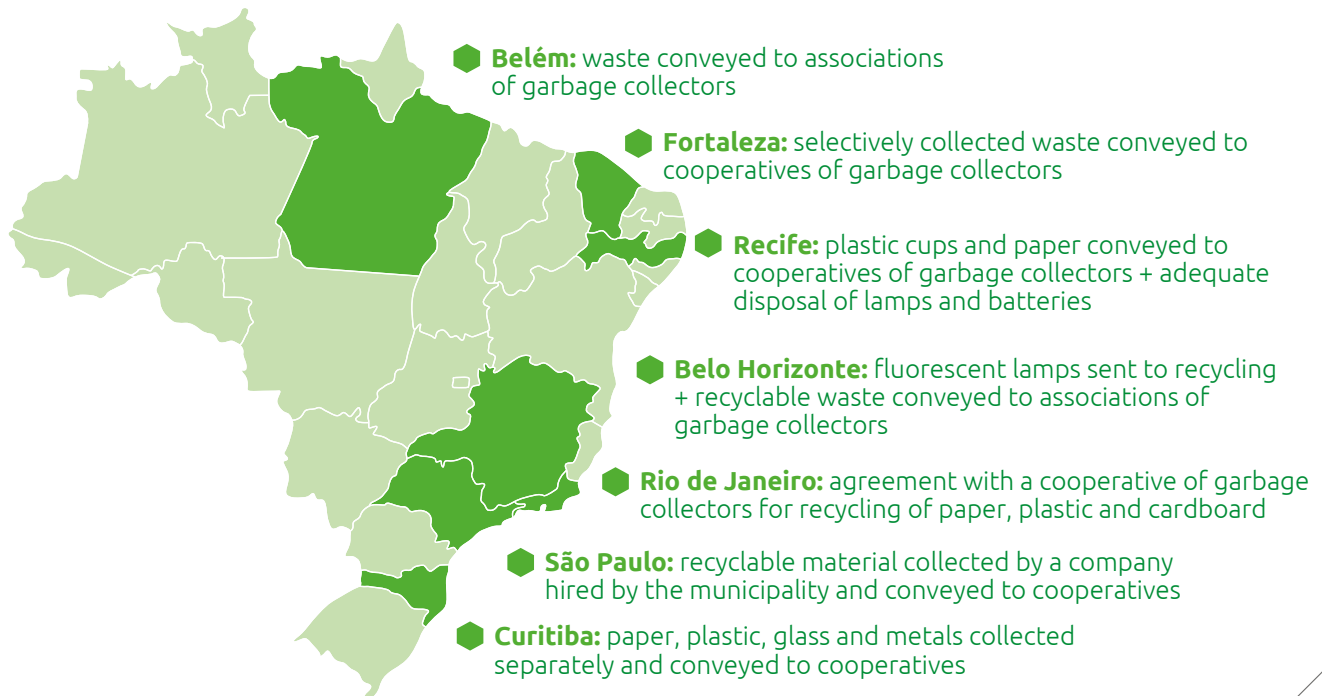


## BCB improves selective collection in Salvador and reaches 100% of the solid waste

The BCB Regional Management Office in Salvador improved its selective collection of waste and now selects all solid waste generated at its premises. Trash cans for paper, glass, plastic, metal, organic material and non-recyclable material have been placed throughout the building, in order to favor the correct disposal of waste.

Individual trash cans have been removed and all internally generated waste begun to be classified and selected at the origin. Besides, the organic waste is taken for composting at the local vegetable garden.

### SUSTAINABILITY ACTIONS PERFORMED



## Program *Despertar* provides the first experience in the labor market

The BCB's social program *Despertar* (Awakening) – aimed at adolescents in a vulnerable social position – stimulates personal and professional development, favoring the insertion of the apprentice in the formal labor market. Since its inception in 1997, the program assisted about 1,300 youngsters. In 2017, 94 apprentices have participated in the program.

552 hours of theoretical capacitation on information technology, public service, information management, social and political aspects of work, entrepreneurship, logical and mathematical reasoning, languages diversity and human rights. Additionally, they are offered school reinforcement classes, lectures on financial education, drugs and prevention, health and sexuality, planning and life project, internet and social networks.

During the two-year contract, the apprentices receive monthly subsidies of R\$660.29 (scholarship), R\$185.90 (meal allowance) and transportation allowance. Besides subsidies, they receive





## OTHER BCB ACCOMPLISHMENTS

### BCB hosts the XIX Inflation Target Seminar

The economists Mr. Ricardo Reis – from the London School of Economics and chief editor of the *Journal of Monetary Economics* – and Mr. Pierre-Olivier Gourinchas – professor at UC Berkeley and international financial expert – were the highlights of the XIX Inflation Target Seminar. The event aimed to foster the exchange of experiences and knowledge between national and international experts. It brought together representatives of central banks, multilateral organizations, the academic community and the private sector.

Experts discussed academic articles during the first two days of the seminar. In the third and last day – opened to the public – the debate focused on the outcomes of research, formulation of the monetary policy, and operation of the inflation target

regime. In addition, sessions related to monetary policy communication and anchoring of expectations were conducted.

In the event, the Top5 Certificate was granted to the best performance institutions in the 2016 Market Expectation Survey (Focus) – annual rankings for short, medium and long-term projections of the IPCA, IGP-DI, IGP-M, Selic and exchange rates. The evolution of expectations on the main macroeconomic indicators is of prime importance for the inflation target regime, for the Monetary Policy Committee (Copom) decision-making process and for the monetary policy conducting.

### BCB hosts the XII Annual Seminar on Risk, Financial Stability and Banking

The XII Annual Seminar on Risk, Financial Stability and Banking – held in São Paulo – promoted the exchange of experiences and knowledge on prudential regulation, risks, banking economy and financial stability between Brazilian and foreign experts.

The 2017 program included presentations and discussions of works selected through call for articles, besides two presentations of keynote speakers, made by Mr. Hyun Song Shin, head of research at BIS, and Mr. Michael Kiley, Deputy Director of the Board of Governors of the Federal Reserve (Fed). The 13<sup>th</sup> edition of the event will take place from October 17<sup>th</sup> to 19<sup>th</sup>, 2018. Moving the event to October will allow for a bigger interval after the Inflation Target Seminar, which usually takes place in May.

The award ceremony of the Central Bank Economics and Finance Award, which aims to stimulate research in the fields of economic science and issues related to the BC mission, also took place during the event. Previously unpublished monographs, in Portuguese or English, that dealt with the theme “Financial Stability” and had a current focus, run for the prize.

#### Winners of the 2<sup>nd</sup> Central Bank Economics and Finance Award

1<sup>st</sup> Place – Samer Fathi Shousha  
*International Reserves, Credit Constraints, and Systemic Sudden Stops*

2<sup>nd</sup> Place – Thiago Christiano Silva, Solange Maria Guerra, Michel Alexandre da Silva and Benjamin Miranda Tabak  
*Measuring Systemic Risk under Monetary Policy Shocks: a network approach*

3<sup>rd</sup> Place – Jorge Luis Ponce Moreno, Carlos Eduardo Serafín Frache Derregibus and Javier García-Cicco  
*Countercyclical Prudential Tools in an Estimated DSGE Model*





## OTHER BCB ACCOMPLISHMENTS

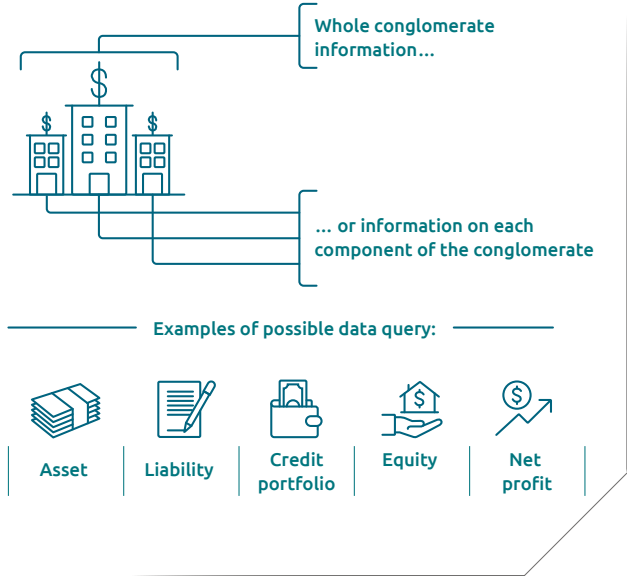
### A more detailed platform on financial institutions information

The IF.Data database now incorporates information on individual institutions and prudential conglomerates. Reports from the system became more clear and detailed, and the tool started to use a technology platform compatible with the Open Data program. Those changes are in line with guidelines established by the Brazilian Law on Access to Information and the Basel Accord Pillar III, which addresses the disclosure of risk management measures.

Dissociated queries about each institution that is part of a financial conglomerate became possible with the system's evolution. Previously, the tool would only allow only data queries on conglomerates or independent institutions. The system also started to gather information on prudential conglomerates, which are groups formed by financial and similar institutions, both not always regulated by the BCB, but that also provide insight into the risks within the National Financial System. Examples of similar institutions are consortium administrators and securitizers. Despite being non-financial institutions, the first ones depend on the BCB authorization to operate, while the latter do not rely on the BCB authorization.

The IF.Data provides accounting, regulatory capital, credit and foreign exchange information.

#### WHAT IS IT POSSIBLE TO FIND AT IF.DATA?

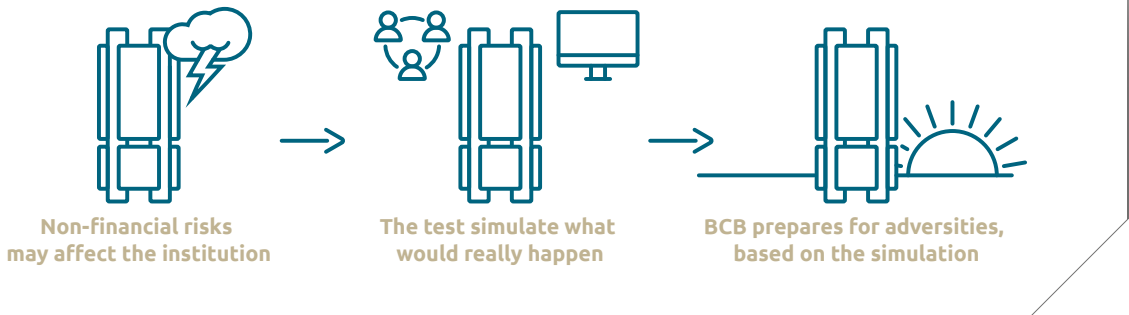


### BCB performs stress tests on non-financial risks for the first time

In 2017, for the first time, the BCB performed a prospective assessment of non-financial risks that may affect the institution. The stress test simulates the institution's ability to deal with adversities. Non-financial risks include strategic, human resources and information technology and operational risks (failures of systems, people and processes),

among others. The tests measured the impacts of events that could affect BCB work processes, in order to identify vulnerabilities. The tests outcome are confidential and will be used to increase the institution's efficiency and resilience.

#### STRESS TEST = SIMULATION





## OTHER BCB ACCOMPLISHMENTS

### Brazil formally applies to become an OECD Member Country

The Brazilian government has sent a formal request to become a full member of the Organization for Economic Cooperation and Development (OECD). The BCB played an important role in formalizing the application, since it is responsible for the supervision and regulation of the financial system, in addition to executing the monetary policy in the country.

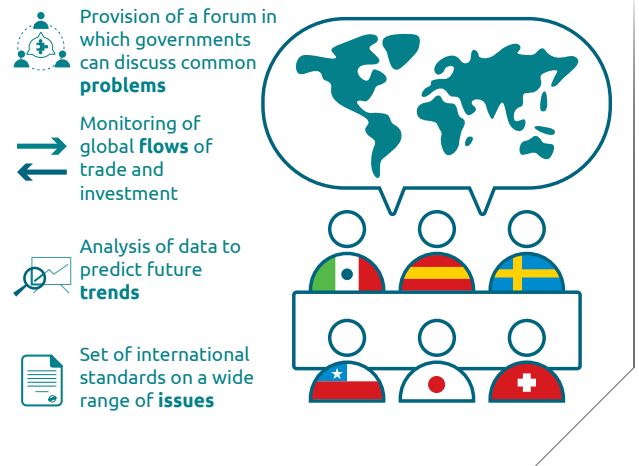
Becoming a full member of the OECD tends to increase international confidence in the country, with positive repercussions not only on growth, but also on the macroeconomic environment and, in particular, the cost of sovereign debt financing, thus benefiting the Brazilian economy.

The country must conform to decisions, recommendations and other legal instruments of the organization to be accepted. Among the current 239 instruments issued by the OECD, the BCB has analyzed more than forty of them, which are related to its competencies, in partnership with the Ministry of Finance, the Ministry of Foreign Affairs and other Federal Public Administration bodies.

At the beginning of 2017, Brazil had already adhered to 35 instruments (the highest level of adherence among non-member countries).

#### WHAT IS THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OCDE)?

The OECD is an international body whose mission is to promote policies that will improve the economic and social well-being of the countries. OECD has 35 members.



### BCB recovers US\$262 million owed by the Venezuelan government

On January 5<sup>th</sup>, 2018, the Central Bank of Venezuela settled with the BCB, a debt of US\$262 million referred to the offsetting of operations carried out through the Agreement on Reciprocal Payments and Credits (CCR) in the second quarter of last year. The debt was due on September 8<sup>th</sup>, 2017.

The US\$262 million were settled in Special Drawing Rights (SDR), from Venezuelan resources available at the International Monetary Fund (IMF). The Caribbean country still owes Brazil US\$276 million, related to the charge of belated interests and offsetting of transactions carried out via CCR in the third quarter of 2017 (obligation due on January 8<sup>th</sup>, 2018).

The BCB will bring the issue to discussion before the CCR collegiates. The BCB only makes payment to Brazilian financial institutions after receiving the corresponding funds, without incurring credit risk in these transactions.





OTHER BCB ACCOMPLISHMENTS

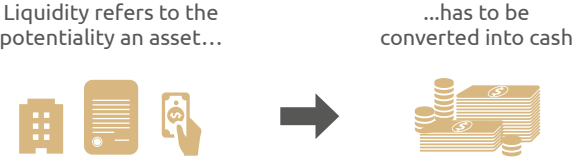
### Brazil receives maximum grade for regulation on liquidity indicator

Brazil received from the Basel Committee on Banking Supervision the maximum grade for the regulation on the Liquidity Coverage Ratio (LCR) indicator , applicable to institutions of greater systemic relevance in the country. The Committee published a report disclosing this result. The final assessment attributed to the Brazilian regulation was "Compliant" – meaning the country is in full compliance – the highest level of the evaluation scale.

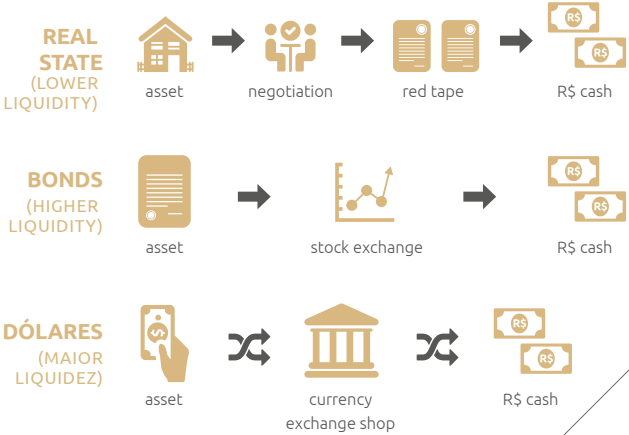
The note certifies that the rules established by the BCB and the CMN have been considered fully adequate to international recommendations so that financial institutions have sufficient resources to honor their short-term commitments, even in severe stress scenarios. The "Compliant" assessment signals the existence of greater security for investments to rating agencies, investors and other market players.

The maximum grade is an important achievement for the country and reflects the commitment of the BCB in ensuring adoption of the best practices of prudential regulation in Brazil.

### Do you know what liquidity is ?



Different assets have different degrees of liquidity. Examples:



### Improved system provides a more complete mapping of the credit market in Brazil

The universe of entities that submit information related to credit operations to the Credit Information System (SCR) was expanded. This favors credit management in the country by allowing more complete mapping of the credit market.

With Resolution 4,571, of May 26<sup>th</sup>, 2017, the SCR will receive – from 2018 on – information on operations carried out or acquired from entities not supervised by the BCB, from programs or public funds (including municipal, state and federal constitutional) and from branches and subsidiaries located abroad. In addition, payment institutions also started to remit to the SCR credit operations granted by them, in accordance with Circular Letter 3,870, of December 19<sup>th</sup>, 2017.





## OTHER BCB ACCOMPLISHMENTS

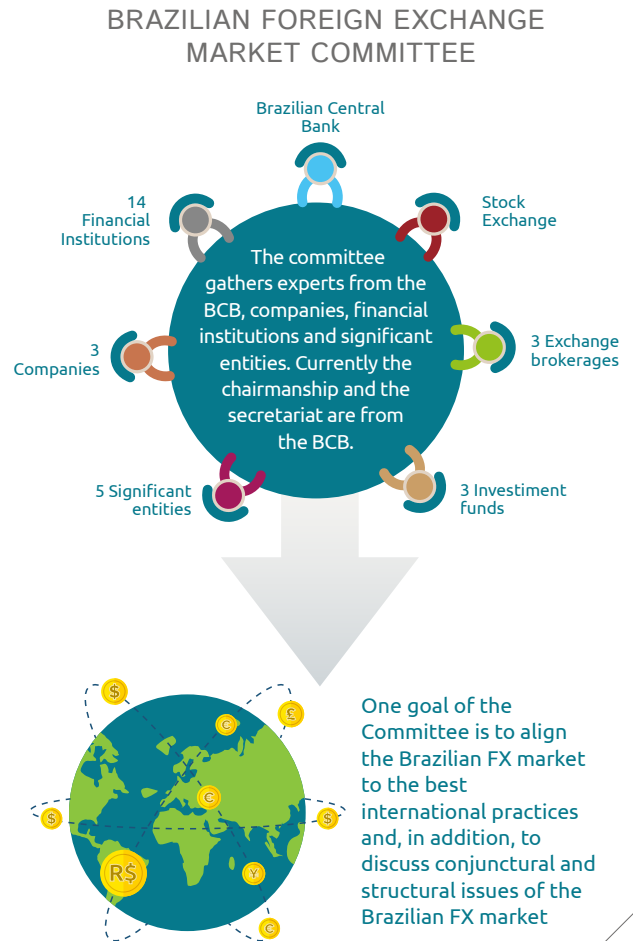
### Discussions on the efficiency of the foreign exchange market are progressing

The Brazilian Foreign Exchange Committee (CCMCB) was established to promote discussions aimed to increase this market’s efficiency in Brazil and to foster the dissemination of best practices.

The CCMCB seeks to ensure that the exchange market remains in line with the best international practices and will serve as a communication channel between the various participants in the domestic market and the BCB, as well as a representation of Brazilian’s interests in global forums.

One of the Committee’s goal is to encourage the adherence of market participants to the FX Global Code. This code sets out principles related to ethics, governance, information sharing, management of risk and compliance, and processes of confirmation and settlement. The BCB formalized its adherence, and it encourages other participants of the Brazilian exchange market to join as well. Voluntary adoption allows an environment of greater trust and competition among agents operating in the foreign exchange market.

The CCMCB comprises representatives of the BCB, banks, companies, stock exchanges, brokers, associations and class federations. It has no deliberative nature and its decisions and guidelines affect neither exchange rates, nor exchange rate regulation.



### Access to certificates on supervised entities is expanded

Any citizen can obtain a certificate on the authorizations to operate that are granted by the BCB, without identifying himself or justifying the request. Certificates may be used, for example, to participate in bidding processes.

The new feature is available through the Clearance Certificate Emitting System for Financial Institutions (Certiaut), which now allows for public access. The authenticity of an issued certificate can be confirmed by means of the document’s authentication code.

Previously, the system was only available to supervised entities and a justification for issuing the certificate was required. In addition, users were only able to issue certificates regarding institutions with which they had connections.



OTHER BCB ACCOMPLISHMENTS

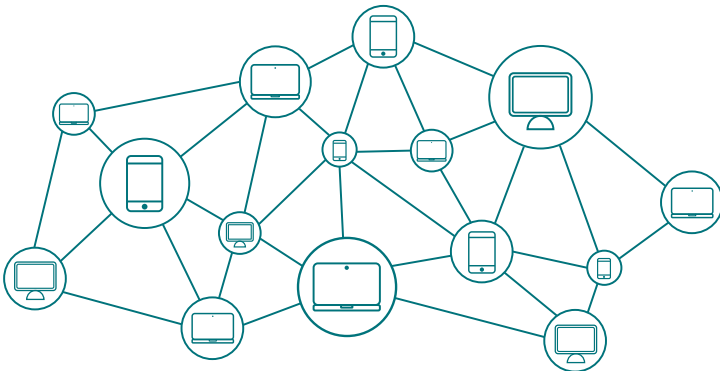


# Blockchain has potential to become a settlement alternative for transactions

Since 2016, the BCB has been researching the advantages of using distributed ledger technology (DLT) – the blockchain technology. The result of theoretical and practical studies on the applicability of the technology in the institution was presented in the article “Distributed ledger technical research in Central Bank of Brazil”.

The creation of systems for identity management and for alternative transaction settlement is one of the potential uses of the technology. The research focused on verifying whether the blockchain technology could maintain an operating financial system running in the event of complete unavailability of the BCB’s Reserve Transfer System (STR). The article’s publication is also a way of sharing information with other foreign institutions such as central banks.

### UNDERSTAND HOW BLOCKCHAIN TECHNOLOGY WORKS



Blockchain is a technology used to certify digital goods and transactions. It uses **distributed ledger technology** to register information without the need of a central entity



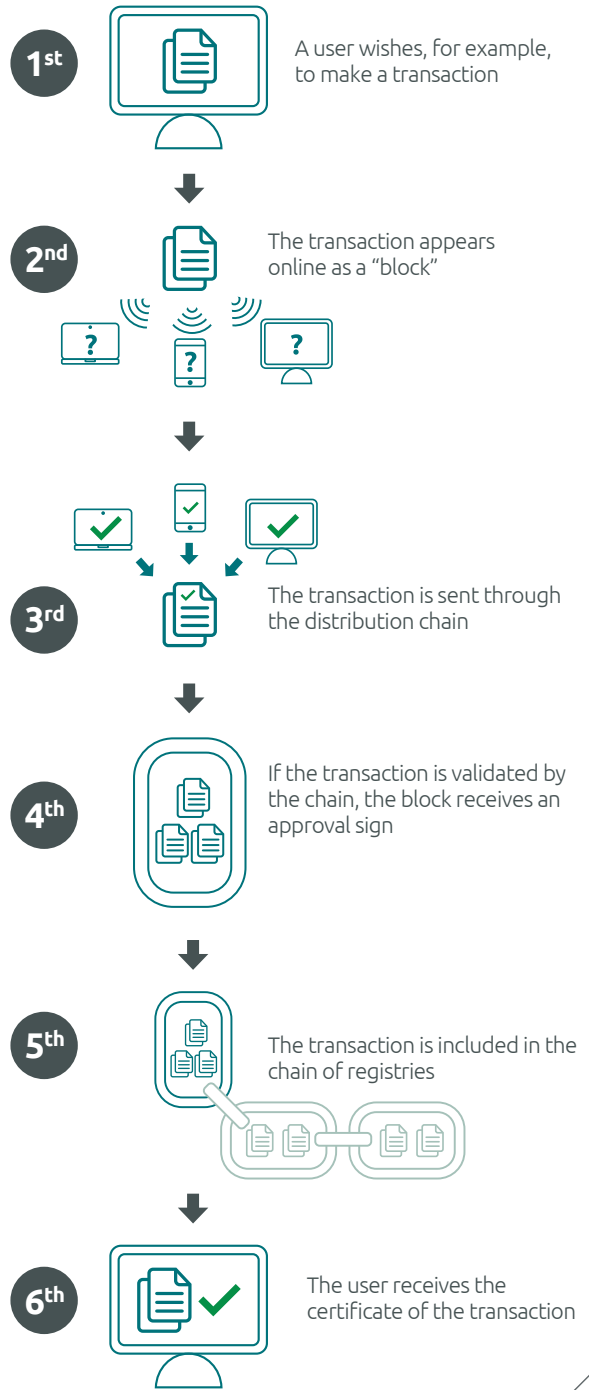
#### Integrity

An entered record cannot be altered



#### Transparency

A record may be audited





## OTHER BCB ACCOMPLISHMENTS

### CMN approves the creation of the Net Stable Funding Ratio indicator

The CMN approved the creation of the Net Stable Funding Ratio (NSFR) indicator and of the leverage ratio (LR).

The NSFR is complementary to the LCR – effective in the country since 2015 –, and aims to reduce the likelihood that interruptions in institutions’ access to regular sources of funding may jeopardize their liquidity position and lead to future banking crises, with potential negative effects on financial stability.

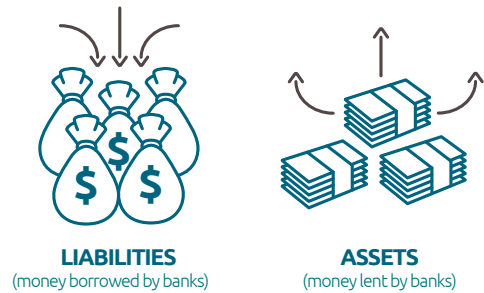
Financial institutions that are members of segment S1 – those of greater size and complexity – will be required to present the new indicator, which will be effective from October 1, 2018 on.

#### Leverage ratio

The CMN also set the minimum values for the leverage ratio, which is calculated on the basis of the ratio of Level I regulatory capital to the total exposure value of the financial institution without risk weight. The measure is an additional safeguard to Basel’s minimum requirements.

The minimum required LR level will be 3%. This measure took effect on January 1<sup>st</sup>, 2018.

#### WHAT IS THE NET STABLE FUNDING RATIO INDICATOR (NSFR)



Banks borrow in the short term (liabilities) and lend these resources in the long term (assets). The more the maturities of the institution’s assets and liabilities are set apart one from the other, the greater is the risk

$$\frac{\text{Amount of available stable resources}}{\text{Amount of required stable resources}} = \text{NSFR} \geq 1$$

In practice, what the NSFR does is to define that the longer the terms of the loans granted by the bank, the longer the maturities of the funds raised by that bank should be





## OTHER BCB ACCOMPLISHMENTS

### New platform reduces red tape and costs of foreign direct investment registration

A new version of the Electronic Registration Statement – Direct Foreign Investment (RDE-IED) module of the RDE System was released in web platform. In addition to improving the usability of the system, the new version simplifies business rules.

The legal obligation of the companies that receive foreign direct investment to register them at the BCB became easier with this change. The system management and maintenance costs have also been reduced.

The way companies receiving foreign direct investment and their service providers must input their registries has become more agile and less bureaucratic.

### Action coordinated by the BCB is a highlight at the XV Plenary Meeting

Action 8 was the highlight at the XV Plenary Meeting of the National Strategy to Combat Corruption and Money Laundering (ENCCLA). This action – aimed to develop a diagnosis of the current situation of the usage of virtual currencies and electronic payment means – was coordinated by the Central Bank in the Strategy, during the last year.

Other twenty public bodies – among them, the Securities and Exchange Commission (CVM), the Public Prosecutor’s Office (MPF), the Brazilian Federal Revenue Secretariat (RFB) and the Council for Financial Activities Control (Coaf) – collaborated with Action 8, which was supposed to deliver three results.

The **first** result was a manual containing conceptual delimitation of virtual currency, which resulted in a glossary with terms related to virtual currencies. The **second** was an assessment of money laundering typologies practiced with the use of virtual currencies and electronic payments methods, containing the description, the main warning signs and the graphic representation of the cases, to facilitate understanding. The **third** was a workshop – “Virtual Currencies and Electronic Means of Payment” – at the Ministry of Justice, opened to all ENCCLA bodies, which was attended by national and international panelists and gathered more than seventy people from twenty different organizations.

#### NATIONAL STRATEGY TO COMBAT CORRUPTION AND MONEY LAUNDERING (ENCCLA)

Enccla is the main network connection in Brazil to study and propose policies against corruption and money laundering. The goal of Enccla’s members is to conduct and implement actions defined and agreed upon in the Strategy

#### in 2017, 11 actions



#### ACTION 8 RESULTS



A glossary with terms related to virtual currencies and a workshop about the subject



Money laundering typologies practiced with the use of virtual currencies and electronic payments methods



OTHER BCB ACCOMPLISHMENTS

# Financial stability risks decreased as inflation fell and recession ended

Financial system stability risks decreased in the first half of 2017, with inflation under control, falling Selic rate and recovery of economic activity in Brazil. The prospect of lower household debt and improved labor and income conditions should reduce credit risk for families in Brazil. The Brazilian financial system maintains the capacity to deal with abrupt outflows of resources in stress scenarios.

This information is part of the latest Financial Stability Report (REF), a semiannual publication of the BCB, which shows recent evolution and prospects for financial stability in Brazil. The REF focuses on the main financial system risks, on the measures adopted to mitigate these threats and on the resilience assessment of the SFN.

## POTENTIAL INCREASE IN INTEREST RATES FROM THE FEDERAL RESERVE (FED)

- Concerns about a potential acceleration of the pace of rises in the short-term interest rates from the Federal Reserve (Fed) have decreased after the Fed announced gradual and flexible rules for reductions in its financial statement
- Among other reasons, emerging countries have become less vulnerable to external shocks because of the significant decrease of the current account deficit that has been going on since the Taper Tantrum in mid-2013



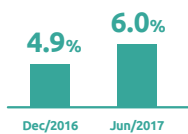
## BRAZILIAN BANKING SYSTEM SOUNDNESS

### FINANCIAL STABILITY REPORT (first half of 2017 data)

#### FINANCIAL STABILITY RISKS

#### PROBLEM ASSETS IN LARGE COMPANIES

Problem assets in large companies have increased



- Increase in default levels, write-off losses and restructuring
- Increase in default levels, write-off losses and restructuring

#### REAL STATE CREDIT RESTRUCTURING

- Restructuring, losses write-off and real estate repossession from defaulted holders have increased
- Housing credit risks should reduce because of improved labor and income conditions and lower household debt

**R\$ 28 billion**

nearly, in problem assets in the real estate credit portfolio

**85%**  
of the problem assets are provisioned



Problem assets risks are mitigated. Financial institutions have provisions compatible with risk level of the assets



**17.4%** Basel index\*

The system has sound funding and leverage indexes to smoothly absorb the transition to the new rules



Banks can support potential liquidity shocks\*\*



Liquidity coverage ratio indicator

**2.19**



Stocks  
Liquid funds shares  
Government bonds



Projected withdrawals  
Early redemption of deposits  
Market stress



Stress tests results show an increase in the banking system resilience along with a reduction of the capital requirements to absorb shocks from the simulated unfavorable macroeconomic conditions

There are no signs that banking liquidity would be compromised because of occasional financial support to investment funds in order to avoid step-in-risk



\* Ratio of the financial institutions (IFs) capital to the resources lent. The bigger the ratio, the safer are the IFs

\*\* Indicates that the total short-term assets are 2.19 greater than the liabilities. Institutions with a LCR indicator over 1 are generally safer





## OTHER BCB ACCOMPLISHMENTS

### Program *É da sua conta* (It's everybody's business) facilitates the assistance to financial services customers

The BCB, in partnership with the National Consumer Secretariat, launched the **"It's everybody's business: Financial Consumer Guidelines"**, a program designed to empower employees of Procons (Protection and Consumer Protection Foundations) and other bodies of the National Consumer Defense System (SNDC) to deal with demands related to financial institutions.

The program offers online courses with accurate and assertive information about products and services of the National Financial System, as well as the main rules that discipline the offer of products to customers of financial institutions.

The "It's everybody's business" program also provides a selection of practical cases, which consists of files that expose real situations involving the rights of the financial system clients. The charts indicate the best solution for each case and show the legal basis for each orientation given to the consumer. The first charts refer to the use of the credit card. The practical

cases are available to everybody, whether members or not of the SNDC.

The initiative was launched during the 4th Week of the National Financial Education Strategy (ENEF Week).

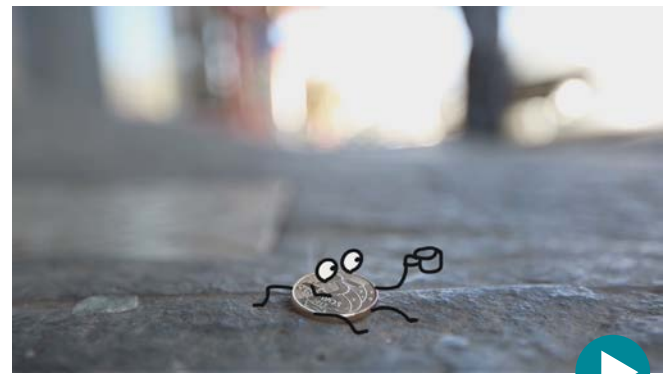


### #MoedaTemQueCircular (#LetTheCoinsCirculate)

About 25 billion coins have been issued in Brazil since 1994, but the BCB estimates that 35 percent of these pieces (8.7 billion) are out of circulation, stored in piggy banks or forgotten in drawers. This represents approximately R\$1.4 billion. Keeping coins out of circulation causes problems such as difficulty in giving change, and results in public spending to produce new currencies. The BCB conducted an online campaign on the importance of reducing hoarding – which is the long-term storage of banknotes and coins – to stimulate the public to use this money.

The campaign was posted in the BCB profiles on Facebook and Twitter. Two comic videos starring the digital influencer Wellington Muniz (Ceará), with his characters Silvio and Gabi Herpes, encouraged the public to put their coins in circulation. Gifs of these videos were also produced.

About 26 million people watched the campaign, with 9.6 million full views of the videos.



## OTHER BCB ACCOMPLISHMENTS



### Rule for account holders identification becomes clearer

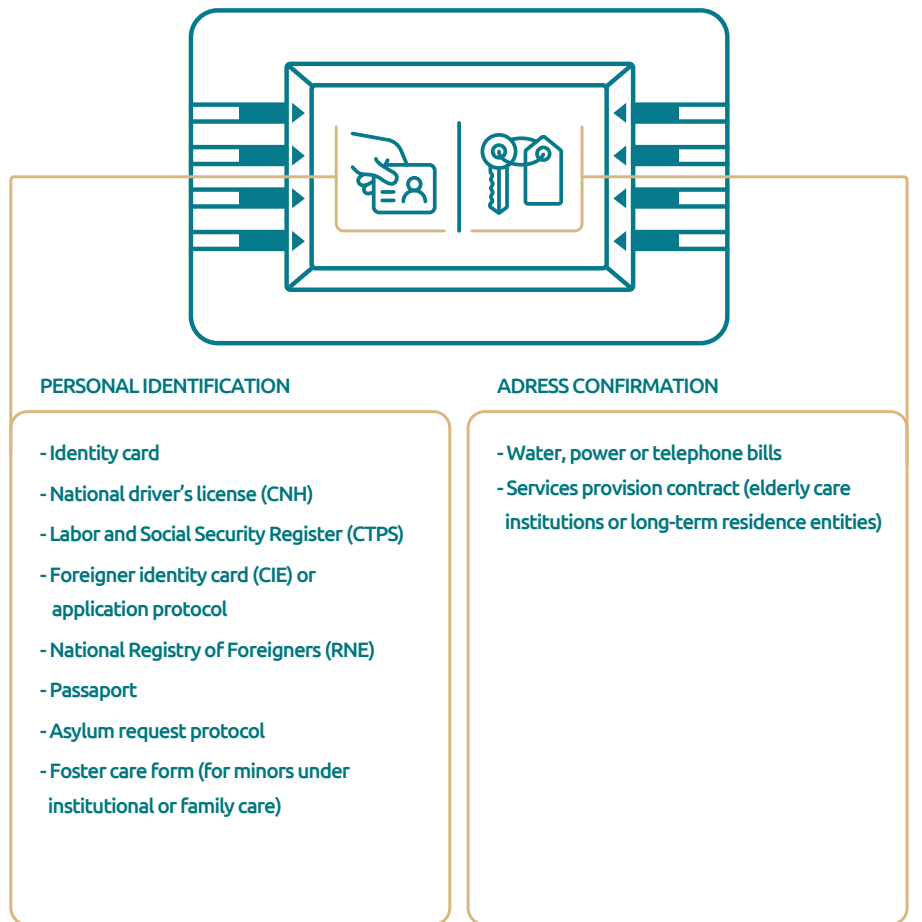
Financial institutions may accept any official identification document legally created and issued by public bodies or entities in the country, when opening deposit accounts. This also applies to foreign residents in Brazil.

Previously, only institutions were responsible to define the accepted documents, but, due to the absence of a clear definition, questions arose from several entities. Circular Letter 3,813/2017 exemplifies the accepted documents.

#### Gender identity

The recognition of the gender identity of transvestites and transsexuals was also authorized. The social name can be used in access cards for accounts and payment instruments, and in customer relationship channels, among others. However, the requirement of an official document remains when applying to open an account.

### OPENING AN ACCOUNT – REQUIRED DOCUMENTS



OTHER BCB ACCOMPLISHMENTS

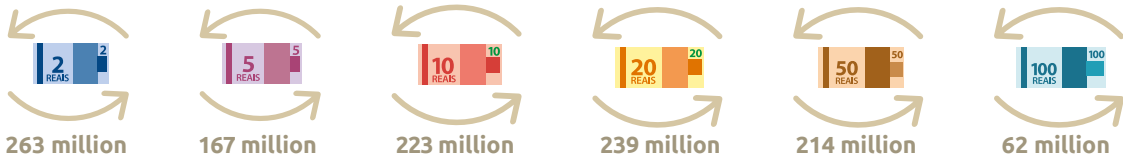
# BCB is the first central bank awarded by the Global Council of Corporate Universities

The BCB received a silver medal in the "Corporate Responsibility" category of the Global Council of Corporate Universities (GlobalCCU). The GlobalCCU Awards recognizes innovative and successful practices developed by corporate universities around the world.

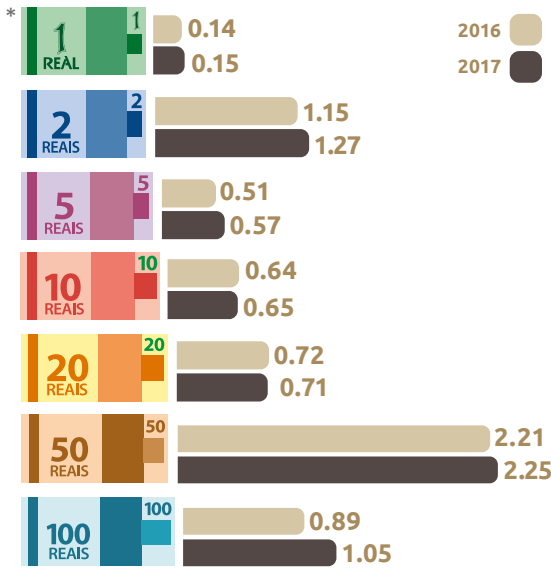
The Council took into account the initiatives developed during the almost thirteen years of existence of the BCB University (UniBC), such as environmental preservation actions, digital certificates issuance and electronic material available for qualification programs. In addition, online courses and events (such as the Exchange of Ideas), democratize the access of knowledge to servants, contractees and trainees.



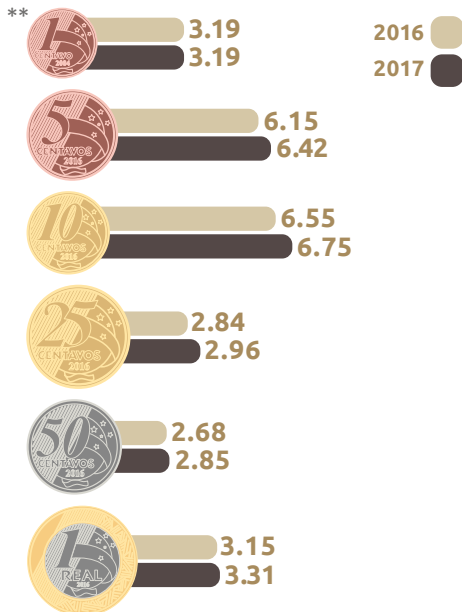
## Number of banknotes and coins replaced in Brazil in 2017



BILLS IN CIRCULATION (in billions of units)



COINS IN CIRCULATION (in billions of units)



\*R\$1.00 bills are not produced since 2006  
 \*\*R\$0.01 coins are not produced since 2005



OTHER BCB ACCOMPLISHMENTS



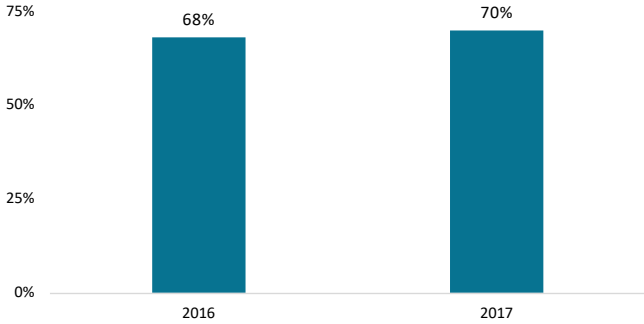
### Changes increase effectiveness of rural credit in the country

In the agricultural year 2016/2017, the total value of rural credit contracts registered in the System of Rural Credit Operations and Proagro (Sicor) reached R\$153.6 billion. In comparison with the previous period, there was a reduction of 8.1 percent of the total value contracted, because of changes in regulation – such as the reduction in the financing terms –, which led to a greater turnover in resources.

There was also an increase in the range of options for resources distribution through the Interbank Deposits Tied to Rural Credit (DIR). This improved the resources distribution capillarity by allowing more financial institutions to offer rural credit. The percentage of resource allocation for rural savings was reduced from 74 percent to 60 percent and some specific sub-allocations were abolished, as decided by the National Monetary Council (CMN). This gave financial institutions more freedom to invest rural credit resources.

Agricultural year	Contracts (in thousands)	Lended value (in R\$ billion)
2013/2014	2,436.2	145.5
2014/2015	2,602.0	156.2
2015/2016	2,330.0	166.1
2016/2017	2,008.2	153.6

Rural credit and Proagro portfolio supervised by the BCB



### Get to know the monetary seigniorage outcome in 2017

The National Accounts Office (TCU) recommends that the BCB shows the seigniorage outcome resulting from currency issuance. The concept adopted by the BCB to measure seigniorage is given by the monetary base variation, discounting the inflation of the period and the cost of production.

Seigniorage (in R\$ millions)	2017
Variation of money supply	18,218
Variation of compulsory on demand deposits	8,250
= Variation of monetary base	26,468
IPCA rate	2.95%
Seigniorage income	25,710
Money production and issuing expenses	-795
= Seigniorage result	24,915

WHAT IS MONETARY SEIGNIORAGE





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