PRESS RELEASE

Basel III Standards

CMF issues regulation setting conditions for implementation and supervision of capital buffers

- *The capital buffer regulation defines the operating procedures for calculation, implementation, and supervision of additional core capital requirements that will be progressively applied to banks in Chile from December 2021.*

September 28, 2020 – The Financial Market Commission (CMF) has issued a regulation defining the operational procedures for calculation, implementation, and supervision of additional capital requirements, known as capital buffers. This is in accordance with Articles 66 Bis and 66 Ter of the General Banking Act (LGB, for its Spanish acronym) and the Basel III standards. The regulation received no comments during its public consultation period.

Procedures for Calculation, Implementation, and Supervision

Capital buffers constitute an additional capital requirement over the legal minimum set by the LGB and are divided into 2 types: a **conservation buffer** (CCoB), and a **counter-cyclical buffer** (CCyB). Both buffers must be composed of Common Equity Tier 1 capital (CET1), and their compliance will be a requirement for banks to qualify for an A solvency rating.

According to the regulation, the CCoB is a fixed charge equivalent to 2.5 percent of risk-weighted assets (APRs, for their Spanish acronym) minus the required provisions. Although the CCoB is permanent, banks may temporarily non-comply when facing the **materialization of idiosyncratic or systemic risks.** Meanwhile, the CCyB is a variable charge ranging from 0 to 2.5 percent of APRs minus the required provisions. This buffer is established during an expansionary phase of credit associated with a buildup of systemic risks. It is released when said risks dissipate or materialize, as appropriate.

The Central Bank of Chile is responsible for activating the counter-cyclical buffer following a favorable report from the CMF. Therefore, by agreement of its Board, it shall determine the additional CET1 requirement to be applied generally to all banking entities incorporated or authorized to operate in Chile. It will also explicitly define the timeframe for banks to comply with said requirement, which may not be less than six months after the agreement is published.

Under the same procedure, the Central Bank of Chile will determine the deactivation of the counter-cyclical buffer and the timeframe to carry out this procedure.

If there is an additional capital deficit related to the buffers, banks must restrict any payment of dividends. Purchase of their shares by controlling shareholders is also banned unless approved by the CMF.

The implementation of the regulation considers a four-year transition period. From December 1, 2021 the maximum CCoB and CCyB will be 0.625 percent each. This threshold will increase by the same amount the following year to reach full compliance in 2024.

Impact

It is estimated that the new regulation would demand **additional capital requirements of USD 1.25 billion.** Considering its transitory nature, higher CCoB requirements will start on the beginning of year three, giving banks more leeway to comply with these new requirements.

To access the details of the new regulation, interested parties can visit the Rules and Norms section of the CMF website. Additionally, the Commission has made available a Regulatory Report evaluating the impact of the regulation, a Frequently Asked Questions document, and a Presentation containing its core elements.

Area of Communications, Education, and Image – Financial Market Commission (CMF)

Contact: prensa@cmfchile.cl | Press Room

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