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Annual Report
2015 and Plan of
activities 2016

BANCO CENTRAL DEL URUGUAY



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Introduction

The legal framework in Art. 38 of the Central Bank of Uruguay's Organic Charter Ordered Text (TOCO in Spanish) requires the Superintendency of Financial Services (hereinafter SFS) to publish an Annual Report of the activities carried out in the year elapsed, and a Plan of Activities for the coming year.

The document contains the major projects being carried out in the medium term by the financial system's supervisory and regulatory body, given that many of these are projects that began in previous years and will continue in the future with new phases of implementation.

This medium-term vision makes the regulator's actions predictable and gives assurance to the industry to operate.

Analysis of the situation of the Uruguayan financial system

In the international context there has been a slowdown in emerging and developing economies, mainly due to the change in China's model of economic growth, and the negative impact of the fall in international prices of raw materials, as well as capital outflows due to expectations on the normalization of the US monetary policy; in December the Federal Funds Rate increased 25 basis points. As a result, the US dollar has appreciated against the currencies of major emerging countries and against the euro, as the major European economies are in a moderate recovery process.

Bank credit in foreign currency has slowed down in the last year, while consumer credit appears to increase in late 2015 after coming to a standstill for one semester. The delinquency rate remains low, but with an increase from the corporate sector.

The solvency of financial institutions established in Uruguay, measured by ratio of the institutions capital to risk is quite good (an average of 1.46 times the minimum regulatory requirements including credit, market, operational and systemic risks). The stress tests developed by the SFS show that the banking system is able to bear a severe crisis scenario while maintaining a reasonably adequate net worth.

The liquidity of the banks also remains good, both for 30 and 90 days.

The insurance companies sector continues to grow, with sales averaging 7.5% increase in real terms over the previous year. The main areas in terms of premium volume were vehicles, accidents at work, life pension and life. Growth was particularly high in the latter, amounting to 36% in real terms in the year ended September, while the other two had very similar revenues to those of the previous year.

The sum of available investments in the accumulation and retirement funds managed by Pension Fund Management Companies (AFAPs in Spanish) had a nominal increase of 18.7%, explained by 56% profitability from investments, and the rest from net contributions of members. The amount of government securities in the portfolio remains high.

The stock market in 2015 showed a slowdown in the issuance placed on the market over the previous year. However, issuance in the stock market accounted for almost 30% of long-term financing received from the financial sector by companies, mainly making use of financial trust instruments.

Main supervisory and regulatory policies

To put this annual report into context, it is important to consider the SFS's scope of activities with regards to the number of entities supervised and regulated by the Superintendency, which is known as the "regulatory perimeter".

List of Entities	
Bank and nonbank financial institutions	
Banks and Financial Intermediation Cooperatives	12
Credit management companies	32
Financial Institutions	3
External Financial Institutions	2
Exchange Houses	58
Savings Consortium Management Companies (AGAP in Spanish)	1
Cash in Transit Companies	4
Fund Transfer Companies	5
Financial Services Companies	23
Subtotal	143
Insurance	
Insurance Companies	15
Mutual Insurance Companies	7



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Subtotal	22
Pension Funds	
Pension Fund Management Companies (AFAP in Spanish)	4
Subtotal	4
Securities Market	
Issuers	29
Stock Exchange	3
Brokers	38
Securities Agents	37
Financial and Professional Trustees	9
Investment Fund Managers	10
Investment Advisors	125
State Participation Companies	29
Subtotal	280
Other Agents	

Professionals and firms authorized to sign reports on ML/FT prevention and Auditors	43
Representatives	19
Credit Rating Agencies	7
Management, Accounting and Data Processing Service Providers	29
Subtotal	98
Grand Total	547

This broad regulatory perimeter established by the legal mandate requires setting strategic objectives. The SFS's objectives under the institutional management framework are set out in the Sectoral Strategic Map.

The Strategic Map is a tool that quickly displays the objectives organized under four areas:





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Objectives basically established in the legal mandate, Society or Public, comprises those objectives aimed at providing the services that the society requires from the organization. Processes are the objectives defined in terms of the processes needed to carry out its tasks and achieve the objectives of the perspectives Objectives and Society, and finally Capabilities, which includes the objectives related to the capabilities needed to develop the activities required for the fulfillment of the tasks.

Fulfillment of commitments for 2015

SFS Commitment to quality processes

The commitment to quality processes is first seen at institutional level. The Board of Directors of the Central Bank of Uruguay approved a strategic guideline for 2015-2020 to achieve certification of the quality management system at institutional level.

In the case of the SFS, the ongoing effort to align with international best practices has been for several years, one of the top aims of management, mainly ensuring the quality of processes from the adoption of internationally recognized standards. In 2015 certification of the SFS management system was confirmed by external evaluators (LSQA - LATU Sistemas Quality Austria) according to the Standard ISOUNIT 9001:2008, which was obtained for some processes in 2013 and for all the relevant processes in 2014.

The projects included in the certification are: Regulation, Supervision, Customer Service, Financial Intelligence, Authorizations, Sanctions and Reception, Processing and dissemination of information, i.e. all the processes included in the Process Perspective of the Sectoral Strategic Map presented above.

One guiding criteria of this model is having a customer focus, which is consistent with the institutional aim of getting closer to society. The SFS is trying to implement different mechanisms to come closer to the recipients of its services, either through satisfaction surveys, implementation of communication channels to reach the customers and society (channels for inquiries, claims and complaints available on the institutional website).

Another guiding principle is that of "continuous improvement", for which several mechanisms that promote systematic improvement of the various functions carried out by the SFS have been implemented.

Supervision and regulation function

This year the conditions have been created for some medium-term projects linked to SFS supervised and regulated markets.

Firstly, we will refer to the pension fund market.

In 2015 a series of studies were conducted to evaluate different alternatives of pension annuities for workers who reach retirement age, within a framework of certainty that will lead to better services for members. Many issues were discussed, such as mortality tables to be used, minimum rates established by the Central Bank of Uruguay, and other elements that may contribute to a more competitive and predictable market than what we have today.

From the studies carried out, a number of proposals will be shortly be submitted for consideration, and in 2016 implementation of actions based on the decisions taken will commence.

Secondly, the current state of regulation and supervision of the securities market was addressed, and as in the previous case, a Master Plan for the medium term was prepared aimed at getting closer to international standards, based on a revision of the regulatory framework and the supervisory model to be applied to these companies.

This updating must be done as soon as possible, because the stock market is growing rapidly and it must be healthy and beneficial for both investors and agents who seek funding for their ventures.

Finally, also for the Pension Fund Management Companies (AFAP in Spanish) a medium-term Plan was prepared in order to implement a risk-based supervision model. A supervision methodology with a conceptual basis and tools used in other markets started being developed; of course the particularities of these companies will be recognized.

Under this framework, rules of Corporate Governance and Risk Management for AFAPs (which also extended to insurance companies) were issued, establishing the conceptual



framework necessary to determine the minimum requirements to be observed in the incorporation of the entities' governance and risk management, where the methodology places special emphasis.

Another project that has been developed and that has high impact for both the regulator and for the companies, is the approach to International Financial Reporting Standards. As already mentioned, this project not only involves the reformulation of the framework for transaction accounting of regulated entities, but also requires redesigning the information system used in the SFS and the BCU as a whole.

According to the roadmap, 2015 was the final stage of implementation of these accounting standards. However, it was considered reasonable to postpone the effective date of IFRS for financial intermediation companies, financial services firms and exchange houses to January 2017.

As a result, in 2016 we will continue in parallel to ensure entry into force with minimum operational risks.

In 2015, the aforementioned companies have delivered once again their basic and supplementary financial statements under the new accounting framework, and the results have been even better than last year's.

On the other hand, a new phase of the project has begun, which aims to include insurance companies in this accounting framework. We started with a training process and preparing a roadmap, taking into account lessons learned in the implementation process for other entities.

Regarding the SFS information system, there have been important advances in the architecture of the new system, the tools to be used, and steps have been taken to design the new information system.

In order to be aligned with international standards in relation to the banking market, the SFS has been complying with the commitments set out in the Roadmap to Basel III, which is available on the institutional website.

In 2015 we worked on liquidity management and discussed developing an indicator suggested by the international standard, known as Liquidity Coverage Ratio (LCR), which provides a more accurate risk measurement. For this, a regulatory project was submitted to the industry for consultation, and it was finally put into effect.

Also under Basel III, a capital requirement was established known as "capital conservation buffer" which has also entered into effect with the issuance of the relevant regulations.

On the other hand, technical evaluations were performed to make decisions on other issues raised in the principles of Basel III. One of them refers to the feasibility of applying internal models for managing market risk in banking institutions supervised by the SFS. The report's conclusions state that for the moment it is not viable to apply internal models with the characteristics contained in the international standard.

On the other hand, we have continued to study a countercyclical capital buffer, as well as analyzing some outstanding aspects of Pillar III of Basel, on information that entities must disclose to the market to improve transparency.

Finally, we should mention that we continue making progress in implementing the self-assessment process of capital adequacy by the entities, based on a series of guidelines disseminated by the supervisor.

Also worth mentioning is the continued effort to implement a systematic supervision of financial conglomerates that have been identified in the system. As a result of the work performed, we began reviewing the framework of Minimum Standards for Management, to include elements that necessarily must be present in the management of an entity that is part of a group or financial conglomerate.

In relation to the above, in 2014 we reviewed, and in 2015 we implemented the regulations on parties related to financial intermediation entities. The concept of "relationships" was reviewed to establish the limits of the parties related to the institution, and the reporting system of senior staff and shareholder relationships.

On the regulatory side, work has also been performed on the following aspects included in the 2015 Regulations Plan:

- Revised classification criteria for investment projects of more than one year (Standard 3.8 for EIF). This project will be submitted to the industry for consultation shortly.
- Implemented regulations on keeping the Register of Operations by financial



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intermediation companies in relation to their securities brokerage operations.

- Amended the list of guarantees permitted at the time of registration of financial trusts.
- Revised outsourcing regulations for securities intermediaries, in order to simplify this process.
- Regulated the issue on securities intermediaries premises, where they are required to have independent premises, with some exceptions.
- Commitments undertaken to review the activities permitted for investment advisors were included in the Master Plan mentioned at the beginning of this section, and will be considered in the 2016 activities.
- Also reviewed for the securities market were definitions of public and private supply, areas where there have been two public consultations.
- Comments received are being analyzed.
- Developed a project on regulations to include a retail tranche in public offering issuance. It is currently in consultation with the industry.
- Although it was not part of the commitments undertaken in the 2015 Regulations Plan, certain requirements related to the due diligence process for the prevention of money laundering and terrorist financing were also reviewed.

The above shows that a high level of compliance with the 2015 Regulations Plan has been achieved.

The regulation function is further complemented by a customer service provided for responding to inquiries on regulations; this has been implemented in the SFS (available on the corporate website). The table below shows how these inquiries have developed.

One of the core elements of customer service is response time. Following are the records for the performance in 2015:

Term in days	Number of inquiries in 2015
0	301
1	308
2	97
3	22
4 o más	19

The following table shows the distribution of inquiries by type of entity:

Type of Institution	Number of inquiries in 2015
Financial Intermediation Institutions	169
Other financial companies	126
Stock market	189
Insurance	52
AFAP	17
Other Agents	194

With regards to the supervision function, compliance with the Activities Plan has also been fulfilled. On-site supervision can be divided in three types of actions: Comprehensive evaluations (sufficient scope to give the entity a global rating), monitoring actions (main objective is to monitor the observations) and focus actions (with specific objectives).

In 2015 on-site actions were carried out as detailed below (not including remote monitoring activities that are carried out regularly and are also part of the supervision process):

Supervised Entities	Comprehensive Evaluation	Action Monitoring	Action Focus	TOTAL
Financial Intermediation	7	5		12
Insurance	2	5	3	10
AFAP			2	2
AFISA			1	1
Securities Intermediaries			20	20
Stock Exchange		1		1
Exchange Houses			4	4
Fund Transfer Companies			1	1
Financial Services Companies			8	8
Credit management companies		1		1



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Savings Consortium Management Companies			1	1
	9	12	40	61

The role of financial intelligence and prevention of money laundering and terrorist financing

The Unit of Financial Information and Analysis (FIAU) reports to the SFS and conducts various supervisory activities, with the aim of promoting healthy practices in the prevention of Money Laundering and Terrorist Financing (ML/TF) and research.

On the one hand, it conducts supervisory activities in different entities in order to promote the implementation of adequate prevention systems against ML/TF. In 2015, a methodology was developed to create a risk map of securities intermediaries, financial services firms and exchange houses, which will later be extended to other entities of the sector. The implementation of this risk map, planned for 2016, will provide an important tool to monitor risk and allocate supervision resources.

Moreover, the FIAU develops financial intelligence activities that are carried out under two perspectives:

- A strategic analysis, consisting of using the information received from the entities that are obliged to report on their operations. This allows us to identify behavior patterns and create guidelines that are later disclosed to the system as part of prevention mechanisms.
- An operational analysis of specific operations based on reports (Suspicious Transaction Reports -STRs) prepared by the entities that are obliged to report under the current legal framework. Where appropriate, these records are submitted to the competent Criminal Justice.

A set of information management tools was developed in 2015 aimed at enhancing the role of strategic analysis. Experts from the International Monetary Fund provided us with support in this area. As a result of this work, and by global

comparison, the Uruguayan supervisor is now in a privileged position.

This financial intelligence role is also fulfilled through fluent exchange of information with other supervisors within the framework of international agreements between agencies.

Uruguay is part of the Egmont Group which brings together international financial intelligence agencies, and establishes protocols for exchanging information to ensure confidentiality in the handling of information.

Following is some quantitative data on the financial intelligence activity developed by the FIAU.

Activity Developed	2015	2014
STRs received financial entities	292	264
STRs received non-financial entities	62	7
ROS reported to the Criminal Justice	48	11
Cooperation and national advice	98	80
Requests for international information received	64	58
Requests for international information sent	19	17

Data as of November 2015

It is interesting to see the sources of the reports, where the importance of banks as major reporters is observed:

STRs received from reporting entities	2015	2014
Financial Entities		
Banks	171	174
Financial Intermediation Cooperatives	0	1
Financial Institutions	5	12
External Financial Institutions	2	2
Financial Services Companies and Exchange Houses	34	39
Fund Transfer Companies	12	7
Credit management companies	0	2
Savings Consortium Management	0	0



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Companies		
Insurance Companies	4	1
Securities Intermediaries	26	12
Investment Advisors	9	3
Investment Fund Managers	0	0
Trusts	1	1
AFAPS	0	1
Representatives	4	1
Non-Financial reporting individuals		
Casinos	16	8
Notary Public	8	2
Real estate agencies	4	1
Corporate managers	25	3
Other Non-Financial reporting individuals	2	1
Total	323	271

Data as of November 2015

In addition to this data, the FIAU publishes an Annual Report with further analysis and more detailed information on the activities of financial intelligence performed in the financial system. The annual report is available on the institutional website.

Transparency of information

One of the relevant processes carried out by the SFS is the receipt, processing, and dissemination of information to different target audiences, in order that market agents can make timely and efficient decisions.

The Superintendency discloses a schedule of publications on the institutional website, including reports, annual reports, statistics, economic and financial information of regulated entities, etc. It is worth mentioning that in 2015 this schedule was fully met.

One of the information systems managed by the SFS and which has a great impact on the system is the Credit Registry. For several years now there have been continuous improvements in information quantity and quality provided by this system.

This system contains detailed information on the credit behavior of borrowers throughout the system. Therefore, this information is essential for decision-making, both for the public and for the companies.

Significant improvements in this system were achieved in 2015 when the requirements were identified to disaggregate the operations of each debtor; this provides a much more accurate analysis of the debtors' credit standing. These changes will start being implemented in the coming year.

To show the importance of this information system, following is the number of inquiries received by the Credit Registry:

Inquiries received by the Credit Registry (in thousands)	2015	2014
Supervised (interactive and web service)	32.099	23.015
General public	1.525	1.268
TOTAL	33.624	24.283

A rise of almost 40% in the Credit Registry access to information is observed, which shows the increase in the use of information by agents.

Also in 2015, following the International Financial Reporting Standards (IFRS), we redesigned the architecture of the SFS's information systems, and began making changes in the systems.

This process will continue in 2016.

Technological advantages of the new architecture also allow greater integration with other sources of available data, both internal and external to the Central Bank of Uruguay (e.g. the National Bureau of Civil Identification, among others) that ensure better quality of information obtained and disclosed. This year work has been conducted to identify databases with a potential to be integrated, and thus define a medium-term plan for progressive integration.

User-oriented activities of the financial system

In order to protect financial users, and in compliance with the role given to the Central Bank of Uruguay under Act No. 17,250 of the year 2000, law governing consumer relations, the Superintendency has a customer service for inquiries and complaints that is used more and more every year and reduces the number of cases that could turn into claims.



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The entry into force of new laws, such as the Financial Inclusion Law, or the reform of the pension fund system, bring about a significant number of inquiries that the regulator must address.

The number of complaints received by the CBU is also an indicator of how much the supervised entities are client focused. Many of these complaints are resolved in favor of the customer, so ultimately, an analysis of this information (entities, issues denounced, etc.) may reveal interesting aspects of trade practices by financial institutions.

The SFS will publish its first report on trade practices in 2016.

Amount	2015	2014	2013
Telephone inquiries	2.563	616	
Inquiries in person over the counter	248	87	
inquiries by mail and web	1.312	1.179	524
TOTAL	4.123	1.882	524

The survey of user satisfaction with regards to customer service for complaints (done annually) shows that:

- 92% of respondents feel that support received by Customer Service is good (52%) and very good (40%).
- As to the quality of the response, 77% (in 2014 it was 74%) said that the response received was satisfactory (42%) or very satisfactory (35%).
- 47% of complainants (62% in 2014) consider that the time elapsed between the filing of the complaint and the response, is short or satisfactory. Most complaints had an impact on response times and is well recognized by users.

The SFS has been including informative and educational content in the Financial User section in the institutional website, on various topics of interest to the financial user. In 2015 the following contents were included:

- Personal Financial Management
- Fraud Identification

- Frequently asked questions on credit and debit cards
- Content of the Financial Inclusion Law.

Activity Plan 2016

This activity report shows that some projects will continue moving forward in 2016.

Similarly, some observations from the Financial System Assessment Program evaluation conducted by the International Monetary Fund and the World Bank, completed in 2013, remain pending and will be part of the annual plan of activities for the next years.

Finally, a series of projects to improve the SFS are included in the institutional plan.

Based on all these elements, an Annual Plan of Activities for 2016 is prepared containing the following main items:

Supervision and Regulation

The implementation of International Financial Reporting Standards began its final phase of implementation for financial intermediation institutions, financial services firms and exchange houses.

In 2016 tests on the requirements of accounting information based on IFRS and on the current system will be run in parallel, in order to minimize the risks of this transition stage, both for the entities and the supervisor.

The implementation of the new regime is set for January 2017.

As part of this project, we will be working quite intensively at the beginning of the implementation of this regulatory accounting regime for insurance companies. A study on the impact of the new regulatory framework and the design of the new reporting requirements will be conducted, ending with a roadmap to be distributed to the industry on the implementation of IFRS in these companies.

Another project that will continue is the phased approach to the international standard known as Basel III that applies to banks.

In 2016 an impact study will be conducted on the application of the Standard Method for calculating operational risk capital. Some pending aspects of



Pillar III of the international standard with regards to the information that entities must disclose will also be implemented.

For liquidity risk management, the LCR (liquidity coverage ratio) will be implemented based on what was done in 2015, and we will start analyzing the other ratio proposed in Basel, known as NFSR (ratio of net stable funding).

With regards to Pension Fund Management Companies (AFAPs), in 2016 a risk supervision model will be implemented for this market. In 2015 regulations were passed for Corporate Governance and Risk Management as essential elements for successful management. In 2016 a proposal for Minimum Standards for Management will be prepared, containing guidelines for supervised companies and the supervisor's expectations as to company management.

For the Pension Funds market, in 2016 implementation will begin with the proposals of 2015, to address the obstacles that hinder market growth.

These proposals are linked to alternatives to solve currency mismatch and updating mortality tables used for the actuarial calculations. An agreement will be signed to exchange information with the Social Security Bank (BPS in Spanish) to have updated and good quality information.

As for the stock exchange, and as in the previous case, in 2015 the conditions were set for medium-term master plans, and in 2016 the first phase of roadmap implementation will commence. In this first stage the regulatory framework will be reviewed, focusing on the concept of value as a central element of this market, and a revision of permitted activities and existing licenses in the market today (in particular investment advisors and securities intermediaries). Also, a study and a proposal on "over the counter" (OTC) operations will be conducted, given that many market operations are carried out under this modality and could be an obstacle for transparency in price formation.

The role of financial intelligence and prevention of money laundering and terrorist financing (ML/TF)

In 2016 we will establish the *ML/TF* Risk Matrix for Securities Intermediaries and Financial

Services Institutions, and we will start seeing how to extend the methodology to other supervised sectors.

With regards to the financial intelligence process itself, we will seek to define a series of products for strategic analysis of operations, in order to create value from analyzing the information received and assessing its effectiveness.

Also, in order to study the effectiveness of operational analysis, we will be analyzing the evolution of the STRs submitted to the Criminal Justice, in order to identify opportunities for improvement when presenting the cases and to improve the effectiveness of the process.

The authorization function

The authorization process is the first supervisory action carried out by the SFS with entities or individuals entering the financial system, and with new products to be traded on the market.

In some cases this process can be quite difficult; it begins with a request for information that the applicant must submit to start the authorization procedure.

To this end, the information required for some of these procedures is listed and published in the institutional website. In 2016 we will continue disseminating information on the initial requirements in order to provide greater clarity and to reduce delays when the information submitted is not complete.

The role of information transparency

Information systems management requires an ongoing effort to update and adapt to the various changes that arise with regards to regulations, supervision, the public's needs and technological evolution of the tools used.

In 2016 we will be working on:

- Adapting information systems based on the new IFRS accounting framework for financial intermediation companies, financial services firms and exchange houses, to ensure control of prudential rules based on the new scheme.
- Integrating CBU internal databases to improve quality control of the information received and studies conducted.



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- Implementing changes in the Credit Registry to respond to inquiries with information based on the operations of each borrower.
- Improving management of SFS records of technological tools used and new functionalities to disclose more and better information.



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ANNEX: SUMMARY OF ACTIVITIES INCLUDED IN THE 2016 PLAN

Activity

Supervision and regulation function

- Final stage of the project on new accounting framework and information system based on International Financial Reporting Standards (IFRS) for Financial Institutions, Financial Services Firms, and Exchange Houses. Initial stage to analyze and determine the Roadmap for Insurance Companies.
- Basel III - Analysis and impact study on the application of the standard method for calculating operational risk capital - implementation of outstanding aspects of Pillar III - Study the necessary requirements for the implementation of the Net Stable Funding Ratio (NSFR)
- Develop proposal on Minimum Standards for AFAP Management
- Implement proposals on the pension annuities market - alternatives for currency mismatch - mortality tables
- First phase of implementing changes for the Stock Exchange - review the regulatory framework on the concept of "value" - revision of licenses and permitted activities (investment advisors and securities intermediaries)

Financial intelligence role

- Implement a ML/TF Risk Matrix for some sectors of the financial system
- Implement tools for strategic analysis of operations
- Monitor suspicious transaction reports submitted to Criminal Justice to assess effectiveness

Authorization function

- Disseminate lists with the information required to start authorization procedures.

Information transparency function

- Develop and implement the newly designed information system for financial intermediation entities and tools for information analysis
- Analyze potential integration with other databases
- Implement the Credit Registry for operations - final stage of implementation