PRESS RELEASE

CMF Chairman Joaquín Cortez spoke before the Chamber of Deputies' Labor Committee regarding legislation regulating switches between pension funds

- *Chairman Cortez stated that massive and frequent switches between pension funds cause greater volatility in the financial market.*

January 18, 2021 – Joaquín Cortez, Chairman of the Financial Market Commission (CMF), spoke today before the Chamber of Deputies' Labor Committee about a legislation that regulates the switch between pension funds. In his presentation before the Committee, Cortez pointed out that while personalized pension counseling is currently regulated jointly by the Superintendence of Pensions (SP) and the CMF, mass pension advisors are not subject to supervision in terms of suitability and knowledge.

The Chairman also stated that mass switches between pension funds cause unwanted volatility in asset prices. He added that empirical evidence shows that financial asset prices can show large fluctuations in the short term and stabilize in the long term. Therefore, such fund switches increase short-term volatility of financial assets without changing their long-term trend.

Cortez stressed that there are different regulatory mechanisms for different circumstances at the international level. Such mechanisms intend to avoid any unnecessary losses that short-term volatilities produce on individuals. Among them are stop-losses in stock exchange transactions or capital restrictions in case of sudden capital outflows.

In Chile, requests to switch funds may account for relevant amounts of such funds. According to data from the SP, transfers shown as a percentage of Fund E's assets – which are mainly invested in local fixed-income instruments – have reached over 20 percent of its portfolio. This causes significant variations in its prices.

The Chairman of the CMF appreciated that the initiative under discussion contributes to correct the negative externality produced by massive fund switches on the system's profitability, i.e. a preference for more liquid assets or the massive sale of assets at non-long-term prices. He argued that the size of the resources managed by Pension Fund Administrators (AFPs) justifies such a measure in terms of financial stability. Assets under AFPs management as of December 2020 exceed USD 200 billion, equivalent to over 80 percent of Chile's GDP.

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