



CMF continues implementation of Basel III standards in Chile and issues regulation on identification of systemically important banks

It is the fifth Basel III regulation issued by the CMF, which defines the criteria to be used for both identification of systemic banks and application of higher requirements to these institutions. Additionally, the file for calculating the systemic importance index is published for consultation.

November 2, 2020 – The Financial Market Commission (CMF) has issued a regulation for the identification of systemically important banks and the determination of additional requirements for these institutions. This is in accordance with Articles 35 bis and 66 quater of the General Banking Act (LGB, for its Spanish acronym) and the latest agreement of the Basel Committee on Banking Supervision (Basel III). It is the fifth regulation issued by the CMF according to its schedule to implement Basel III standards in Chile.

The new regulation considers establishing a systemic importance index by entity based on four factors that reflect the local impact of its financial deterioration or potential insolvency. These factors are size, interconnection, substitutability, and complexity of the entity. Depending on the value of this index, a range is established for additional requirements according to article 66 quater of the LGB. According to the proposed methodology, the process of identifying systemic banks and determining the additional requirements applicable will be carried out annually. It will be based on the information to be reported by the banks themselves for calculating the systemic importance index.

Impact

With information as of the end of 2019, it is estimated that six banks would be classified as systemically important. Together they would require additional core capital of around USD 1.25 billion to meet the conditions set out in Article 66 quater of the LGB. However, the annual net economic benefits derived from greater financial stability would reach about 2.4 percent of Chile's GDP, far exceeding any costs related to additional capital requirements.

Before the last amendment to the LGB, the only legal tool available in Chile to require additional capital from systemically important banks was conditioned on the bank achieving a significant market share (15 percent or more of total loans in the system) as a result of a merger or acquisition process (inorganic growth). In such cases, the banking supervisor could require additional effective assets from that bank up to the equivalent of 6 percent of risk-weighted assets, in accordance with Article 35 bis of the LGB and Chapter 12-14 of the CMF's Updated Compilation of Rules for Banks (RAN, for its Spanish acronym).

Since this Article was amended by the LGB to make it consistent with the new Article 66 quater, adjustments to Chapter 12-14 of the RAN were also published. Said adjustments allow a reduction of the existing requirements at a rate of 25 percent annually, starting from the first establishment of a systemically important position in December 2021.

Validity

The regulation will come into force on December 1, 2020. The results of the process of identifying systemically important banks, and their additional requirements, will be informed by means of a well-founded resolution with prior agreement of the Central Bank of Chile, as of March 2021.

The requirements derived from the first application may be constituted gradually, beginning in December 2021 and ending in December 2025 at a rate of an additional 25 percent per year.

Furthermore, interested parties can comment on the measurement file of the systemic importance index from November 2 to December 2. Once the fields have been adjusted and published in the Information Systems Manual, all banks must send the information monthly to the CMF within the stated timeframes. Until March 1, 2021, banks must send monthly information corresponding to 2020 for the first identification of systemically important banks.

To access the details of this new regulation, interested parties can visit the [Rules and Norms section](#) of the CMF website. Additionally, the Commission makes available a [Regulatory Report](#) evaluating the impact of the regulation, a [Frequently Asked Questions document](#), and a [Presentation](#) containing the core elements on the new methodology for identification of systemically important banks and additional requirements.

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