Updated Compilation of Rules for Banks

CMF publishes for consultation a regulation on minimum requirements, conditions for collaterals to be used in credit risk mitigation

The proposal unifies admissibility, valuing and revaluing criteria of collaterals used to mitigate credit risk, as well as homologating elements to be considered in provisions and equity regulations.

January 6, 2025 – The Financial Market Commission (CMF) published for consultation today a new Chapter, 21-10, of the Updated Compilation of Banking Regulations (RAN, for its Spanish acronym). Said Chapter sets forth minimum requirements and conditions to be met by collaterals in favor of a bank for accepting and using them as credit risk mitigators.

The proposal introduces a general framework of elements required to use collaterals as credit risk mitigators, as well as their adequate management to minimize risks. This applies regardless of the purpose of such collaterals, e.g., computing provisions, equity, exposure limits, or any other regulatory framework.

With the aim of defining the necessary elements to guarantee the suitability of these collaterals and those related to their prudential assessment process, Chapter 21-10 of the RAN recovers and compiles local instructions contained in different regulatory documents. Said instructions were complemented by requirements stated by the Basel Committee on Banking Supervision, the European Banking Authority, and regulators of other jurisdictions (OSFI, APRA, PRA) to bring equity and provisions frameworks in line with international standards.

In 2022 the CMF reported on the end of the Financial Sector Assessment Program (FSAP) carried out by the International Monetary Fund and the World Bank. The resulting report contained specific analyses focused on financial market development in areas such as competition, digital financial inclusion, green finance, household indebtedness, and consumer protection. The report also identified room for regulatory improvements by pointing out the lack of an explicit orientation about collaterals eligible for credit risk mitigation and their variation to compute provisions.

Specifically, the report stated that current regulations do not require guarantees to be valued at certain frequencies, and regulations governing the collateral assessment process for banks considering their admissibility, value, and risk profile be developed.

Therefore, the Commission moves forward in closing regulatory gaps detected in the FSAP and continues to implement Basel III standards across topics, as well as better integration with foreign markets.

Chapter 21-10 and Consistency Amendments

Chapter 21-10 provides a framework for conducting correct management of collaterals and their related risks. The regulation under consultation includes:

1. Responsibilities, policies, procedures, and controls banks must implement for an adequate collaterals management process.
2. General and specific requirements on the admissibility of collaterals.
3. Minimal requirements for legal assessment of collaterals.
4. Definition, general and specific criteria for valuing and revaluing collaterals.
5. Other instructions on enrollment, custody, lifting, and execution of collaterals kept as credit risk mitigators.

Chapter B-1 of the Compendium of Accounting Standards for banks is amended regarding requirements related to admissibility and valuing of collaterals, including aspects on collateral management, by quoting instructions stated on Chapter 21-10 and eliminating duplicated instructions. Additionally, Chapter 1-13 of the RAN is amended to highlight collateral management within the general collaterals assessment process.

Regulatory Impact

The proposed amendments create regulatory coherence and order on the treatment of collaterals as credit risk mitigators. They allow an identification of each regulatory framework using such instruments as mitigators; distinction of admissible collaterals according to each framework; and unification of regularly used concepts without a clear regulatory definition. Therefore, said amendments provide greater transparency and consistency to the Commission's supervisory focus and the way banks recognize collaterals in line with exposed and mitigated risks.

Current levels of computed provisions, equity, and individual credit risk shall remain intact given the proposal does not adjust their calculation nor states that new admissibility and/or valuing requirements discount already computed collaterals.

Interested parties can check the **Regulations Under Consultation section** of the CMF website until March 28, 2025 to review the proposal in detail and submit their feedback. The Commission also makes available the corresponding **Regulatory Report** with its impact assessment, among other topics.

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