PRESS RELEASE

Third Basel III regulation issued

CMF issues regulation that determines relationship between core capital and total assets

- *The leverage standard specifies the calculation of this index according to the adjustments to other regulatory bodies made pursuant to both the amendment of the General Banking Act and Basel III standards.*

October 5, 2020 – The Financial Market Commission (CMF) has issued a regulation on the calculation of the ratio of core capital to total assets, known as "leverage ratio." This is the third regulation issued by the Commission as part of the adoption process of Basel III standards. Therefore, it continues to comply with schedule defined within the terms established by Law No. 21,130.

The regulation was in consultation between April 3 and May 29, 2020. Its final version includes an analysis of the feedback received during this process. Said regulation will provide additional protection against modeling risk, limiting regulatory arbitrage and facilitating comparability between banks.

The lower limit of 3 percent for the leverage ratio was introduced in the Chilean banking regulation in the 1997 reform to the General Banking Act (LGB, for its Spanish acronym). Another amendment to the LGB in 2019 requires a revision and adaptation of these instructions to best international practices and changes in other relevant regulatory bodies.

Amendments

The regulation improves both the measurement of basic capital (numerator) and of banks' total assets (denominator). In the numerator, deductions are made for items that do not have the effective capacity to absorb unexpected losses, in line with Chapter 21-1 of the Updated Compilation of Rules for Banks (RAN, for its Spanish acronym). The denominator also considers a broader spectrum of exposures, giving them a treatment consistent with the provisions of Chapter 21-6 of the RAN on determination of credit risk-weighted assets. Finally, the regulation creates the necessary instructions for auditing any additional requirements for systemically important banks, pursuant to the terms set by Article 66 Quater of the LGB.

Impact

Estimates of the impact of the regulatory change show that, at a systemic level, the leverage ratio would be reduced by approximately 1 percent, not breaching the minimum of 3 percent required by law for any institution. Therefore, this regulation would not have a direct impact in terms of additional capital requirements for banks in the system.

Validity

The regulation will enter into force on December 1, 2020, notwithstanding the transitory provisions for the calculation of regulatory capital stated in Title V of Chapter 21-1 of the RAN, as well as the transitory provisions for additional capital requirements applied to systemically important banks set in Number 7 of Chapter 21-11 of the RAN.

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.

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