PRESS RELEASE

CMF announces easing of Basel III implementation deadlines

- *The Board of the Financial Market Commission decided to postpone the implementation of the Risk-Weighted Assets requirements by one year. Therefore, said implementation will start in 2022.*
- *It also agreed to defer by a year additional capital charges for systemically important banks, associated conservation buffer requirements, and discounts to effective equity.*
- *The Board resolved to continue the process of issuing Basel III standards so that they are fully available by December 2020. This includes extending the deadlines for public consultation processes.*

March 30, 2020.- The Financial Market Commission (CMF) reports that, in coordination with the Central Bank of Chile, decided to postpone the implementation of the Basel III requirements for a year, as well as to maintain the current general regulatory framework for banking capital requirements until December 2021. Said decision is in line with the actions taken by other regulators – taking steps to alleviate the capital situation of their banking systems to encourage lending while also upholding their primary mandate of safeguarding the resilience of the banking sector. The Basel Committee itself extended the deadline for implementation of the modified standards by a year in 2017.

The measures announced by the Commission are aimed at giving banks greater flexibility in setting up provisions to accommodate changes in the payment conditions of their debtors, and ultimately to benefit bank customers.

The Chilean banking system lacks the counter-cyclical capital mechanisms that banks in jurisdictions under Basel III already have. Since Chile is in the process of implementing these new capital standards, the CMF does not have the same set of tools at its disposal for its regulatory role.

Considering both the current economic situation and the powers granted to it by the General Banking ACT (LGB, for its Spanish acronym), the Commission deemed appropriate to postpone the implementation of Basel III requirements by a year. The aim is to prevent the increase in capital requirements from accentuating the effects of the negative shock and to limit the operational challenges for banks in adopting a new regulatory framework today. Nevertheless, the CMF will continue its regulatory work in compliance with the current legal framework by outlining the following principles:

1. Pursuant to Article 1 Transitory of Law No. 21,130, which modernizes banking legislation, the Commission will issue the regulations that establish the standard methodology for the calculation of credit, market, and operational risks. These regulations will become effective no later than December 1, 2020.
2. Said regulations will consider in their transitional provisions that market and operational-risk weighted assets (APRs, for their Spanish acronym) will equal zero until December 1, 2021. Credit risk-weighted assets (APRCs, for their Spanish acronym) will be calculated considering the current weightings associated to the same five categories currently in force. This will keep the APR calculation unchanged for an additional year.
3. The first determination of the additional core capital charge for systemically important banks will be made in March 2021 at zero percent, with the possibility of a gradual increase in the following years.

In addition, the Commission has resolved that:

1. For the purpose of calculating the requirements of Article 66 of the LGB, the discounts to the actual assets shall be extended to a five-year period. There will be no discounts in 2021 but progressive increases in the following years, up to 100 percent on December 1, 2025.
2. The new disclosure requirements associated with Tier 3 of Basel III will take effect after December 1, 2022.
3. The additional core capital requirement associated with the conservation buffer (Article 66 Bis of the LGB) will be implemented in accordance with the current legal framework (Article 2 Transitory of Law No. 21,130). It will be 0.625 percent on December 1, 2021 and will increase by the same amount in the following years until it reaches its full amount of 2.5 percent on December 1, 2024.
4. The charges related to the repealed Article 35a of the LGB shall remain in force in accordance with Article 7 Transitory of Law No. 21,130.
5. The Tier 2 regulation will be in force by the fourth quarter of 2020. It will expand the Commission's powers to establish additional capital charges on specific entities, should their particular conditions warrant it.

The CMF expects that the extension of the Basel III implementation deadlines will complement the measures announced by the financial authorities to stimulate the economy. Banks must make equivalent efforts, which the Commission trusts will result in greater capitalization of profits in 2019 and beyond, and that the freed-up resources will indeed be used to support the local economy and its customers.

The Financial Market Commission also resolved to extend the deadlines for public consultations and subsequent regulations for the implementation of Basel III. Once the public consultation processes are completed, the Council will take due account of the views of all interested parties and proceed to issue the definitive regulations. The new regulatory calendar is as follows.

No.	Issue	Public Consultation	Favorable Report from the Central Bank of Chile	Regulation Released On…	Regulation in Force By…
1	Methodology of Systemically Important Banks	Closed	Yes	4Q 2020	December 1, 2020
2	Adjustments to Chapter 12-14 of the Updated Compilation of Rules for Banks (Art. 35 Bis)	Closed	No		
3	Standard Method for Operational Risk	Closed	Yes		
4	Equity Discounts (Goodwills, Deferred Tax Assets, etc.)	Closed	No		
5	Implementation of the Conservation and Counter-Cyclical Buffers	Until March 31, 2020	No		
6	Standard Method for Credit Risk	Extended Until May 31, 2020	Yes		
7	Internal Models for Credit Risk		Yes		
8	Subordinated Bonds (Adjustments)	April 3 to May 30, 2020	No		
9	Definitions for the Issuance of Perpetual Convertible Bonds and Preferred Shares		Yes		
10	Leverage (Adjustments)		No		
11	Capital Adequacy Assessment (Tier 2)	April/May	No		
12	Standard Method for Market Risk	May/June	Yes		

13	Internal Models for Market Risk		Yes		
14	Public Information Templates (Tier 3)	June/July	No		
15	Major Exposures (New Limits to Corporate Groups per Art. 84 of the LGB).		No		

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