Basel III standards implementation continues moving forward

CMF applies Pillar 2 equity regulation for the second time

As a result of the supervisory process including an assessment of the business models of each bank, the Board of the CMF resolved to apply such requirements to the same institutions as last year: Banco Bice, Banco BTG Pactual Chile; Banco Consorcio; Banco del Estado de Chile; Banco Internacional; Banco Security; HSBC Bank (Chile); Banco de Chile; Banco de Chile; and Scotiabank Chile.

January 17, 2025 – As a result of the supervisory process including an assessment of the business models of supervised banks, the Board of the Financial Market Commission (CMF) resolved to apply Pillar 2 equity requirements. This decision, as stated in Exempt Resolution No. 780 of January 17, 2025, is based on the terms of Article 66 Quinquies of the General Banking Act and Article 21-13 of the Updated Compilation of Rules for Banks (RAN).

The Commission continues moving forward with the implementation of Basel III standards according to Law No. 21,130. As well as Chapter 1-13 of the RAN, which assesses management and solvency, Chapter 21-13 states that banks must conduct an Internal Capital Adequacy Assessment Process (ICAAP). This report is compiled by each bank and determines their internal effective equity targets to cover material risks during a timeframe of at least three years.

Pursuant to Chapter 21-13, the ICAAP for 2024 must include Pillar 1 risks (credit, market, and operational) and those risks for which a measuring standard is not yet available, e.g., banking book credit and credit concentration.

Equity Requirements

Given the facts, the Board of the CMF decided to apply equity requirements to the same entities as in 2024: Banco Bice, Banco BTG Pactual Chile; Banco Consorcio; Banco del Estado de Chile; Banco Internacional; Banco Security; HSBC Bank (Chile); Banco de Chile; Banco de Chile; and Scotiabank Chile. On this occasion, the Board's decision resulted in decreased Pillar 2 equity requirements for three banks, maintaining the requirement for another three entities, and increasing it for the remaining three. Said decisions are consistent with these banks' defined business models.

Banks already consider some leeway in their internal capital targets regarding minimum regulatory requirements to comply with these additional requirements. Therefore, the reallocation of effective equity components instead of new equity contributions is enough.

Implementation

This is the second year of application of Pillar 2 requirements. As part of a gradual implementation process, 50 percent of the requirement must be constituted by June 30, 2025 as part of minimum regulatory dispositions.

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