

Implementation of Basel III standards

CMF issues amendments to regulation on Pillar 2 capital requirements for banks

- *These amendments aim to facilitate supervisory processes, as well as clarify and improve some aspects of capital assessment and risk determination for banking entities after three effective equity assessment cycles.*

July 10, 2025 – The Financial Market Commission (CMF) issued today regulatory amendments to determine additional capital requirements for banks as part of supervisory processes, known as Pillar 2 of Basel III standards.

An early version of these amendments was published for consultation between December 12, 2023 and March 15, 2024, and a second consultation was carried out from October 11 until November 8, 2024. This latter process gathered and processed key concerns regarding the regulation's early version.

The new amendments introduce changes to Chapter 21-13 of the Updated Compilation for Banking Regulations (RAN, for its Spanish acronym) to facilitate supervisory processes and clarify some capital assessment aspects.

Pillar 2

As part of the publication of Law No. 21,130 to modernize banking legislation, the CMF began implementing Basel III standards in Chile. Specifically, Article 66 Quinquies of the General Banking Act allows the Commission to establish criteria and directions to consider for the determination of additional equity requirements as part of the supervisory process (i.e., Pillar 2) through a General Rule. This occurs when the CMF estimates that banking entities present risks not sufficiently covered by Pillar 1 capital requirements, which involve traditional risks (credit, market, and operational).

Depending on their business model, banks may be exposed to non-traditional risks such as banking book market; credit concentration; reputational; strategic; cybersecurity; climate-related; and/or geopolitical, among others. Pillar 2 requirements are determined on a case-by-case basis through a well-founded resolution, and at least four of the five members of

the Board of the CMF must vote in favor. Said requirements may not exceed 4 percent of the bank's net risk-weighted assets.

Chapter 21-13 of the RAN, which establishes these criteria and directions, was issued in September 2020. Five effective equity assessments were conducted since then for years 2021, 2022, 2023, 2024 and 2025. The last three processes included an assessment of all material risks for banks, thus ending the regulatory transition through the determination of Pillar 2 requirements stated in Exempt Resolution No. 779 of January 17, 2024. This Exempt Resolution laid out a transitory schedule for additional capital requirements, which were set for a second time in early 2025 via Exempt Resolutions No. 780 (January 7) and No. 3,612 (April 11).

New Regulation

The following changes are introduced through the new regulation:

1. Adjusts Annex 1 on banking book market risk so that the Commission may decree additional capital requirements to achieve more complete and adequate coverage given the bank's situation. It modifies computation of interest generation and short-term net readjustment metrics (ΔNII) and economic value metrics (ΔEVE); definition of prioritized banks and modeling; and report of prepaid flows for fixed-rate loans subject to prepayment risks.
2. Limits extension of the Effective Equity Self-Assessment Report.
3. Adjusts Annex 3 and instructs its submission on Excel format.
4. Clarifies determination of internal effective equity targets and their link to requirements the CMF may establish pursuant to Article 66 Quinquies of the General Banking Act, as well as suggestions the Commission may make on amounts banks must have regarding their internal targets.
5. Improves inherent risk profile definitions.
6. Corrects a reference about the periodicity of financial statements to report additional capital requirement levels according to Article 66 Quinquies.

Additionally, and with the aim of both facilitating the understanding of these amendments to the regulation and clarifying the criteria the Commission will use to implement Annex 1 of Chapter 21-13, it details the determination process for prioritized banks; capital allocations for banking book market risks; and capital requirements derived from said risks by the CMF. Specifically, it clarifies the criteria to be used by the CMF to determine banking book market risk-derived capital requirements, for which banks' own estimations are key.

Banks may provide for such requirements as they improve their internal methodologies and integrate observations made by the Commission.

As for the validity of these amendments, the regulation states that modifications to Annex 1 become effective for reports about November 2025, which are due in December. The remaining aspects enter into force with the Effective Equity Self-Assessment Report to be submitted in April 2027. Any suggestions the CMF may make about additional capital levels to be constituted by banks as part of their internal effective equity targets can be carried out as part of the process due in said month.

Interested parties can check the [Regulations section](#) of the CMF website to review the new regulation in detail. The Commission also makes available the corresponding [Regulatory Report](#) with an impact assessment.

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