PRESS RELEASE

Compendium of Accounting Standards for Banks

CMF publishes the regulations that establish the standardized methodology for calculating provisions for consumer loans.

The regulations will allow all loans granted by banks to have a standard methodology for calculating provisions, completing a work that began more than a decade ago and that will come into force from 2025.

This helps ensure that banks have sufficient resources to support possible losses associated with the loans they grant, allowing for adequate prudential management of credit risk.

March 8, 2024.- The Financial Market Commission (CMF) reports the publication of the regulations that develop the standardized methodology (ME) for the calculation of provisions for loans and contingent consumer loans granted by banking institutions established in the country.

An initial version was in consultation during 2022 and technical workshops were also held with industry representatives.

Subsequently, a second version was published for consultation during October 2023, addressing the main challenges that arose during the first process and incorporating adjustments in the final version.

Methodological advances

Provisions are the accounting record of the expected loss (EP) of the credit operations carried out by a bank. This value is calculated as the product of the 12-month probability of default (PD) and the loss given default (LGD).

Its calculation makes it possible to guarantee that banks have sufficient resources to support possible losses associated with the loans they grant, allowing adequate prudential management of credit risk.

The CMF has developed various methodologies for determining the PD and LGD parameters. This work began more than a decade ago.

The development of these methodologies begins in 2011 with the implementation of the PD and LGD parameters to provision the exposures of the commercial portfolio evaluated individually. This change repealed the old Chapter 7-10 of the Updated Compendium of Standards (RAN) and was introduced in Chapter B-1 of the Compendium of Accounting Standards for banks (CNC).

Then, in 2014, the standard method for the housing mortgage loan portfolio was incorporated into Chapter B-1 of the CNC.

Subsequently, in 2018, the standard methodology for provisions for commercial loans was created under group analysis.

Final version of the regulation

In this context, the regulations published today introduce a Standardized Methodology (SM) of provisions for consumer loans in Chapter B-1 of the CNC.

As for other portfolios, the regulations establish matrices for determining the PD and LGD parameters that must be used to calculate the minimum level of provisions. The result of the parameters addresses the comments that emerged after the two consultation processes that were carried out in 2022 and 2023, respectively.

Thus, the PD matrix is determined based on three factors (delinquency in the bank, in the financial system and the possession of a mortgage loan) that allow timely recognition of the risk and are aligned with the management carried out by the institutions themselves.

Regarding the LGD, the model allows differentiation according to the type of credit (leasing or automotive, installments, cards and lines or other consumer credit) and also distinguishes those debtors with mortgage credit for housing in the system, allowing banks recognize a loss level adjusted to the specific characteristics of each operation.

Impact

Considering the size of the consumer portfolio as of September 2023 and assuming that its behavior does not have significant changes, the regulations would translate into an increase of close to 454 million dollars in provisions. This is equivalent to an increase of 16.4% in relation to the stock in force on that date. It should be kept in mind that the initial proposal produced an increase of approximately 50% in provisions. The lower impact of the final version of the standard is mainly explained by the reduction in the value of the LGD, due to the introduction of several refinements and methodological adjustments in its calculation. Among them, the use of a lower discount rate in the final calibration and the separation by type of products, among others, can be highlighted. The technical details of the change

are found in the Regulatory Report that accompanies the publication of the standard.

For its part, it should be noted that the rule would not have relevant consequences on the capital adequacy levels of banks.

Finally, this new regulation has an adequate period for its implementation, since it is established that it comes into force.

Interested parties can access the **Rules & Norms section** of the CMF website to check the **Regulatory Report** with further details.

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