PRESS RELEASE

Due to the global pandemic caused by the Covid-19

CMF announces package of measures to facilitate the flow of credit to businesses and households

- *These include special treatment in the establishment of provisions for deferred mortgage loans; use of mortgage guarantees to safeguard SME loans; and adjustments in the treatment of assets received as payment and margins in derivative transactions.*
- *The measures are intended to facilitate the flow of credit to individuals and businesses, and to mitigate the pandemic's effects on the financial system.*
- *The Commission began a review of the timetable for the implementation of Basel III standards to avoid aggravating the negative effects of the current economic cycle.*

March 23, 2020.- The Board of the Financial Market Commission (CMF) approved today new measures aimed at giving greater flexibility to the financial system amidst the global Covid-19 coronavirus pandemic. The Commission's Board acknowledges the magnitude of the economic and human shocks caused by the expansion of the coronavirus in the country. The CMF, in close coordination with the Ministry of Finance, the Central Bank, and other regulators at the international level, is monitoring the effects on the financial market and the entities under its supervision. The measures adopted by the Commission seek to reinforce the announcements already made by the Central Bank and the Ministry of Finance.

The Commission reaffirms its commitment to safeguard the stability of the Chilean financial system and to protect its depositors and users. It will exercise its regulatory and supervisory powers to safeguard the solvency and liquidity of supervised institutions.

In recent weeks the CMF enhanced its monitoring functions regarding the markets and entities it supervises (securities, insurance, banking and financial institutions). For this it required them to report and implement their operational continuity plans, as well as to assess any potential financial impact. Requirements were made to banks; payment card issuers and operators; the insurance industry; stock exchanges; securities depositories and central counterparties; fund administrators and securities intermediaries. Moreover, over 50 issuers of publicly offered securities that participate in economic activities most exposed to the pandemic were required to evaluate and disclose any financial effects to the market.

Furthermore, the Commission instructed its supervised entities to take measures that facilitate customer and user service; it authorized the use of remote mechanisms for shareholders and financial backer meetings; and it strengthened its remote service channels for both supervised entities and the general public.

New Measures

The new measures approved by the Board today aim to facilitate the flow of credit from the financial system to businesses, individuals and households that may be affected by the disruption of the coronavirus.

Regulations allowing the possibility of postponing up to three installments in the payment of mortgage loans.

The CMF decided to apply a regulatory exception in the constitution of provisions associated with mortgage loans that are deferred by banks. This will allow rescheduled installments by customers after the original maturity date of the loan not to be treated as renegotiations for the constitution of provisions. Said special treatment is aimed at debtors who were up to date with their payments at the time the state of emergency was declared by the authorities. The flexibility in provisions will be granted for the rescheduling of up to three dividends to be added after the original termination date of the loan.

Facilities for banks to make credit terms for SME debtors more flexible for up to 6 months without counting them as a renegotiation.

The Commission made a regulatory change to allow banks to increase the term of consumer loans in installments to small and medium enterprises (SMEs) and individuals for up to six months without counting them as a renegotiation for provisioning purposes.

Possibility of using surplus mortgage collaterals to guarantee loans to SMEs.

The CMF will establish in the short term a regulatory amendment to allow the use of surplus mortgage collaterals to guarantee loans to SMEs.

Extension of deadlines for the disposal of assets received as payment.

The Financial Market Commission exceptionally authorizes an 18-month deadline extension for banks to dispose of assets they receive as payment. The aim of this measure is to prevent entities from having to sell assets in a period of economic contraction when securities could be severely penalized compared to periods of less uncertainty.

Treatment of the variation margin of derivatives.

The CMF ordered an amendment to the treatment of the cash amount that banks must post as collateral for the variation margin of bilaterally cleared derivatives transactions. In periods of high exchange rate volatility, "margin calls" occur for derivative contracts held with banking institutions. In the case of foreign banks, the cash deposited in favor of the counterparty has a capital charge of 100 percent, raising the cost of derivatives. The amendment approved today by the Commission allows the value of the derivative to be offset against the amount pledged as collateral in favor of the counterparty. This would significantly reduce the capital charge associated with derivative contracts, thereby encouraging their use precisely in periods of increased exchange rate volatility.

Regarding these measures, the Board of the Financial Market Commission considers that these transitional easements can be adopted as long as they do not weaken the medium-term solvency and liquidity of the institutions. However, it is of utmost importance that banks maintain adequate risk management policies and establish prudent dividend distribution policies depending on the exposure and risks they face in this new environment. It is the responsibility of the corporate governments of each entity to ensure compliance.

The Commission will soon announce the extension of similar regulatory support measures to other actors in the financial system.

Basel III Capital Standards for Banks

The Commission informs that it will comply with the provisions of Law No. 21,130 that modernizes banking legislation, and by December 1, 2020 will have issued all its Basel III regulations. The relevant calendar provides for a gradual period of implementation until December 2024.

The Board of the CMF is carrying out a review of the process of implementation of said standards, counting on the regulatory capacity to ease the gradualness of certain components of their implementation. Given the current circumstances, the Board will review the date on which the rules are to be implemented to avoid aggravating the negative effects of the current economic cycle and will communicate its decision in the short term.

Some foreign regulators have announced in recent days reductions to banks' capital charges. This has been possible because in those jurisdictions banks already have capital buffers (such as the counter-cyclical buffer, conservation buffer, and Tier II capital requirements) to be used during an economic slowdown. Chilean banks lack such buffers because the Basel III capital standards have not yet been implemented.

The Board of the Commission stresses that one of its main mandates is the stability of the financial system. This is an objective of the utmost importance, anchored in the recent economic history of our country – in the 1980s it suffered the impact of a banking crisis that hit the most vulnerable sectors of the population particularly hard and forced the State to bail the system out.

Both the lessons learned from that crisis and the discipline shown by the financial industry have allowed Chile to have a solid and resilient banking industry today to face future challenges. With all the tools at its disposal, the Commission is exploring the best alternatives to help mitigate the impact of the economic shock of the coronavirus on the financial system.

The Financial Market Commission will continue to be vigilant to ensure that its banking system is capitalized and robust and that it continues to make a decisive contribution to the country's well-being.

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