



## Basel III Standards

# CMF publishes for consultation standardized methodology for determining market risk-weighted assets in banking

- *The regulation aims to improve internal capital management and risk coverage in the banking industry, in line with international standards and the recent amendment to the General Banking Act.*

**July 24, 2020** – The Financial Market Commission (CMF) has published for consultation a regulation establishing a standardized methodology for determining market risk-weighted assets (APRMs, for their Spanish acronym) in banking. Said regulation aims to improve internal capital management and risk coverage in the banking industry, in line with international standards and the recent amendment to the General Banking Act (LGB, for its Spanish acronym). The consultation process will be open until August 31, 2020 for comments from the market and general public.

The LGB empowers the CMF to establish, through a general regulation and subject to a favorable agreement by the Central Bank of Chile, standardized methodologies to determine risk-weighted assets of banking companies. This measure covers relevant risks faced by such companies, including credit risk, market risk, and operational risk.

Prior to the amendment to the LGB in 2019, the calculation of risk-weighted assets for the determination of banks' capital requirements considered only the credit risk component. Market risk was managed through an exposure limit, whose estimation methodology is set in Chapter III.B.2.2 of the Central Bank of Chile's Compendium of Financial Regulation.

## New Standardized Methodology

The new regulation in consultation is based on the Basel III simplified standard model for market risk management, which includes four types of risk: interest rates; foreign currencies; stock prices; and commodities. This consolidated approach considers the risk of stock prices and raw materials due to possible exposures that a bank's subsidiaries may have in such assets. Furthermore, a specific risk oriented to measure

idiosyncratic aspects of the issuer is incorporated within the interest rate and stock exchange risks.

All parameters presented in the standard in consultation were calibrated using updated information (1999-2018 for foreign currency risk and 2007-2018 for interest rate risk).

## Implementation

In March 2020 the Commission, in coordination with the Central Bank and in line with measures adopted by regulators at the international level, decided to postpone the implementation of Basel III requirements by one year and to maintain the current general regulatory framework for banking capital requirements until December 2021. The implementation schedule for the Basel III standards is available [here](#).

Concerning the internal methodologies for measuring APRMs, it is considered to postpone their implementation to a date after the entry into force of these standards among the member countries of the Basel Committee, scheduled for January 2022. As a result, it is expected that international experience will be gained from their application in jurisdictions with more developed markets, as well as gradually implementing the new standards in Chile.

With information as of December 2019, it is estimated that the capital charge derived from market risk-weighted assets for the banking industry would be equivalent to USD 3,182 million.

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

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