



PRESS RELEASE

CMF publishes for consultation regulation on the identification of systemically important banks

In accordance with international standards and the recent amendment to the General Banking Act (LGB, for its Spanish acronym), criteria are established to identify systemic banks and determine the application of higher requirements to these entities. This is because of the costs that their financial deterioration or eventual insolvency could entail to the financial system.

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The Financial Market Commission (CMF) reports that it has put in public consultation a methodological proposal for the identification of systemic banks and the determination of additional requirements for these entities. This process is carried out in accordance with Article 66 quater of the General Banking Act (LGB, for its Spanish acronym), and with the latest agreement of the Basel Committee on Banking Supervision (Basel III). The consultation period will be open from today until September 26, 2019.

The new regulation considers the establishment of an index of systemic importance per entity based on four factors that reflect the local impact of its financial deterioration or possible insolvency. These factors are: size, interconnection, substitutability, and complexity of the entity. Depending on the value of this index, a range is established for the additional requirements of Article 66 quater. According to the proposed methodology, the process of identifying systemic banks and determining the applicable additional requirements will be carried out annually. The process will be based on the information reported by the banks themselves for calculating the systemic importance index.

As of December 2018, it is estimated that six banks would be classified as systemically important and, together, would require additional core capital of about USD 2.5 billion to meet the requirements of Article 66 quater of the

LGB. However, annual net economic benefits from greater financial stability would amount to 0.5 percent of Chile's GDP, far outweighing the costs associated with additional capital requirements.

Prior to the last amendment to the LGB, the only legal tool available in Chile to require additional capital for systemically important banks was conditional upon a bank achieving significant market share -- 15 percent or more of total loans in the system -- as a result of a merger or acquisition process (inorganic growth). In such a case, the banking supervisor could require to this bank to provide additional cash up to the equivalent of 6 percent of risk-weighted assets, in accordance with Article 35a of the LGB and Chapter 12-14 of the CMF's Updated Compilation of Rules for Banks (RAN, for its Spanish acronym). Since said article was amended by the LGB to make it consistent with the new Article 66 quater, the adjustments to Chapter 12-14 of the RAN are also submitted for public consultation within the same period.

The current LGB mandates, in its Article 66 quater, that the CMF regulates and determines when a bank has systemic status and, by virtue of this rating, impose higher requirements, including additional core capital between 1 and 3.5 percent of risk-weighted assets. This applies regardless of whether this condition is achieved by organic or inorganic growth. The bank rating, and the additional requirements that it entails, will be established by the Board of the Financial Market Commission by means of a grounded resolution, following a prior agreement by the Central Bank of Chile.

The regulation will enter into force on December 1, 2020. The results of the process of identifying systemically important banks, and their additional requirements, will be reported by means of a grounded resolution, with prior agreement by the Central Bank of Chile, as of March 2021. Requirements derived from the first application may be constituted gradually between December 2021 and December 2024 at the rate of an additional 25 percent each year.

To access the details of the normative proposal, you can go to the [Draft Rules and Norms](#) section of the CMF website. In addition, the Commission makes available to interested parties a [Regulatory Report](#) that evaluates the impact of this proposal, a [Frequently Asked Questions](#) document, and a [Presentation](#). These documents summarize the main elements of the public consultation on a new methodology for the identification of banks of systemic importance, and additional requirements.

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