



## CMF issues amendments to liquidity regulations for banks, closing gaps with international Basel III standards

- *The regulation amends Chapter 12-20 of the CMF's Updated Compilation of Rules for Banks, a complementary step to the regulation issued by the Central Bank of Chile in March 2022.*
- *The main elements introduced are compulsory compliance with the Net Stable Funding Ratio indicator, and the obligation to carry out an Internal Assessment Process for liquidity adequacy.*
- *This amendment aligns Chilean regulation with Basel III international standards and seeks to both improve and strengthen liquidity management of banking institutions, ensuring short and long-term considerations as well as the adequate management and supervision of this risk.*

**June 8, 2022** — The Financial Market Commission (CMF) issued today [Circular Letter No. 2,314](#), which amends the regulations that set liquidity requirements for Chilean banks. Said amendments are in line with the new Basel III standards and the modifications introduced by the Central Bank to Chapter III.B.2.1 of its Compendium of Financial Standards. Additionally, they address recommendations made by the International Monetary Fund mission that performed Chile's Financial Sector Assessment Program (FSAP), putting the country at the forefront of liquidity risk management regulation.

The Chilean regulatory framework had included international standards regarding liquidity management since 2015, when both the Central Bank and the CMF (at that time Superintendence of Banks and Financial Institutions) adapted their regulations to incorporate a progressive requirement of the Basel III short-term liquidity indicator known as **Liquidity Coverage Ratio (LCR)**. Additionally, regulatory amendments of the time considered additional monitoring indicators and a **Liquidity Management Policy (LMP)**. These changes in liquidity regulations, combined with the implementation of Basel III capital standards, are a fundamental step to strengthen the Chilean financial system.

Modernization of capital requirements was possible due to the amendments to the General Banking Act (LGB) introduced in 2019. The Act empowered the Commission

to issue regulations on the capital framework for banks, a first step to incorporate international Basel standards. The CMF completed said regulatory process by the end of 2020. The main objective of Basel III capital and liquidity standards is to strengthen the resilience of banking institutions in the face of stress episodes and preserve financial stability, ultimately contributing to the well-being of people and economic recovery.

## Key Amendments

The main regulatory adjustment introduced by Circular Letter No. 2,314 is compulsory compliance with the **Net Stable Funding Ratio (NSFR)** indicator, whose value must reach at least 60 percent in June 2022 and 100 percent in 2026. The NSFR aims to reduce the possibility that a collapse in regular funding sources erodes a bank's liquidity position and threatens its stability.

Another relevant change is the incorporation of an **Internal Liquidity Adequacy Assessment Process (ILAAP)**, a counterpart to the supervisory process for capital adequacy established under Pillar II of the Basel III framework. Additionally, this new regulation includes several other modifications worth mentioning:

- Expedited compliance requirements for the LCR indicator limit, reaching 100 percent in June of this year.
- Adjustment to the LCR calculation formula and the treatment of the indicator's technical reserves.
- Adjustments to reporting for NSFR and LCR computation through regulatory files, and incorporation of definitions consistent with capital framework standards.
- Flexibilization of former liquidity requirements related to maturity mismatches. In addition, information from older indicators and "contractual - no adjustment" data (Files C48 and C46) is discontinued.

The new regulation was under public consultation between April 8 and 22, 2022. Feedback from interested parties was analyzed and processed so the amendments addressed concerns raised both in the final adjustments and the explanations added to the report and FAQ issued alongside the Circular Letter.

Details of the new regulation, including its [Regulatory Report](#) and [Frequently Asked Questions document](#), are available on the [Rules and Norms section](#) of the CMF website.

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