PRESS RELEASE

CMF publishes for consultation new standardized methodology to calculate consumer loan provisions

- *This new regulation would allow all loans granted by banks to have a standard provisions calculation methodology, wrapping up an effort that began several years ago.*

August 17, 2022 — The Financial Market Commission (CMF) has published for consultation a standardized methodology to calculate provisions for consumer loans and contingent credits granted by banking institutions established in Chile.

Provisions are an instrument that ensures banks have sufficient resources to mitigate possible losses related to loans they grant so they can carry out an adequate prudential risk management. Specifically, provisions are defined as the accounting record of expected losses (EL) of a bank's loan operations. This value is calculated as the product of the 12-month probability of default (PD) and the loss-given default (LGD).

Methodological Improvements

The Commission has developed several methodologies to determine both PD and LGD. The history of these methodologies begins in 2011 with the implementation of said parameters for provisioning individually assessed commercial portfolio exposures. This amendment repealed former Chapter 7-10 of the Updated Compilation of Rules for Banks (RAN) and was introduced in Chapter B-1 of the Compendium of Accounting Standards for Banks (CASB). A standard method for the housing portfolio was incorporated into Chapter B-1 of the CASB in 2014, and the standard allowance methodology for commercial loans under group analysis was created in 2018.

New Regulation

The regulation under consultation today aims to introduce a standard method of provisioning for consumer loans in Chapter B-1 of the CASB. As for the other portfolios, the regulation establishes matrices to determine the PD and LGD used to calculate the level of provisions. This methodology follows the best international practices and is consistent with the rest of the regulatory provisions related to the determination of capital requirements for credit risk. It also considers risk factors allowing a timely recognition of credit risk, as well as generating incentives to manage it prudently and strengthen the stability of the banking system.

Impact

Considering the size of the consumer portfolio as of December 2021 and if its behavior does not change significantly, the new methodology would mean an increase of around USD 1 billion in provisions, which can be mitigated with other voluntary provisions currently available to banks. Therefore, it would not have a significant impact on the capital adequacy levels of banks, which have sufficient buffers to absorb it.

Interested parties can access the Draft Rules and Norms section of the CMF website until October 21, 2022 to check the details of the proposed methodology and submit their feedback. The Commission also makes available the corresponding Regulatory Report, Presentation, and Frequently Asked Questions document with its key elements.

****

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

Contact: prensa@cmfchile.cl | Press Room | **Twitter:** @CMFChile_ @CMF_Educa @CMF_HEsenciales | **LinkedIn:** CMF