Argentina Responses

Central bank operations

It would be helpful if the action plan could:

1. explain what references to CRA ratings were removed from central bank guidelines, which references remain and why.
2. provide more clarity on whether CRAs were used mechanistically by the BCRA.
3. give more detail on the credit assessment framework that the BCRA is developing, which would facilitate other central banks to learn from your experience.

The BCRA has traditionally relied on CRA ratings for portfolio share constraints and issuer concentration ceilings. In order to reduce the reliance of the reserves investment guidelines on CRA ratings, a new framework based on a multifactor model is currently under review. It would consider CRA ratings as an input additional to others within the model that would be pondered to assess the default probability over the next 12 months in order to select the eligible investments. The other inputs that are currently under review include Credit Default Swaps (CDS) and ratings from other international sources out of the scope of the traditional CRAs.

The process of analysis, removal and/or enhancement of our regulation related to Central Banks operations is expected to be complete in the first half of 2014 (please, refer to the Action Plan). Meanwhile, ideas explored by the market and by other Central Banks will be considered.

Banking

4. It would be helpful if the relevant authority could provide an estimate of the number of banks using the BCBS standardised approach and the per cent of risk weighted assets covered.

On October 31st, there were 65 banks, 15 specialised financial institutions and 2 credit unions licensed in Argentina; all of them subject to the BCBS standardised approach for credit risk, slightly modified to avoid references to CRA ratings. All these institutions are also subject to minimum requirements for market risk that produce similar results to those of the BCBS standardised method but, again, avoiding references to CRA ratings. As a conclusion, 100% of risk weighted assets are covered by both standardised approaches (for credit and market risks). Total assets amounted to US$ 163 billion and total RWA (including operational risk) to US$ 132 billion.

Central counterparties

5. The stock-taking exercise indicated that CCPs are prevented from relying on CRA ratings. It would be helpful to understand how this operates in practice across: i) membership criteria, ii) margin requirements, and iii) investment policies.
6. It would be useful to assess CCPs against the CPSS-IOSCO Principles for Financial Market Infrastructure; in particular, whether the CCP's investment policy or margin requirements can cause procyclicality. Just because a CCP does not rely on CRA ratings, it does not mean that it does not have processes that result in procyclicality.

The central counterparties that clear and settle securities and derivatives are under the supervision of the CNV and, as such, they do not rely on CRA ratings. The new Capital Markets Law N ° 26.831 passed in February 2013, and the CNV NORMAS 2013 that are in the process of implementation, established that central counterparties must fulfil requirements and implement procedures following the IOSCO recommendations, considering all the aspects involved in the postrade process, membership criteria for clearing brokers, collateral and margin requirements using a VAR formula, on line follow up, extraordinary margin calls in stress situations, and internal procedures in case of broker failure on a daily basis. For all this process central counterparties must develop and implement an electronic system for clearing and settlement that must follow the IOSCO principles and be previously approved by CNV. The CNV new regulation that applies to central counterparties is mainly set in Chapter III of Title VI of NORMAS 2013 under new Law N ° 26.831. There are no references to CRA ratings there.

Insurance

7. It is noted that all references to CRA ratings have been removed from insurance laws and regulations. It would be helpful to explain what references to CRA ratings were removed, which references remain and why.

The National Insurance Supervisor (SSN) regulates and monitors insurance and reinsurance companies' investments. Currently, there are no references to CRA ratings in insurance/reinsurance laws and regulations.

References to CRA ratings were removed from the SSN Resolution 29.211 (28/04/2003), whose former section 35.3.3 required a minimum rating for companies' investments. According to the 2003 text, investments had to be made in assets rated BBB or higher by the following CRAs: Moody's Investors Service, Standard and Poor's International Ratings Ltd., Fitch IBCA Ltd., or whom the SSN would enable in the future.

In regards to reinsurance, references to CRA ratings were removed from the SSN resolutions N° 24.805 (23/09/1996), Section "Obligation for Foreign Reinsurers", and N° 27.885 (15/12/2000). According to resolution 24.805 (1996), reinsurance could only be purchased from foreigner companies if they had the following minimum ratings granted by any of the following international rating companies: AM Best: minimum grade B + + or B + VERY GOOD; Standard & Poor's: Ability to Pay Claims, minimum BBB-ADEQUATE rating; Moody's: Solvency Financial, low Baa-ADEQUATE rating; Duff & Phelps: Ability to Pay Claims, qualification minimum BBB + or BBB-ADEQUATE. By resolution 27.855 (2000) the ratings established in Resolution N° 24.805 were updated as follows: A- or more by A.M. Best; Ability to pay claims, A or more by Standard & Poor's International Ratings Ltd.; Financial Solvency, A or more by Moody's Investors Service; ability to pay claims minimum rate A- by Fitch IBCA Ltd.

At present, the insurance Law establishes which the admissible assets for investment are (mostly highly traded sovereign bonds and private instruments or banking deposits) and their maximum share in the portfolio. Furthermore, references of CRA ratings in regulation were removed: Regulation SSN N° 37.163, published on October 23rd 2012, modified section 35 suppressing the rating requirement as a factor to consider in companies' investment policies. And, Resolution N° 35.615, passed on 21st February 2011, changed the whole regulatory framework for reinsurance with no references left to CRA ratings.

Investment funds and Securities firms

8. The action plan does not address investment institutions directly. It would be helpful if the plan could discuss the extent to which references to CRA ratings are present in this area.
9. It would be useful for the action plan to provide more detail on the credit assessment framework that will be introduced and the supervision and review thereof.
10. The action plan does not address securities firms. It would be helpful if the plan could discuss the extent to which references to CRA ratings are present in this area.
11. It would be helpful for the action plan to give more detail on the credit assessment framework that will be introduced and the supervision and review thereof.

As it was mention in our response to the *Thematic peer review on the FSB Principles for Reducing Reliance on Credit Rating Agency (CRA) Ratings* in March 2013, CRA ratings have never been a significant component in our financial system. The remaining references to CRAs ratings in local regulation are scarce and with a limited concrete applicability. The limited use of external ratings may be explained by the relatively low depth and sophistication of our market. Particularly, many of the vehicles and intermediaries described in the review questionnaire do not exist in Argentina. Such is the case for hedge and investment funds, endowments, occupational retirement schemes and asset-backed securities. Securities firms operate on an agency basis, which means that brokers neither advise nor assume risk for the positions traded.

Annex

Action Plan for Reducing Reliance on Credit Rating Agency (CRA) Ratings

The Central Bank has started a process to adapt the regulatory framework in force to implement the FSB Principles for Reducing Reliance on CRA Ratings”[1], thus following the G20 Leaders request, in their Los Cabos Declaration, for faster progress in ending reliance on credit ratings.

The FSB Principles are aimed at ending undue reliance on CRA ratings by banks, institutional investors and other market participants and reducing references to CRA ratings in standards, laws and regulations. Simultaneously, institutions are encouraged to enhance their assessment capabilities and to exert due diligence in credit risk taking. Undue reliance lead to herding behavior and sell-offs of downgraded securities in the last financial crisis and ultimately resulted in higher levels of systemic disruption.

The FSB published a roadmap[2] in October 2012 for the implementation of the Principles that was subsequently ratified by the G20 Leaders in St Petersburg. In this context, national authorities committed to disclosing both their own action plans to reduce reliance on CRA ratings and the measures to be taken to strengthen the credit assessment capabilities of risk takers.

In response to our commitment, the Central Bank has revised its regulation related both to banks as well as the Central Bank reserves management; even if it contains few references to CRA ratings which, in turn, are applicable to only very limited activities and instruments.

The next step is to remove such references or complement them with alternative measures, scales and recommendations that ensure prudent risk taking and promote sound risk management practices.

In order to reduce Central Bank reserves investment guidelines’ reliance on CRA ratings, a new framework based on a multifactor model is currently under review. It would consider CRA ratings as an additional input to other economic and financial statistics and indicators, in the process to assess credit risk quality and condition and select the eligible investments.

The process of analysis, removal and/or enhancement of our regulation related to banks and Central Banks operations is expected to be complete in the first half of 2014. Meanwhile, ideas explored by the market and by other Central Banks will be considered.

[1] http://www.financialstabilityboard.org/publications/r_101027.pdf
[2] http://www.financialstabilityboard.org/publications/r_121105b.pdf