

# Panel Session I: Cross Border Issues— Systemically Important Where, and For Whom?

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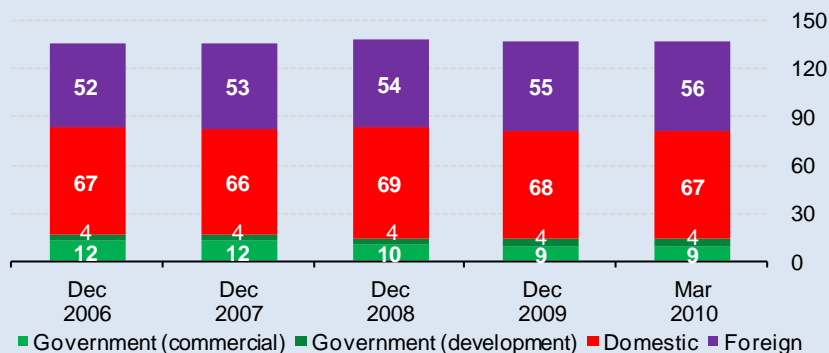
# Agenda

- Brazilian Financial System Overview
- Assessing financial stability
- Cross Border arrangements
- Perspectives

# Brazilian Financial System Overview

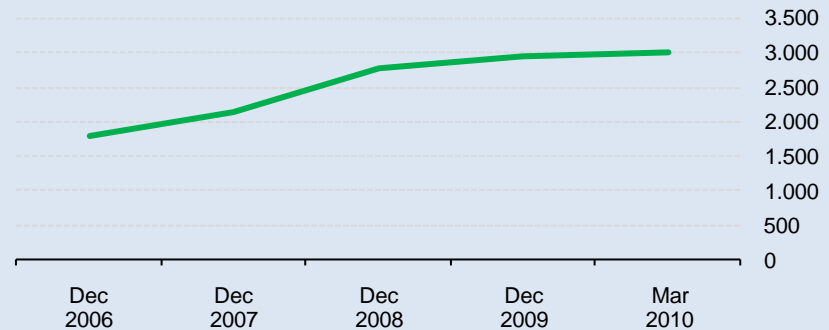
## Number of Banks

Number of banks



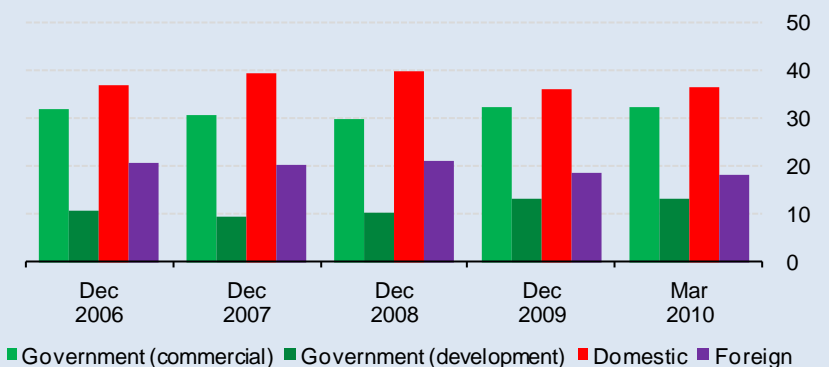
## Total Assets System

R\$ billions



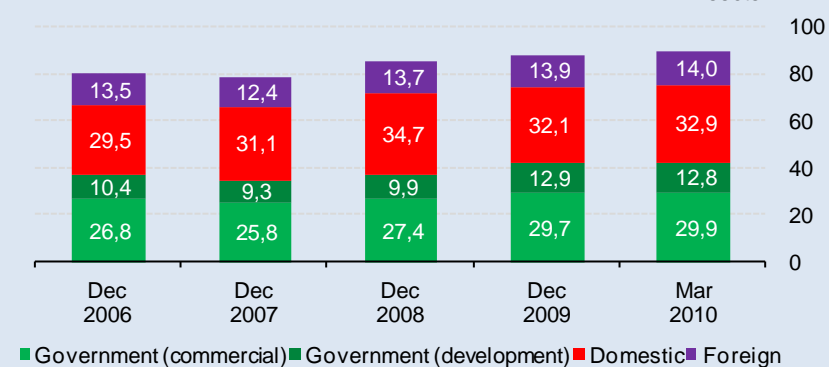
## Ownership

% of System's Assets



## Top 10 banks participation

% of System's Assets



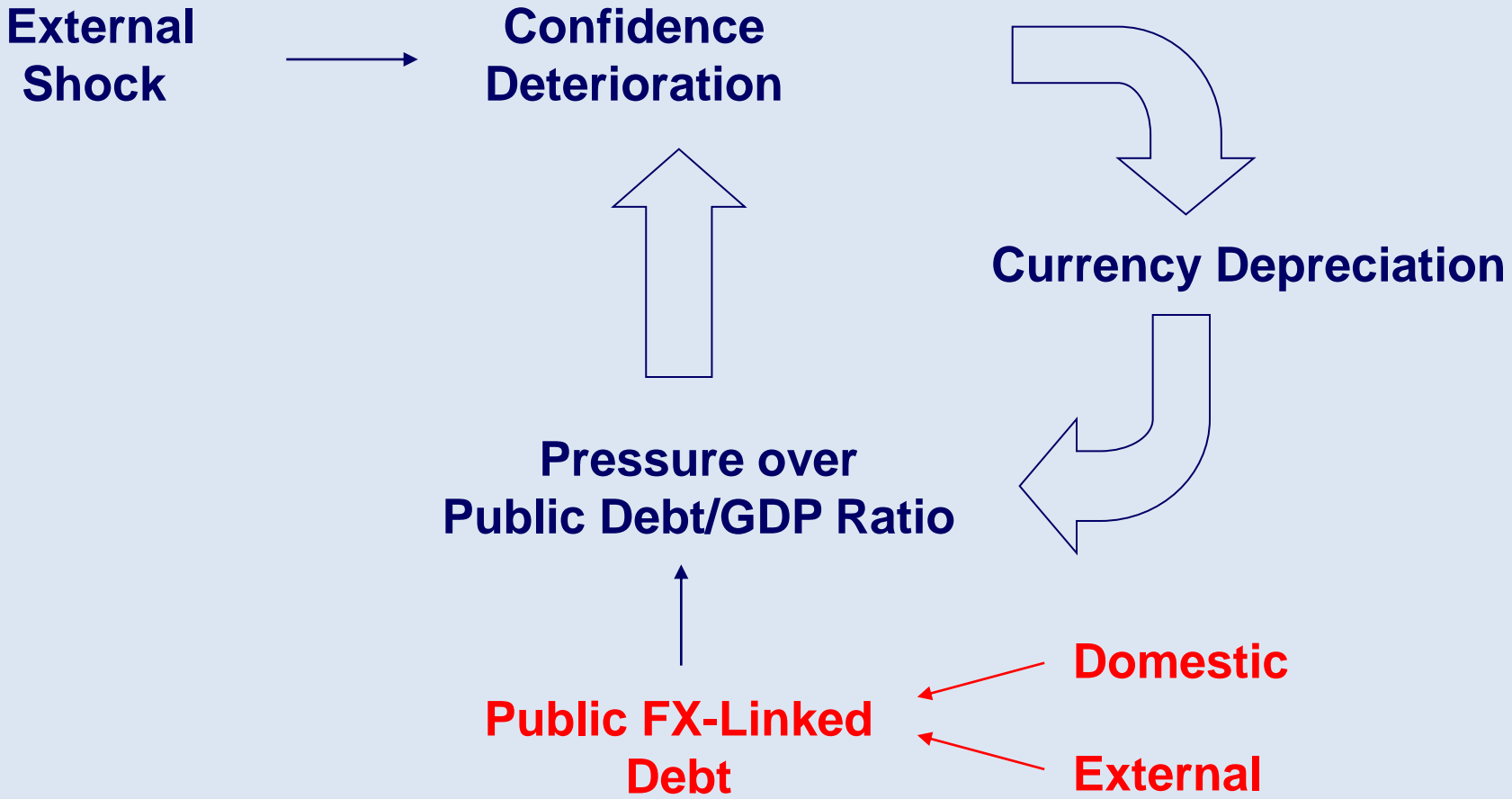
# Brazilian Financial System Overview

- Host
  - 20% of total assets in the country.
  - 3 foreign banks among top 10.
  - Only subsidiaries are authorized (operation by branches are not allowed)
- Home
  - Basically on Latin America (subsidiaries)
  - Among local top 10 in 5 countries
  - 15% of total assets abroad.

# Assessing financial stability

- In recent years, Brazil has successfully addressed historical vulnerabilities, giving room to a sustainable economic growth:
  - Inflation Targeting
  - Floating Exchange Rate regime
  - Fiscal Responsibility
  - External Sector Equilibrium
  - Soundness of the Financial System

# Effects of Confidence Crises on the Brazilian Economy - Past

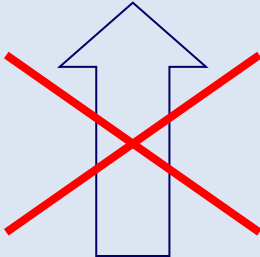


# External Shock Feedback Loop: Currently

External Shock



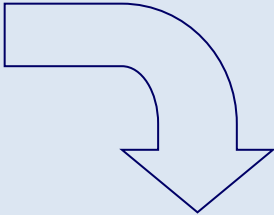
Deterioration of Confidence



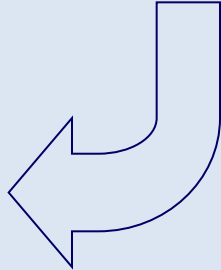
Reduction of Public Debt/GDP Ratio



Public Sector is Long in FX



FX Depreciation



~~FX Public Debt~~

# Assessing financial stability

- Measures pre-crisis that improved the soundness of the Financial System and helped avoid contagious by international crisis:
  - **Strict prudential regulation**
    - Minimum capital ratio (CAR) of 11% (Basel ratio is 8%)
    - Credit ratings are not used to determine credit risk weights under the standardized approach
    - It is requested one BRL on capital for each one BRL on Net Foreign Currency Exposition (short or long). It can not be more that 30% of Capital.
    - Forward-looking credit provision schemes, considering expected losses as well as past due.
  - **New Brazilian Payment System**



# Assessing financial stability

- **Large umbrella of prudential regulation and banking supervision:** the supervision process also covers non-financial entities controlled by financial companies – local and abroad– , including those which are controlled by shareholders’ agreement, those sharing the same managers, and those under the same brand name
  - CAR is required in the consolidated basis for the economic group.
- **High liquidity assets level:** besides the voluntaries liquidity levels, large banks also need to comply whit reserve requirements.
- **Most of the changes in the financial system rules do not need a special law approved by Congress.**

# Assessing financial stability

- **Only Subsidiaries of Foreign Bank are authorized.** The required capital by our regulation to support the subsidiary operations need to be internalized in Brazil, in local currency.
  - in financial and economic terms the default of the parental bank or another foreign unit do not affect directly the Brazilian operation.
  - They are under the same rules and prudential regulations that other banks. Including deposit insurance.
  - The subsidiary need to have sufficient capital and liquidity in local currency to support the local operations.
  - The local regulation forbids transfer deposits collected in Brazil to other countries.

# Cross Border arrangements

- MoU
  - With all countries that Brazil has some kind of relevant relations.
- Colleges of Supervisors
  - Host - Santander and HSBC
  - Home – Banco Itau
- Observation:
  - In general, exchanged of information on a regular basis.
  - All cross-border flows are registered on BCB, allowing the identification of any kind of operation, including those between subsidiary and parent bank.

# Perspectives

- Regulation of large financial institution
  - We support the proposal for additional capital and high liquidity levels charge for SIFIs.
    - For ALL systemically important institution in the local market (Controlled by Private Sector, Government or Foreign Subsidiaries)
  - To a certain extent, the liquidity measures are already in place.

# Thanks!



Soccer World Cup



Olympic Games

## Hope to see you in Brazil!

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