



Regulador y Supervisor Financiero de Chile

Financial Market Development Mandate at the CMF

Financial Market Commission - Chile

September 2024

Outline

Financial market development as one the three CMF mandates



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graph TD; A[Financial market development as one the three CMF mandates] --> B[Where do we stand in terms of financial market development?]; B --> C[Future challenges for developing the Chilean financial market];
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Where do we stand in terms of financial market development?

Future challenges for developing the Chilean financial market

The organic law gives the CMF 3 mandates,
which its Board interprets as follows:

Financial soundness

It aims to promote solvency, liquidity, and risk management of financial institutions to prevent financial instability from affecting people's well-being

Market Conduct

It aims to protect investors and users of financial services, promoting transparency and integrity of the financial market and fair treatment of users by institutions.

Market development

It aims to improve the efficiency, accessibility, depth, and resilience of the financial system to foster inclusive and sustainable economic growth.



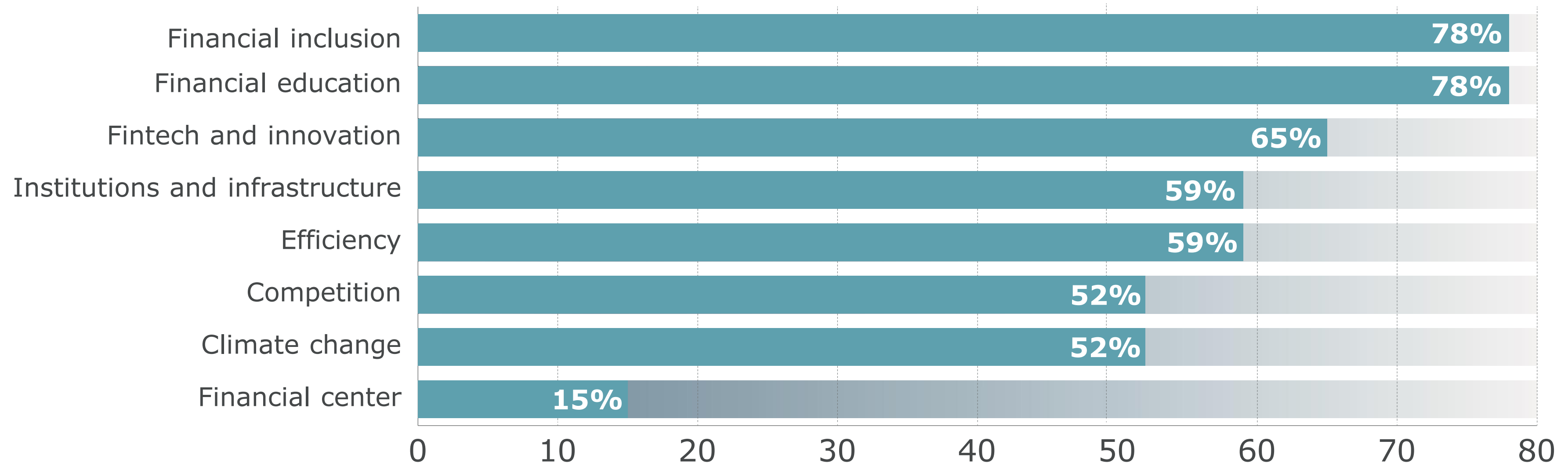
The 2023-2026 CMF's strategic plan focuses on its mandates to ensure the effectiveness of CMF's actions

Define and implement a market development agenda in conjunction with strengthening financial inclusion

Other prudential and/or financial market conduct supervisors also have explicit mandates on financial market development

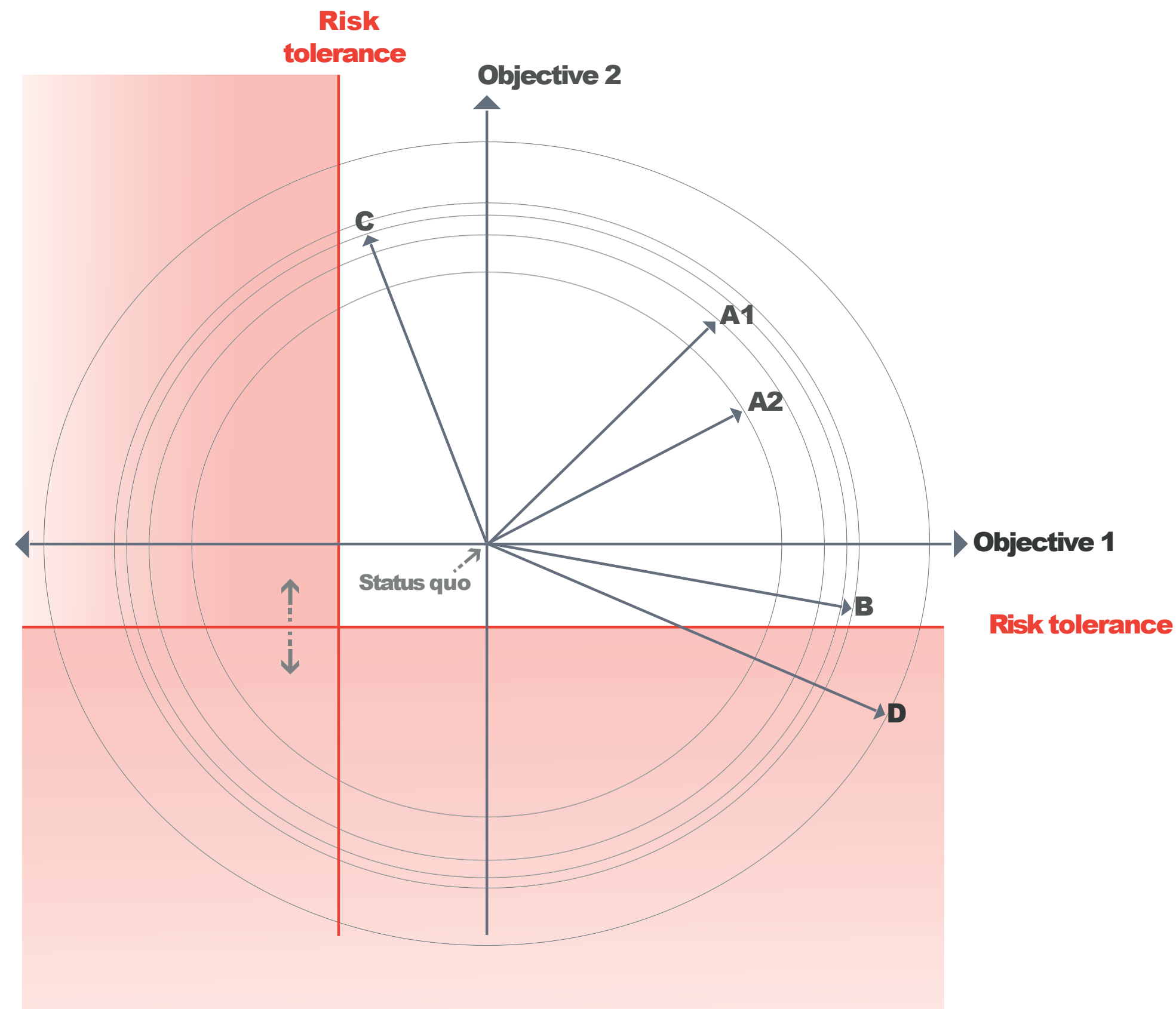
Financial supervisors' market development mandates

(percentage of total jurisdictions)



Source: Based on Kirakul et al. 2021.

Fulfilling this triple mandate requires the CMF
to maintain a broad view of the effects of its decisions



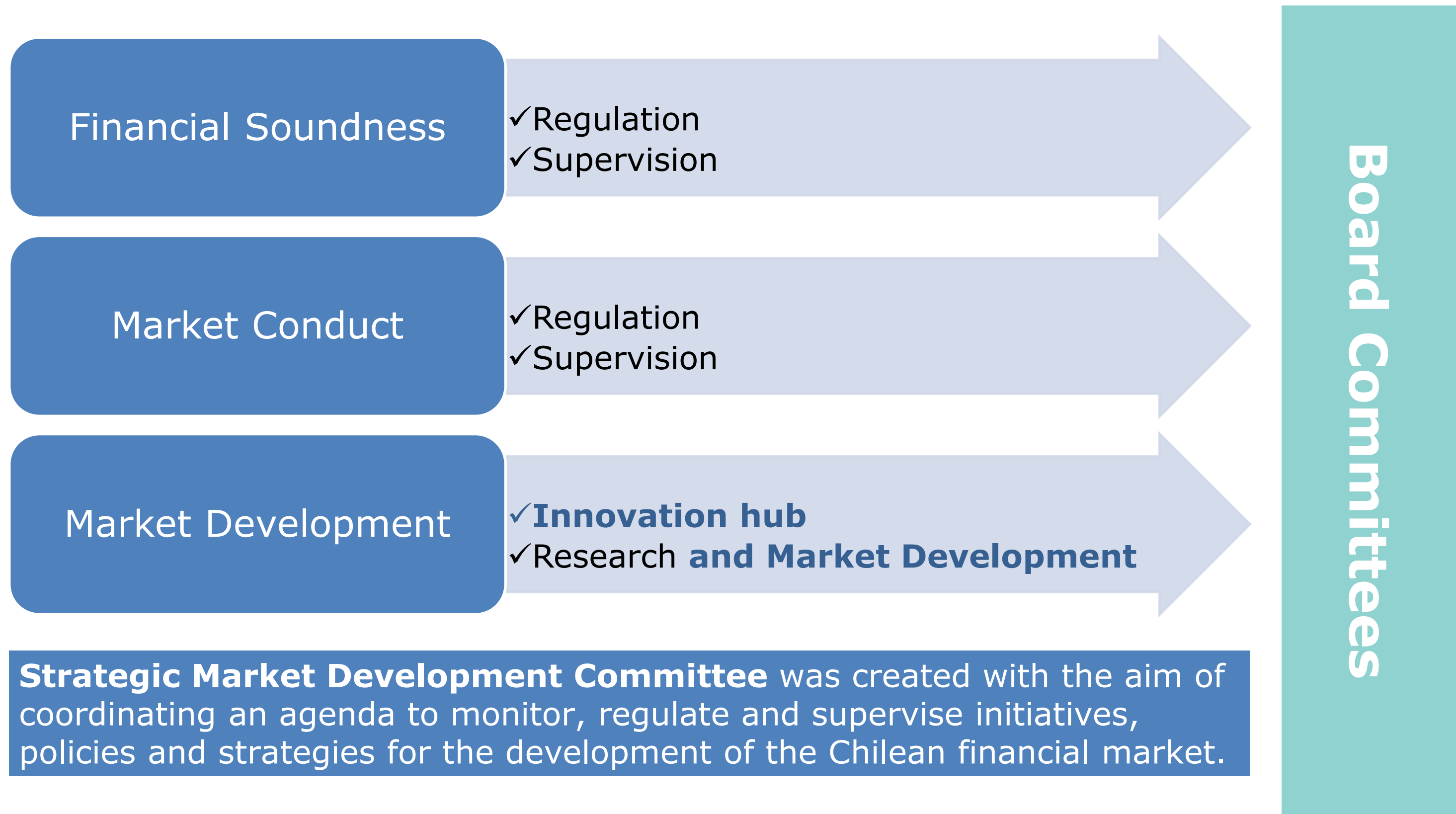
While the mandates generally complement each other, sometimes there is a constructive tension between them.

The CMF regulates, supervises, sanctions and discloses information to fulfil its three mandates

Institutional mandates				
Functions	Financial soundness		Market Conduct	Market development
	Regulate			→
	Supervise			→
	Sanction			→
	Disclose			→

Source: CMF

In terms of structure, to adequately balance its mandates, the CMF has decided to organize itself under a three-pillar scheme



Outline

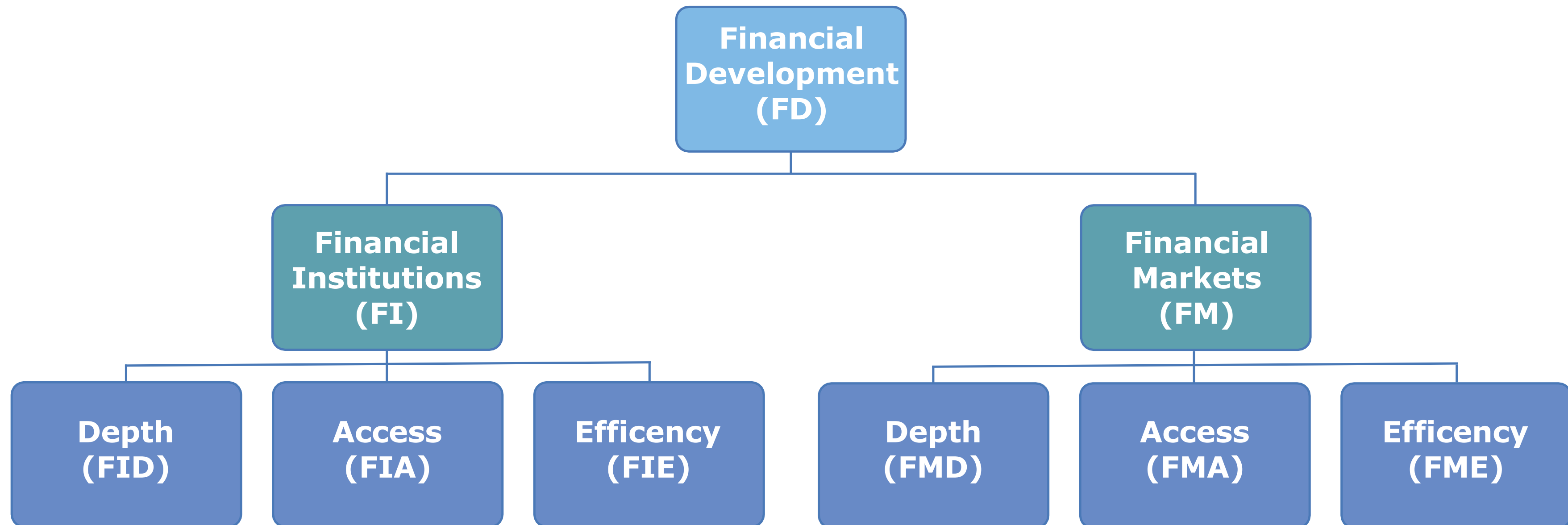
Financial market development as one the three CMF mandates

Where do we stand in terms of financial market development?

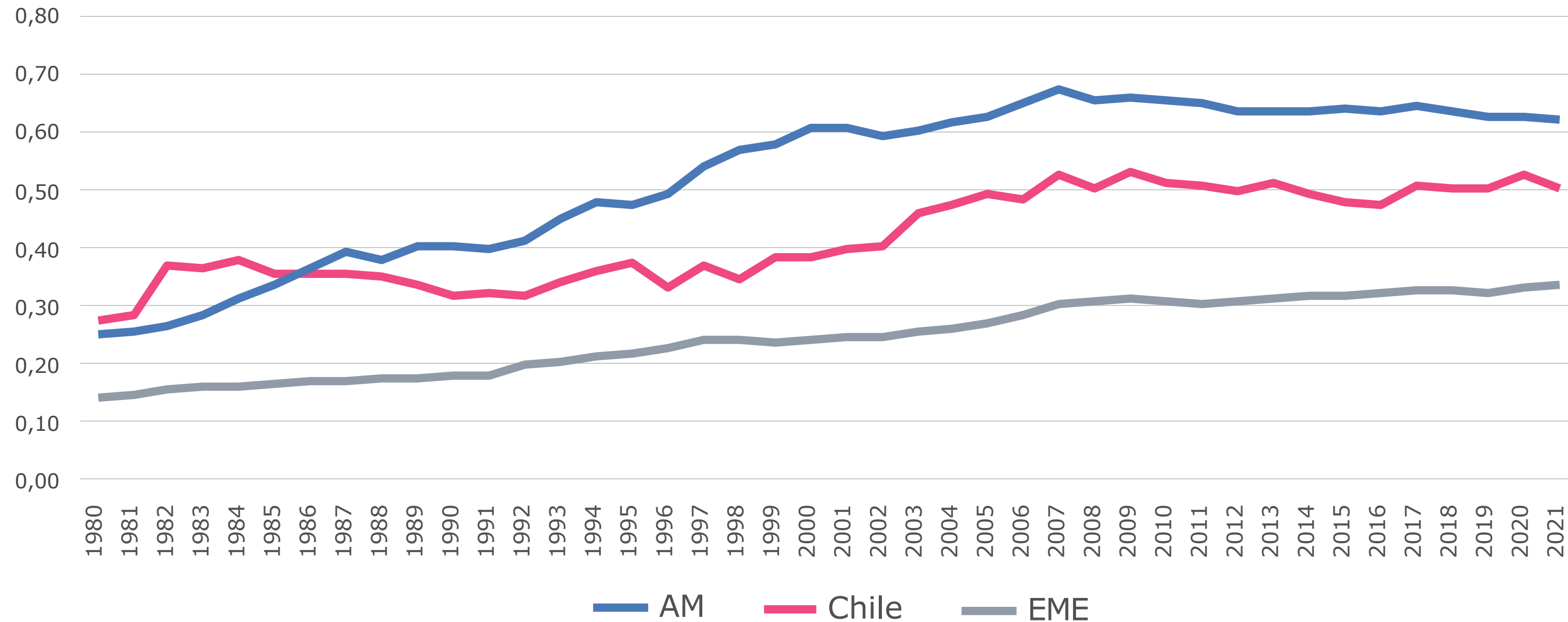
Future challenges for developing the Chilean financial market

To advance market development, it is necessary to have indicators that allow for an adequate monitoring and evaluation

IMF Financial Development Index



The Financial Development Index shows sustained progress in Chile and the world over the last 40 years



- However, a slowdown is observed after the subprime crisis.
- Chile is in the intermediate zone between advanced and emerging markets.

Fuente: Elaboración propia en base a Financial Development Index Database, FMI.

Pension fund withdrawals affected depth indicators in the latest data

IMF Financial Development Sub-Indices



Source: Own elaboration based on the Financial Development Index Database, IMF.

In addition, a recent analysis by the BCCh (IEF 2023.s2) shows a worsening of liquidity measures in the fixed income and equity markets in Chile, compared to other countries in Latin America.

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Financial Market Development Challenges

Access

- **Inclusion and education:** Promotion and coordination of initiatives
- **Digital finance:** opportunities for the expansion of digital financial services
- **Promotion of savings:** Education and innovation initiatives can contribute.
- **Credit market:** room for greater access and better financing conditions.
- **Parametric and Inclusive Insurance**

Depth

- **Corporate Governance:** Evaluate the current regulatory framework and whether it responds to the way in which businesses are structured in Chile, from the perspective of market development.
- **Financial Market Infrastructures:** Facilitate the process of issuing bonds and shares and evaluate ways to enhance the benefits of regional integration.
- **Green finance:** strengthen the climate information architecture.

Efficiency and Competition

- **Financial service providers:** reduce informality in the credit market and promote competition through the entry of new actors.
- **Facilitate financing conditions for financial institutions:** facilitate the development of the repo market, securitizations or other mechanisms that improve liquidity in the market.

Activities to be monitored by the Strategic Market Development Committee

- Establish a platform for a permanent and transparent dialogue with different stakeholders to discuss long-term challenges.
- Request an international assessment to help identify gaps in market development, beyond the findings of the FSAP 2021.
- Strengthen the ex-ante impact assessment model and the public consultation process, as well as a critical and rigorous ex-post impact assessment, with collaboration from academia.
- Prepare a Policy Document on Capital Market Modernization: workshops will be held with a focus on 5 areas of interest identified as the most relevant in the short term.

Other institutional activities on the agenda:

- Publication of a Financial Inclusion Policy.
- Redesign of institutional reports that contribute to visualizing financial inclusion gaps.
- Publication of a report on institutions' Financial Education Activities (Circular 2017-04).

Capital Market Modernization Workshops

Corporate governance:

Assess the regulatory framework considering the current structure of companies with a focus on financial market development.

Market Infrastructures:

Acknowledge technological changes, regional alliances and local/regional market conditions, identifying potential opportunities and obstacles.

Market Depth:

Understand the dynamics that have impacted the depth and volatility of capital-, foreign exchange rate- and money markets.

Financing of smaller companies:

Assess the performance of ScaleX, the Fintec Law and other relevant cases for market financing.

Savings promotion:

Identify ways to recover wholesale and retail savings. Financial education strategies, among others.

Final Remarks

- Chile has a deep and sound financial system, which has been able to withstand periods of turbulence and has contributed to economic development and poverty reduction.
- The literature shows that the adequate operation and development of the financial market is central to the well-being of people and economic growth.
- Financial supervisors play a key role in balancing the promotion of financial development with the protection of client and financial system stability, using tools such as regulation, supervision, sanctioning powers and information disclosure.
- The CMF understands its **financial development mandate as a comprehensive process, which seeks to improve the efficiency, accessibility, depth and resilience of the financial system, to foster inclusive and sustainable economic growth.**
- Through this publication, the CMF is sharing its vision with the market and the public and inviting them to contribute to the achievement of this objective.



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To comply with these mandates, it is important to keep in mind the OECD's principles for regulation and supervision

Policy Framework

Strategic statement defining regulatory and governance principles



Institutions and Capacities

Assignment of roles in the different institutions with the responsibility of implementing high-quality regulation and ensuring enforcement



Systems, processes and tools

Practices and processes that are designed and implemented to ensure quality in regulation and oversight



The development mandate is reflected
in a cross-cutting way in the functions of CMF

Regulation:

**Maintain confidence
in the CMF and in the
Chilean regulatory
framework, including
a robust impact
analysis on financial
development.**

**Supervision and
sanction:**

**Maintain effective and
efficient processes of
licensing, supervision
and sanctions.**

**Disclosure of
information:**

**Maintain effective
communication with
supervised entities
and the public, which
contributes to a
better functioning of
the financial system.**