PRESS RELEASE

Basel III Standards

CMF issues regulation on assessment of banks' liquidity position adequacy

- *Circular Letter No. 2,330 sets a general framework to assess banks' liquidity adequacy and the possibility of determining additional requirements for high-quality liquid assets.*

January 16, 2023 — The Financial Market Commission (CMF) issued today **Circular Letter No. 2,330,** which implements additional liquidity requirements as a result of the supervisory process. It is based on principles related to liquidity risk management and the Internal Capital Adequacy Assessment Process arising from the latest Basel Committee Accords. This is in addition to the Internal Liquidity Adequacy Assessment Process (ILAAP) proposed by the European Banking Authority and the guidelines published on the matter by the European Central Bank.

The new regulation fulfills the requirements stated on Number 4 Bis of Chapter III.B.2.1 of the Compendium of Financial Standards of the Central Bank of Chile, covering development of the ILAAP and allowing incorporation of the best international practices into the Chilean banking system. It also broadens the Commission's powers to set additional liquidity requirements on specific entities should their conditions arising from the current economic situation demand it.

Before Chapter III.B.2.1 was amended, and though current rules and regulations included the concept of solvency assessment and management, the CMF lacked authority to impose higher liquid asset requirements to banking entities which either had low liquidity levels or insufficient management according to supervisory assessments. Accordingly, Circular Letter No. 2,330 adds **Chapter 21-14** to the Updated Compilation of Rules for Banks, which distinguishes two processes:

- The ILAAP, in which in banks themselves determine liquidity adequacy levels needed to cover the dimensions of liquidity risk over a timeframe of at least one year.
- The Commission's assessment of banks' liquidity adequacy to support their liquidity risk profile as determined in the annual supervisory review process.

Circular Letter No. 2,330 becomes effective as of April 2023, when banks must submit their first Liquidity Self-Assessment Report (LSAR) in a simplified format. All matters covered by the regulation will be evaluated starting with the supervisory cycle beginning in January 2025. Before that date, the LSAR will be based exclusively on funding plans carried out by banks for different economic scenarios provided by the Commission, as well as their own internal estimates.

For example, the first report shall consider challenges related to the expiration of Conditional Credit Facilities to Increase Loans in 2024, which were granted by the Central Bank of Chile due to the 2020 sanitary crisis. The analysis must include market changes and their impacts on wholesale funding. Said assessment is to be submitted alongside a summary of the main conclusions and a liquidity adequacy statement.

The new regulation is available in detail on the Rules and Norms section of the CMF website. In addition, the Commission makes available a Regulatory Report with its key elements and the core aspects obtained from interested parties' feedback.

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