



CMF publishes for consultation amendments to regulation on Basel III's Pillar 2 capital requirements for banks, moves forward in their implementation

- *The proposal introduces improvements to facilitate the supervisory process and clarify some aspects of capital assessments after two cycles of capital adequacy analysis.*
- *The CMF is currently evaluating and quantifying non-traditional material risks to which each bank is exposed and determine whether the application of regulatory capital charges for Pillar 2 is appropriate.*

December 5, 2023 — The Financial Market Commission (CMF) published for consultation today regulatory amendments for the determination of additional regulatory capital requirements derived from the supervisory process, known as Pillar 2 of the Basel III standards. Said amendments improve Chapter 21-13 of the Updated Compilation of Rules for Banks (RAN) to facilitate supervisory processes and clarify certain aspects of the capital assessment process.

The Commission began implementing Basel III standards in Chile back in 2019 following the publication of Law No. 21,130 on Modernizing Banking Legislation. Specifically, Article 66 Quinquies of the Law empowers the CMF to set forth through a General Rule the criteria and guidelines to consider for the determination of additional Pillar 2 capital requirements.

Such adjustments apply when, per the CMF's decision, banks are exposed to risks insufficiently covered by Pillar 1 requirements, which include traditional credit, market, and operational risks. Depending on their business model, banks may be vulnerable to non-traditional risks derived from the banking book market; credit concentration; reputational and strategic issues; cybersecurity incidents; geopolitical factors; and climate, among others.

Pillar 2 requirements are determined on a case-by-case basis through a well-founded resolution and with the approval of at least four of the five members of the Commission's Board. The requirements may not exceed 4 percent of the bank's net risk-weighted assets.

Following the issuance of Chapter 21-13 of the RAN in September 2020, which establishes capital adequacy criteria and guidelines, two effective assessment

processes were carried out in 2021 and 2022. The current process considers an assessment of all material risks for banking institutions.

No additional capital requirements were mandated during the regulatory transition period, with the Commission only making observations regarding the application of regulations.

As of the following revisions, which include the Internal Liquidity Self-Assessment Process (ILAAP) sent in April 2023, banks must internalize the requirement of regulatory charges by the Commission in their capital planning when so required, and in accordance with the provisions of Article 66 Quinquies of the General Banking Act.

Likewise, after a review of Chapter 21-13 of the RAN and the associated process, the Commission decided to publish for consultation some regulatory amendments to facilitate the supervisory process and to clarify specific aspects of the assessment process. It proposes to:

- Adjust Annex No. 1 on banking book market risks, abolishing the 15-percent CET1 threshold regarding the impact on economic value. This will allow the Commission to impose a capital requirement to ensure full coverage more appropriate to the bank's actual situation.
- Limit the ILAAP's extension.
- Adjust Annex No. 3 and instruct its submission in Excel format.
- Clarify the determination of internal objectives and their connection with the position the CMF may determine, in accordance with article 66 Quinquies of the General Banking Act.
- Correct the reference to the frequency of financial statements to report the level of additional capital requirements under Article 66 Quinquies.

The proposal considers only the last of these amendments to be effective immediately. The remaining ones will enter into force as of April 2024 (the following effective equity assessment process).

Interested parties may access the [Draft Rules and Norms section](#) of the CMF website until January 3, 2024 to check the details of the regulatory proposal and submit their feedback. The Commission also makes available the corresponding [Regulatory Report](#) with its core elements.

Area of Communications, Education & Image — Financial Market Commission (CMF)

Contact: prensa@cmfchile.cl | [Press Room](#) | [Subscribe to Relevant CMF Information](#)
| **Twitter:** [@CMFChile](#) [@CMF Educa](#) [@CMF HEsenciales](#) | **LinkedIn:** [CMF](#)