PRESS RELEASE

CMF publishes for consultation new regulations on Basel III implementation

The regulations update the measurement of the leverage ratio and define the minimum requirements and conditions that hybrid instruments must meet to be considered part of the banking system's effective equity.

April 3, 2020.- The Financial Market Commission (CMF) has published for consultation the following regulations as part of the process of adopting Basel III standards:

- Calculation of the ratio of core capital to total assets (leverage ratio).
- Minimum requirements and conditions to be met by preference shares and bonds with no fixed maturity under Article 55 Bis of the General Banking Act (LGB, for its Spanish acronym).
- Minimum requirements and conditions to be met by subordinated bonds under Article 55 of the LGB.

The consultation process will be open until May 29, 2020 for comments from the market and general public.

Although the Commission announced this week the postponement by one year of the start of the implementation of Basel III standards in Chile, it stands by its schedule for the issuance of all related regulations by December 1, 2020 as established in the LGB. You can review the schedule here.

Leverage

For the leverage ratio, although since 1997 the LGB has considered that the ratio between core capital (numerator) and total assets (denominator) may not be lower than 3 percent, the regulation introduces refinements in the measurement of both components pursuant to Basel standards. The numerator makes deductions for items that do not have the effective capacity to absorb unexpected losses (in line with Chapter 21-1). The denominator considers a broader spectrum of exposures, giving them a treatment consistent with the provisions of Chapter 21-6 on the determination of credit risk-weighted assets.

At the system level, the leverage ratio would be reduced by approximately 1 percent without breaching the minimum 3 percent required by law for any institution. Therefore, the regulation would not have a direct impact in terms of additional capital requirements.

Hybrid Instruments

Regarding hybrid instruments for the constitution of effective equity, the requirements established for the issuance of preference shares, bonds without fixed maturity (AT1), and subordinated bonds (T2) seek to provide alternative regulatory capital tools that absorb losses when the issuing bank's capital decreases under pre-established conditions. This may facilitate the restoring of solvency levels or avoid a bank resolution.

It is estimated that there would be no need for banks to issue AT1 during the standard's first year of implementation. Six institutions would need to issue around USD 3.2 billion between the second and fourth years.

The rules shall be in force from December 1, 2020, subject to the transitional provisions established by law and announced by the CMF.

To access the details of the regulatory proposals, you can visit the Draft Rules and Norms section of the CMF website. In addition, the Commission also makes available to interested parties a Regulatory Report evaluating the impact of these proposals, a Frequently Asked Questions document, and a Presentation. These documents summarize the core elements of this public consultation.

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