PRESS RELEASE

CMF highlights new milestone in implementation of Basel III framework with activation of Countercyclical Capital Requirement

- *Yesterday, the Central Bank of Chile activated the Countercyclical Capital Requirement as a precautionary measure against increased external financial uncertainty.*
- *The level and timeframe were defined with a prior favorable report from the CMF, which considered the use of the CCR as a resilience tool to be appropriate.*
- *The buffer is to be established within one year and included in solvency reports for May 2024.*

May 24, 2023 — The Financial Market Commission (CMF) highlights a new milestone in the implementation of Basel III following the decision of the Central Bank of Chile (BCCh) to activate a Countercyclical Capital Requirement (CCR). In accordance with Article 66 Ter of the General Banking Act, the CCR may be activated at an amount between 0 and 2.5 percent of risk-weighted assets of each bank. This decision corresponds to the BCCh, and the definition of level and timeframe for its constitution requires a prior favorable report from the CMF.

Yesterday, at the Financial Policy Meeting for the first half of 2023, the Board of the BCCh agreed to activate the CCR at a level of 0.5 percent of risk-weighted assets, due within one year, with a unanimous favorable report from the Commission. The purpose of the requirement is to accumulate a capital buffer to use in the event of severe stress scenarios. Should they materialize, the buffer is released, mitigating any negative impacts of credit supply restrictions with this additional margin.

The CMF states that using CCR as a resiliency tool is appropriate. The CCR framework is also consistent with recent discussions presented by the Basel Committee, which highlight the importance of having such a tool available. Evidence indicates that temporary reductions in capital requirements help avoid credit downturns during periods of stress.

It is worth mentioning the current level of solvency of Chilean banks is solid, as shown by stress tests. The CCR activation triggers an additional buffer that may be released and generate additional capital leeway during severe stress events. This reduces the likelihood of credit behavior being an element that amplifies impacts in case of stress scenarios.

The CMF also shares the general view of risks presented by the Central Bank in its Financial Stability Report. In particular, the Commission agrees with the diagnosis of a complex situation in the global financial system given recent events in developed markets and the persistence of inflationary pressures.

According to the CCR implementation deadlines, banks must fully build up their buffers within one year and include it in their May 2024 solvency reports.

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