



PRESS RELEASE

Board of the CMF welcomes approval of bill that strengthens resilience of the financial system and its infrastructures

- *It is an important step forward in strengthening the resilience of the financial system by expanding the Commission's supervisory toolkit; strengthening the regulation of certain actors such as savings and credit cooperatives; and strengthening the financial system through greater use of the Central Bank of Chile's payments infrastructure.*

October 13, 2023 — The Board of the Financial Market Commission (CMF) welcomes the approval by a large majority of **the bill that strengthens the resilience of the financial system and its infrastructures**. The board states that said bill **helps close a series of local regulatory breaches relative to the best international practices**. These breaches were detected in various diagnoses carried out by the CMF and the Central Bank of Chile (BCCh), and international organizations like the International Monetary Fund and the World Bank.

Broadly speaking, here are the main highlighted topics that the bill addresses:

- Improvements in the institutional framework for financial market infrastructure, and expansion of access to payment and liquidity management systems of the BCCh and non-banking financial intermediaries.
- Improvements to the REPO market.
- Improvement of aspects applicable to regulations concerning savings and credit cooperatives.
- Improvements to the Commission's powers to suspend securities trading on the stock exchange, as well as to establish liquidity requirements for mutual funds.
- Incorporation of a simplified procedure for obtaining a Tax Identification Number to facilitate internationalization of the Chilean peso.

The approval by Congress is the result of legislative work led by the Ministry of Finance with support of the CMF and the BCCh, in addition to coordination and support with authorities of the Ministry of Economy.

Financial Market Infrastructures

The bill allows access to the BCCh payment system (RTGS, Real-Time Gross Settlement) to infrastructure entities that play a relevant role in the functioning of the financial system (a.k.a systemic) and in the payment system (high- and low-value). This group includes Central Securities Depositories, which are authorized to perform clearing functions; and Central Counterparty Entities (CCPs), which may access to liquidity from the BCCh. It also includes the recognition of foreign CCPs after and assessment by the CMF, also allowing compliance with the principle of reciprocity with other jurisdictions (i.e. that local CCPs be recognized internationally).

Development of the REPO Market

Another noteworthy aspect, consistently observed in various evaluations carried out by international organizations, are measures to promote the development of REPO markets. Therefore, the bill will amend both Law No. 20,720 and the General Banking Act regarding the establishment of legal certainty for related obligations through such operations. This aspect is one of the main barriers to market development detected in the various diagnoses carried out.

REPOs are a type of secured transaction, allowing financial institutions in search of financing to obtain it under more favorable conditions, and institutions that provide financing to do so without incurring greater counterparty risks. Internationally, REPOs are part of the usual toolset for good risk and liquidity management, being a valuable alternative to the tools already available to the BCCh.

Savings and Credit Cooperatives

The Board of the CMF highlights the improvements introduced by this bill regarding the regulatory framework applicable to savings and credit cooperatives under its supervision. Amendments to the General Cooperatives Act will allow integral oversight of said entities and endorse at the same time explicit recognition of their nature; the proportionality principle to be observed by the Commission's regulatory activities; and coordination with the Department of Cooperatives, dependent on the Ministry of Economy and which maintains its role as a promoter of the sector.

Given the context of the measures seeking to promote the resilience of the financial system, the approved bill will allow entities that participate in payment systems, including cooperatives whose assets exceed UF 400,000 and are authorized by the BCCh, to access settlement services of the RTGS System. Cooperatives with assets over UF 800,000 which comply with the requirements defined by the Central Bank will be granted access to its financing facilities.

In addition, it contemplates a mechanism to return capital contributions for cooperatives' members (liquidity of contributions) regulated by the CMF with the prior favorable agreement of the BCCh. Currently, returning contributions requires collecting a prior contribution of equal value to maintain the cooperative's equity, regardless of each institution's financial conditions. Some savings and credit

cooperatives have numerous outstanding return claims despite their high solvency and/or liquidity ratios. This mechanism will balance solvency requirements of cooperatives (important to protect depositors) with adequate access to their resources by members.

Funds and Stock Exchanges

The bill also complements Law No. 18,045 on the Securities Market, giving stock exchanges greater powers to suspend transactions of financial instruments. They can freeze instruments by default, but now can do the same with all securities listed on the exchange for up to a full business day. Longer suspensions will require approval by the Commission.

Criteria used to freeze transactions must be objective and included in the entity's internal regulations. These exception mechanisms are present in most stock exchanges, and play an important role in protecting against extreme risk events (e.g. earthquakes).

The CMF is granted the power to determine a minimum requirement for fund investment in liquid assets, as well as to establish their definition through a General Rule. This is to ensure the proper functioning of the fund industry and avoid potential negative impacts on contributors and the financial system. These changes are in line with the best global practices and suggestions made in the Financial System Assessment Program of the International Monetary Fund and the World Bank in 2021, and the recommendations of a technical cooperation between the CMF and the International Monetary Fund in 2020.

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