

Regulatory Annex¹

This annex covers the most relevant financial system regulation measures adopted since the publication of the previous edition of the IEF and up to closing of this edition (May 2018 – November 2018).

New monetary policy regime

As from October 2018, the BCRA has adopted a new monetary policy scheme, for the purposes of reducing inflation levels and recovering a nominal anchor for the economy. In this new context, the monetary authority committed not to increase the monetary base level until June 2019. The monetary target is implemented through daily transactions with 7-day Liquidity Bills (LELIQs) with financial institutions and through adjustments of liquidity minimum requirements, if necessary. In addition, the BCRA determined exchange intervention and non-intervention zones². The non-intervention zone was initially established between 34 and 44 pesos per US dollar, to be adjusted daily at a monthly rate of 3% until the end of 2018. Within such zone, the peso will freely float. In the event the exchange rate may exceed the non-intervention zone upper bound, the BCRA will perform daily sales of foreign currency for up to 150 million US dollars. In the event the exchange rate may stand below the non-intervention zone lower bound, the BCRA may purchase foreign currency and decide to increase the monetary base supported by the rise of reserves.

Readjustment of cash held by the public

Following the introduction of the banknotes of \$1,000, \$500, \$200 and \$20 featuring pictures of Argentine native animals, in August 2018, the BCRA put in circulation a new legal tender banknote of \$50 with the picture of a condor³. Thus, this measure keeps on improving everyday transactions, by renewing the cash held by the public and promoting higher efficiency and reduction of printing expenses.

Financial inclusion and bancarization through modernization of means of payment

To provide more security and celerity to collection management and to reduce the possible causes of check bouncing, in October 2018, the BCRA regulated the electronic check (ECHEQ)⁴. The ECHEQ is a check issued through electronic means, which keeps all the features of a traditional check. Such instrument may be either a common check or a deferred payment check, it is a document subject to executory rights (*título ejecutivo*) and it is endorsable without the limitations applicable to traditional checks. Financial institutions are obliged to allow their clients to make deposits of ECHEQs and to honor any ECHEQ submitted to the cashier window for collection.

In September 2018, the BCRA eliminated the requirement establishing a maximum period of permanence in the same location for mobile branches⁵. This change helps facilitate the operation of such branches and improve customer service in general.

Liquidity management

In order to contribute to a successful implementation of the monetary policy, as from mid-2018, the BCRA set forth several increases in bank reserve requirements. By the end of June, the minimum cash requirement ratio rose 8 percentage points (p.p.), on a staggered basis, with respect to sight and time deposits in pesos (3 p.p. as from June 21, other 3 p.p. as from July 2, and 2 p.p. more as from July 18), with certain exceptions, such as UVA/UVI deposits. A portion of this reserve requirements increase may

¹ Refer to the Communications for a full interpretation of the regulations mentioned in this annex.

² For further detail, see [Press Release](#) of 09/26/18.

³ Communication "A" [6549](#) and [Press Release](#) of 08/16/18.

⁴ Communication "A" [6578](#).

⁵ Communication "A" [6573](#).

be satisfied with National Treasury Bonds in pesos at a fixed rate due in November 2020 valued at market price⁶.

To continue strengthening the liquidity control within the money market, from August to October 2018, the BCRA implemented a new rise of bank minimum reserve requirements. First of all, in August, the minimum cash requirement ratio in pesos for sight and time deposits up to 59 days in financial institutions of a larger relative size went up 3 p.p.⁷. This rise can only be satisfied with pesos. In turn, as from September 1, the minimum reserve requirement ratio went up 5 p.p. with respect to all deposits in pesos, both sight and time deposits, of up to 59 days for the above-mentioned financial institutions⁸. Such increase may be satisfied with pesos, Liquidity Bills (LELIQs) or Notes (NOBACs) of the BCRA. Meanwhile, as from September 19, the minimum reserve requirement for sight and time deposits up to 59 days in pesos rose 5 p.p. for financial entities whose deposits from the non-financial private sector in pesos at the end of July 2018 were higher than, or equal to, 1% of the total of such deposits in the financial system⁹. Such increase may be complied with LELIQs and/or NOBACs in case of time deposits. Finally, as from October 1, 2018, the minimum cash requirement ratio for sight and time deposits up to 59 days in pesos rose 3 p.p.¹⁰ for financial institutions comprised in the preceding sentence¹¹ (and such increase can be complied with LELIQs and/or NOBACs).

To encourage the taking of new time deposits in pesos and of UVA/UVI, as from October 2018, the BCRA authorized that 100% of the minimum cash requirement over the increase of such deposits could be complied with LELIQs and NOBACs¹². In addition, the payment of interest on time deposits was eased by allowing banks to pay interest at least every 30 days instead of total payment at the end of the period agreed upon.

Besides, in October 2018, the daily minimum cash requirement was reduced by 50%, but the monthly average requirement was maintained. Thus, financial institutions are allowed to manage liquidity more easily. In addition, the BCRA authorized the banks to acquire BCRA's Cash Clearing Notes, accruing 1/5 of the benchmark rate determined by the monetary authority¹³.

To facilitate liquidity management by the public sector, in October 2018, the minimum term was reduced from 90 days down to 30 days for time investments in pesos with an early cancellation option by public sector holders, which investments are instrumented through non-transferable registered certificates¹⁴.

In August 2018, it was established that financial institutions may neither subscribe Bills of the Central Bank of Argentina (LEBACs) in pesos to be held in their balance sheets, nor sell such Bills —held in their balance sheets— to third parties other than financial institutions¹⁵.

In November 2018, minimum cash requirement ratios up to 23% were applied (according to the residual term) for liabilities for foreign lines of credit (in pesos and in foreign currency)¹⁶.

Channeling of savings towards productive activities and households

In mid-2018, the BCRA set forth several measures aimed at strengthening the lines of credit and reducing the level of interest rates applied to micro, small and medium-sized enterprises (Micro and SMEs), while maintaining the prudential criteria in force for the correct operation of the financial system¹⁷. In particular, the BCRA eased the minimum capital requirement to be satisfied by financial institutions if

⁶ Communication "A" [6526](#), Communication "A" [6532](#), [Press Release](#) of 06/18/18 and [Press Release](#) of 07/02/18.

⁷ Financial institutions belonging to Group "A". This group is formed by institutions in which the amount of assets is higher than or equal to 1% of the financial system total assets. Communication "A" [6550](#) and [Press Release](#) of 08/16/18.

⁸ Communication "A" [6556](#) and [Press Release](#) of 08/30/18.

⁹ Communication "A" [6569](#) and [Press Release](#) of 09/14/18.

¹⁰ Communication "A" [6575](#) and [Press Release](#) of 09/28/18.

¹¹ Communication "A" [6570](#).

¹² Communication "A" [6575](#) and [Press Release](#) of 09/28/18.

¹³ These acquisitions may be performed with a portion of their holdings of banknotes not allocated to the "Banknote Interbank Clearing" (CIB).

¹⁴ Communication "A" [6579](#).

¹⁵ Communication "A" [6548](#).

¹⁶ Communication "A" [6595](#).

¹⁷ Communication "A" [6531](#) and [Press Release](#) of 06/28/18.

funds are lent to Micro and SMEs, and increased the allowances for reserve requirements related to lines of credit allocated to Micro and SMEs and to the program “*Ahora 12*”. In addition, the monetary authority eliminated the 15% ceiling in force for the Adjusted Stockholders’ Equity (RPC) to consider the discount of documents as preferred guarantee. Thus, financial institutions may apply lower provisions for this type of transactions and Micro and SMEs will have an easier access to the credit market.

Besides, in September 2018, progress continued to be made to improve access to credit mainly for Micro and SMEs¹⁸. On the one hand, the BCRA facilitated the procedure for the assignment of credit instruments with no liability for the assignor. In turn, the Central Bank expanded the category of borrowers eligible for the allocation of financing through specific assessment methods (screening systems and credit scoring models) by incorporating all legal persons not related to the financial institution¹⁹. In addition, the BCRA raised the maximum ceiling for credit which may be granted to Micro and SMEs under such modality. Moreover, the monetary authority increased the amount of lending up to which it is admitted to group such commercial loans with loans for consumption or housing purposes, and incorporated domestic commercial credit insurance as preferred guarantee, with the same requirements in place for export credit insurance.

In October 2018, the BCRA increased up to €1 million the amount considered as maximum exposure for the exposure of a Micro and SME to be classified as retail portfolio²⁰. Besides, the monetary authority expanded also for €1 million the amount determined as ceiling to classify deposits or any other source of funding as “unsecured wholesale funding provided by Micro and SMEs.” These changes entail not only a better alignment of the BCRA’s prudential regulations with the provisions issued by the Basel Committee on Banking Supervision, but also encourage lending to Micro and SMEs and allow for a more stable profile of funding.

In September 2018, financial institutions were authorized to grant guarantees to residents abroad based on compliance with obligations related to their commercial transactions of goods and/or services abroad, subject to satisfaction of certain conditions²¹.

Transparency and protection of financial services users

In July 2018, it was established that, in all loan agreements, the numerical value of the Total Financial Cost (CFT) and the “%” sign must be highlighted using at least twice the font size used for other information included in the relevant document; or with highlighted font and/or in bright colors. In turn, it was decided that the CFT be stated with only one decimal, instead of two decimals, in loan agreements²².

Foreign currency exposure of financial institutions

In June 2018, the BCRA reduced the limit of the foreign currency positive net global position calculated in daily balances from 10% to 5% of the Adjusted Stockholders’ Equity (RPC) or of the own liquid resources (whichever may be lesser) of financial institutions²³. In turn, it was admitted that such position may reach up to 30% of the RPC or of the own liquid resources (whichever may be lesser), as long as the excess with respect to the general limit results from the increase of the position in Argentine Treasury Bills in foreign currency against the bills held by mid-June.

Other regulatory adjustments

In May 2018, it was established that promoters and founders of financial institutions, and any persons controlling them, cannot have their income concentrated (either directly or indirectly) for more than 75%

¹⁸ Communication “A” [6558](#).

¹⁹ Until Communication “A” [6558](#), such operation was limited just to Micro and SMEs and natural persons not related to the financial institution.

²⁰ Communication “A” [6586](#).

²¹ Communication “A” [6572](#).

²² Communication “A” [6541](#).

²³ Communication “A” [6526](#) and [Press Release](#) of 06/18/18.

in concession and/or supply contracts with the National, provincial and municipal governments and the government of the Autonomous City of Buenos Aires²⁴.

To obtain more in-depth information related to the lending activity conducted outside the financial system, in August 2018, the BCRA expanded the scope of regulations on “financial aid for non-financial lenders²⁵”, to include loans granted to all natural and legal persons as lending subject to such regulations²⁶.

By mid-2018, it was established that BCRA’s monetary regulation instruments and transactions with private securities are not subject to the restriction for financial entities to perform transactions entailing the provision of liquidity to mutual funds²⁷.

Under the regulations on “Asset encumbrance”, in August 2018, the BCRA eliminated the 10% sublimit of the Adjusted Stockholders’ Equity (RPC) of the financial entity to encumber assets in transactions for: lines of credit abroad, obligations related to electronic clearing houses, settlement checks, obligations related to transactions instrumented through the Reciprocal Credit and Payment Agreement (ALADI-Latin American Integration Association), for other transactions expressly authorized by the Central Bank and for guarantees required under the Capital Markets Act. Thus, financial intermediaries may channel more easily the transactions performed by their clients through electronic means of payment, with a larger buffer for constitution of guarantees, as usually required²⁸.

In October 2018, the BCRA adjusted the provisions on “Authorization and composition of financial institutions’ capital stock” related to second-tier state-owned banks²⁹ in order to raise up to \$10 million the amount as from which time deposits may be taken, and eliminating the minimum term for arrangement of time deposits³⁰. In addition, the BCRA eliminated the requirement that such banks be engaged in medium and long term financing allocated to productive investment and foreign trade.

²⁴ Communication “A” [6517](#).

²⁵ They are legal persons, other than financial institutions, that offer credit services to the public at large –either as their main or supplementary activity– and grant, on a regular basis, loans subject to such regulations.

²⁶ Communication “A” [6557](#) and Communication “A” [6591](#).

²⁷ Communication “A” [6522](#) and Communication “A” [6523](#).

²⁸ Communication “A” [6546](#).

²⁹ Second-tier banks are banks that can only receive deposits from the domestic financial sector and from foreign banks.

³⁰ Communication “A” [6589](#).