



## **CMF welcomes positive assessment of the Chilean financial system by the International Monetary Fund and the World Bank**

- *The Financial Sector Assessment Program noted that the Chilean financial system has proven resilient to recent shocks, with a robust regulatory and supervisory framework and an adequate response by financial authorities to the effects of Covid-19.*
- *It also valued the progress made in supervision, including the integration of the CMF, amendments to the General Banking Act, adoption of Basel III standards, and coordination mechanisms between the CMF and the Central Bank of Chile.*

**December 9, 2021** — The Financial Market Commission (CMF) highlights the positive assessment carried out by the International Monetary Fund (IMF) through the release of a document with the conclusions of its Financial Sector Assessment Program (FSAP).

Due to the restrictions caused by the Covid-19 pandemic, this assessment was carried out virtually during the year by teams from the IMF and the World Bank. This posed operational and coordination challenges that were successfully overcome thanks to the professional work and flexibility of the IMF and the World Bank, as well as teams representing the Central Bank of Chile, the Ministry of Finance, the CMF, and the Superintendence of Pensions.

The assessment included analysis of different aspects of regulatory and supervisory roles, such as crisis management and resolution, financial stability, stress testing, macroprudential tools, and systemic liquidity. In addition, it carried out a special review of compliance with the Basel Committee's Key Principles for Effective Banking Supervision.

### **Robust Regulation & Supervision**

The FSAP noted that the Chilean financial system has proven to be resilient to recent shocks, with a robust regulatory and supervisory framework, and adequate response from financial authorities to the effects of Covid-19. It also valued the progress made in supervision, including the integration of the CMF, amendments to the General

Banking Act, adoption of Basel III standards, and coordination mechanisms between the CMF and the Central Bank of Chile. In this regard, it stressed the importance of a full implementation of Basel III and the plans to increase bank capital, underlining they should be prioritized until the transition timetable is met.

## **Room for Improvement**

The FSAP identified some areas for improvement in the legal framework of the financial sector that, in essence, coincide with the gaps identified by the CMF. The Commission's strategic initiatives for the 2020-22 period include ways to close such gaps. Some of them include:

- Improved crisis management framework and creation of a resolution framework.
- Risk-based Capital Act for Insurance Companies.
- Fintech Act.
- Consolidated debt registry.
- Adequate regulatory framework for financial conglomerates.

The FSAP also recommended further strengthening of the CMF's corporate governance; reinforcing legal protection for its personnel; and establishing a stable, independent funding mechanism. It also called on authorities to further bolster the Financial Stability Board, especially in the coordination of macroprudential policy implementation.

Regarding financial conglomerates and following the IMF team's recommendation, the CMF has already approved a Supervisory Manual. It also improved the regulation to include new instructions on the scope, exceptions, and information systems to control the limit on the total amount of loans that banks may grant to individuals or entities belonging to the same corporate group.

## **Support Measures & Risk Areas**

The assessment also underlined the importance of a gradual, coordinated withdraw of exceptional Covid-19 support and concurred with the Chilean authorities on the analysis of emerging risk areas requiring special monitoring. Two examples are pension fund withdrawals and the evolution of the non-residential real estate sector. The latter are particularly relevant, stated the IMF, both for their impact on the sustainability of the pension system and the subsequent volatility caused on the local financial market by high liquidity requirements needed to implement fund withdrawals.

The CMF began coordinated work with the Central Bank to update its regulatory frameworks and supervisory tools to incorporate the suggestions for improvement raised by the FSAP team and further its strategy of adopting global regulatory and supervisory best practices.

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

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