



# Chile Financial Markets: Our Agenda

Rodrigo Valdés  
Minister of Finance of Chile

Chile Day • London  
May 12th, 2016



# Agenda

Overview

Market Liquidity

Capital Markets: Soundness and Flexibility

Banking System Regulation Upgrade

Financial Inclusion

Closing Remarks



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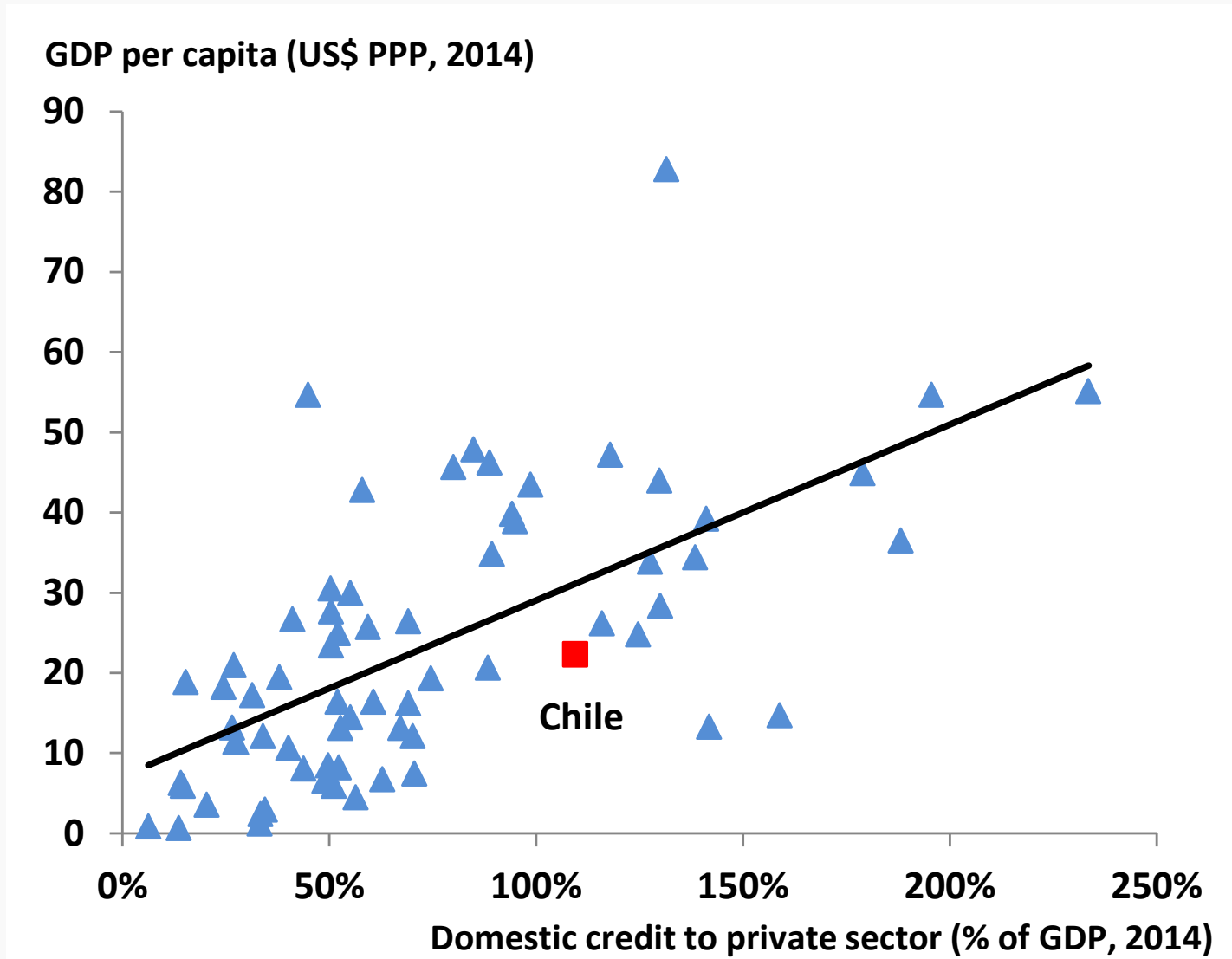


# Financial system and development

- Mobilize resources from savers to firms
- Provide liquidity
- Provide monitoring of investment projects
- Attract foreign investors
- And of course, should promote macro stability



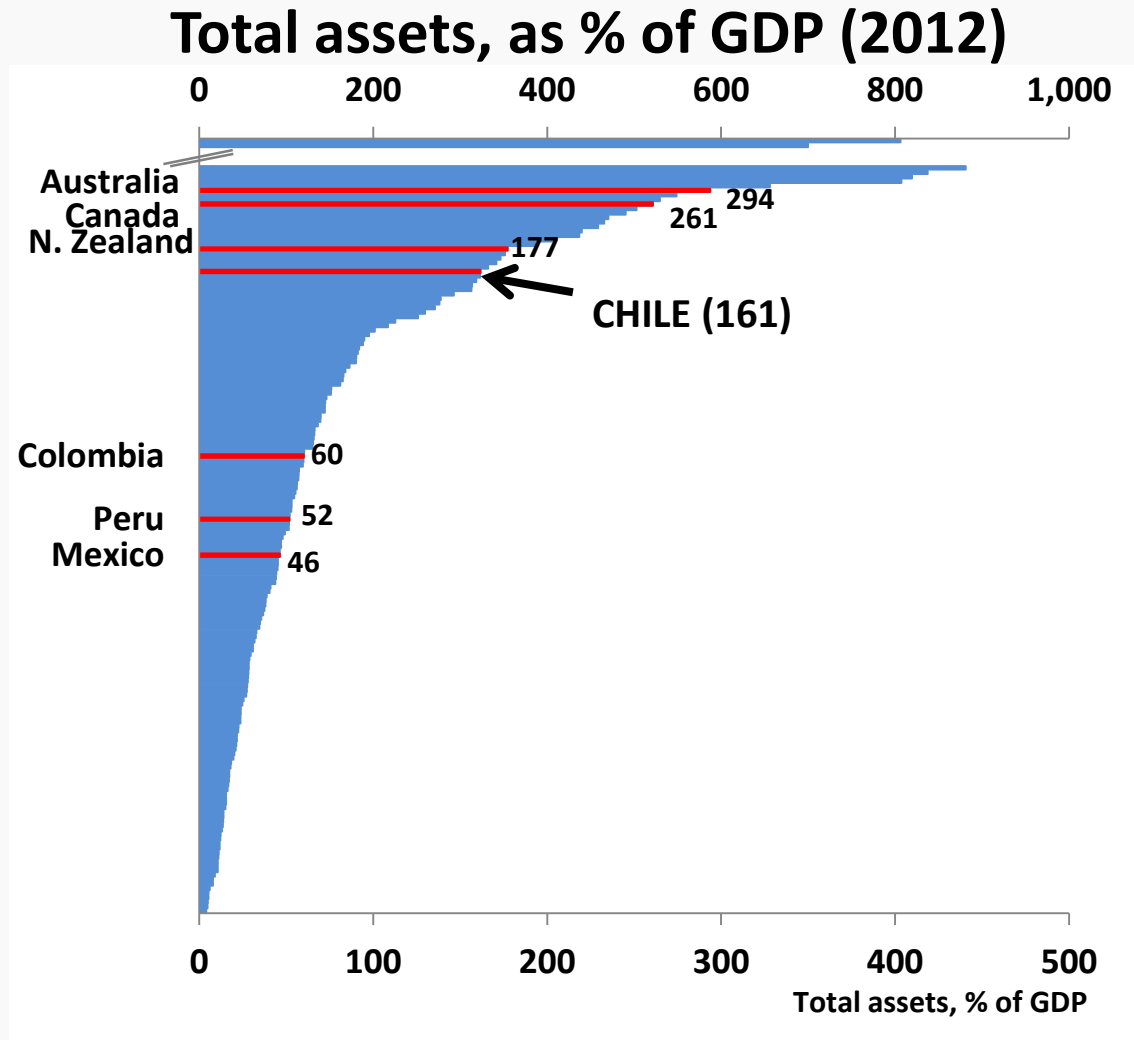
# Income and financial depth



Source: IMF and World Bank.



# Financial system assets in perspective

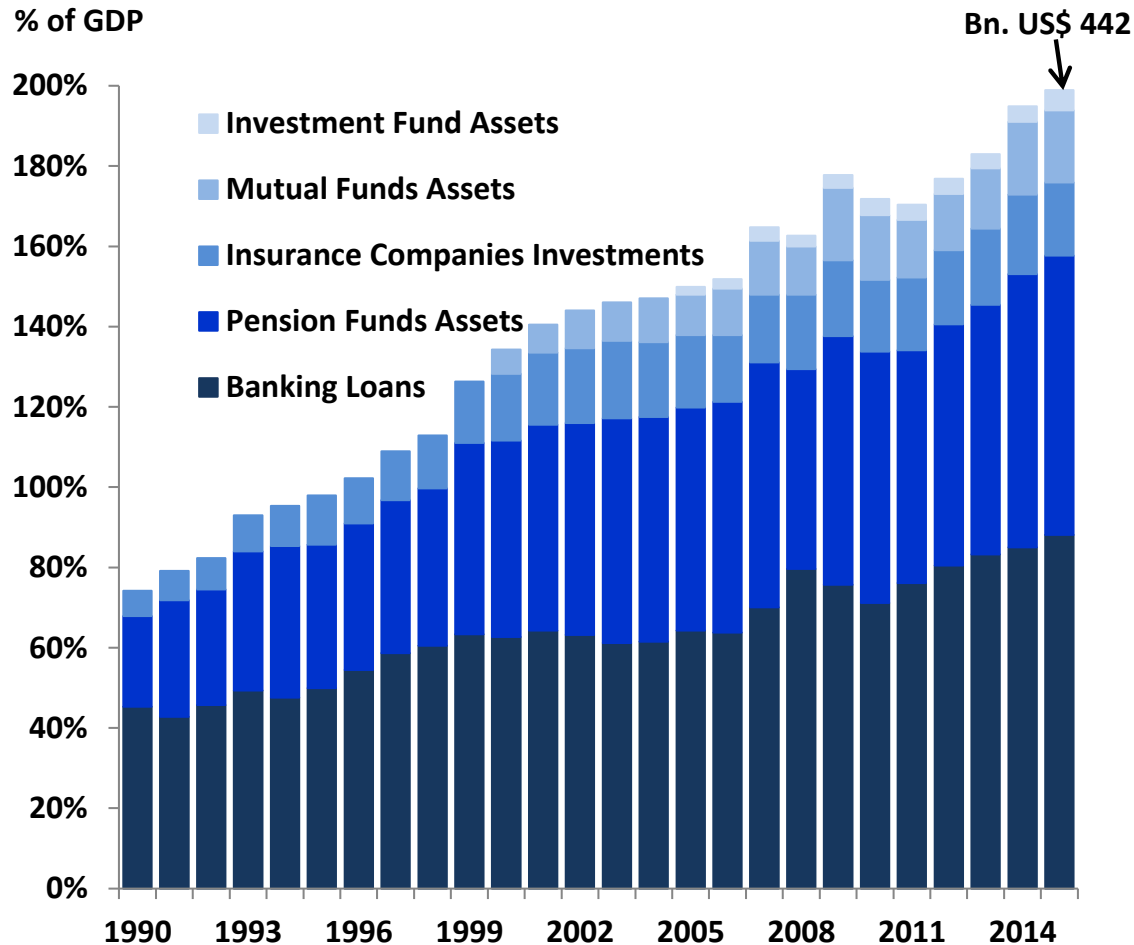


- Includes banking credit to private sector, and assets of mutual funds, insurance companies and pension funds.
- Source: World Bank.



# Chile financial system assets

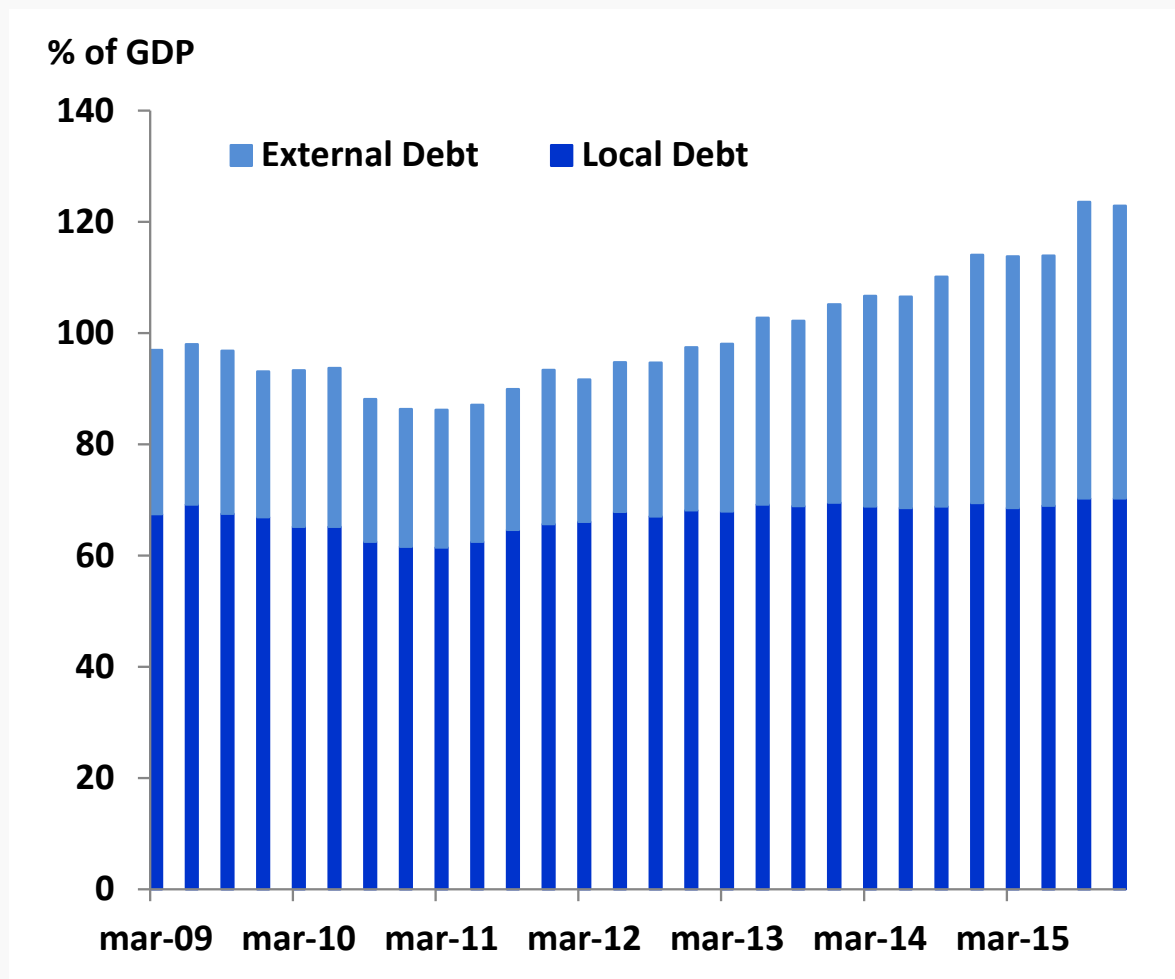
## Total assets, as % of GDP





# Private debt in Chile

## Total debt of non-banking firms





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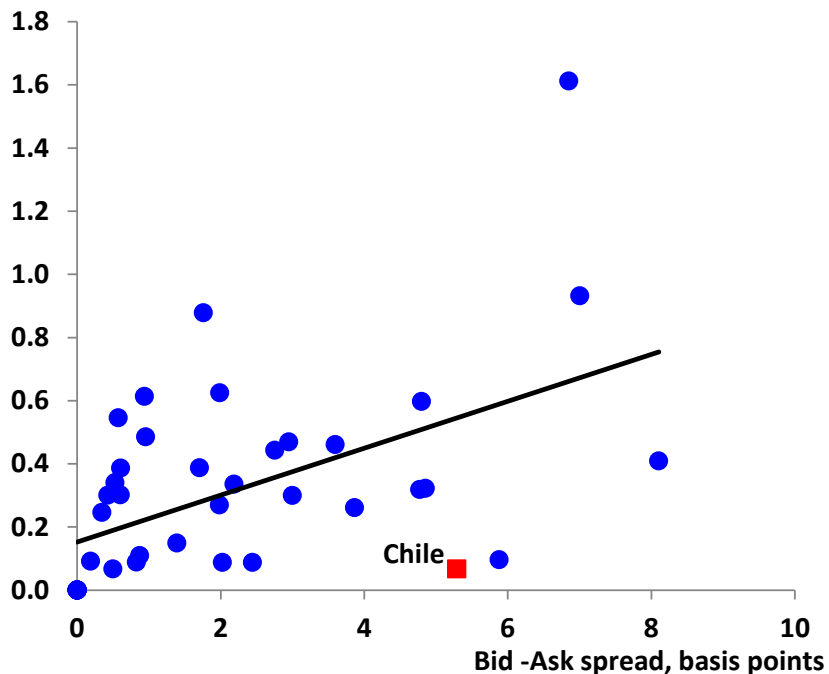
Closing Remarks



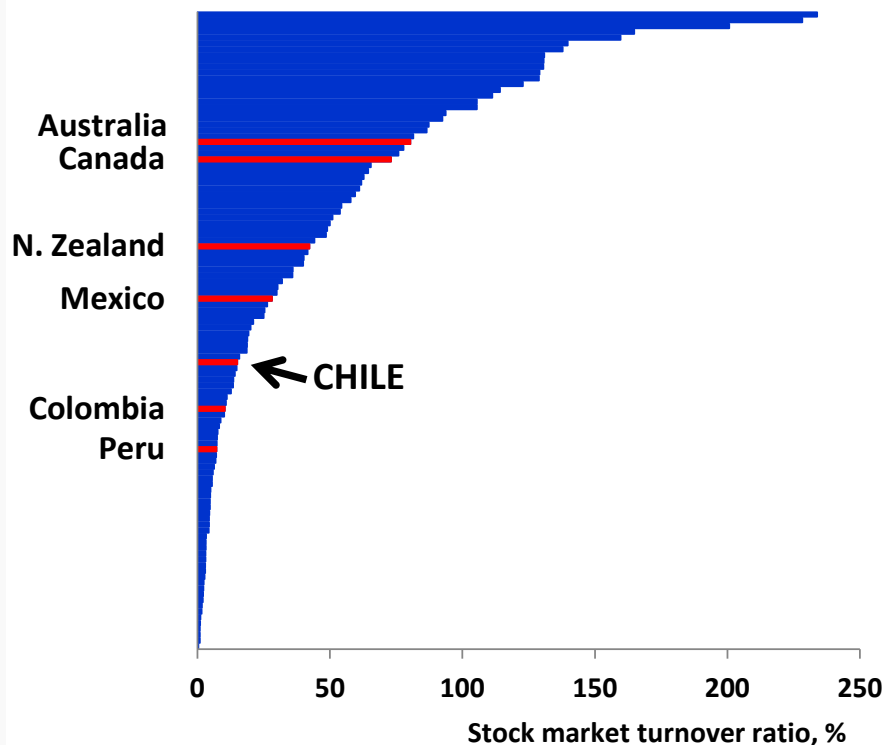
# Capital liquidity in Chile

## Bond liquidity and volatility, Jan15-Apr16

Interest rate volatility, % st.dev.



## Stock market turnover, 2000-12





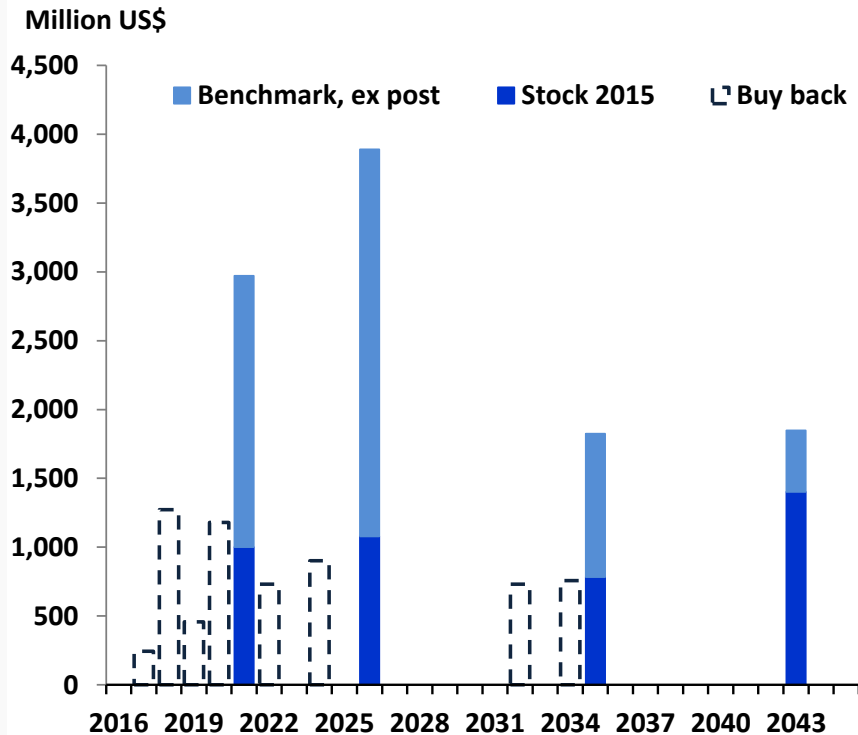
## Recent progress

- **Elimination of bond capital gains tax (2014)**
- **Settlement period changed according to international standards (2015)**
- **Size of Treasury Bond issuance (2015)**
- **Buy back program for Treasury Bonds (2016)**

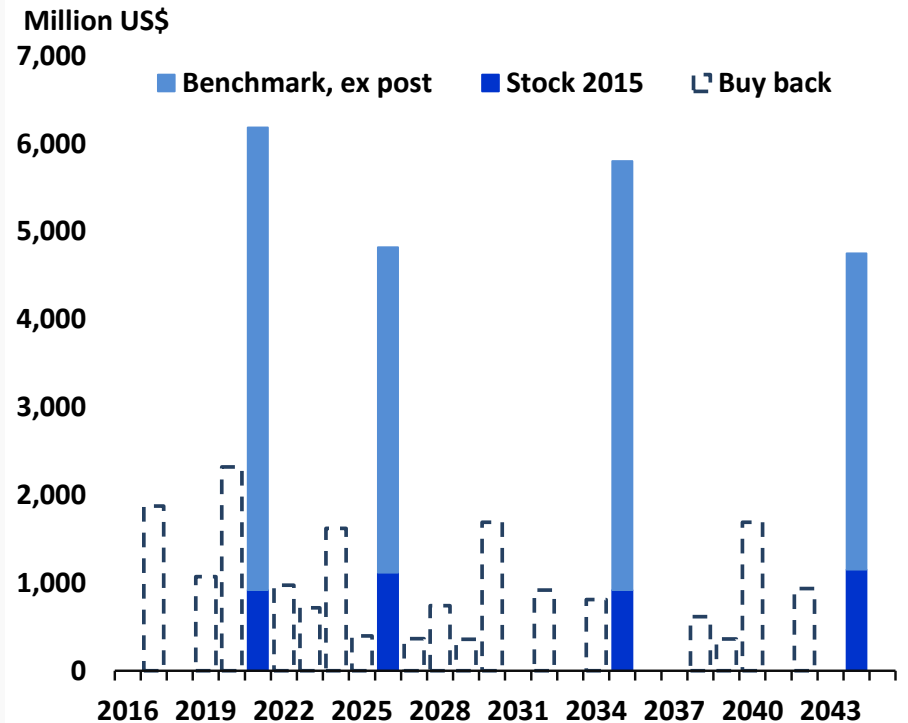


# Buy back program for Treasury bonds

## Peso Bonds



## UF Bonds





## Next steps

- **Attract global custodians to Chile (2016)**
- **Simplification of collateral guarantees registry (2016)**
- **Recognition of international payment infrastructures (2016)**
- **Demutualization of Santiago Stock Exchange (2016)**



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# Laws and regulations

- **Financial infrastructure:**
  - **A central counterparty was created for OTC derivatives: ComDer. Started clearing contracts in July 2015**



## Laws and regulations in Congress

- **Commission of Securities and Insurance is close to approval:**
  - Regulatory upgrade through greater flexibility, independence and accountability
  - 5-member body
  - Strengthened capacity to fiscalize and sanction
  - Increased transparency
  - Introduction of a Self-Regulatory private organisation



# Laws and regulations in Congress

- **New legislation aimed at:**
  - Preventing abuses against minority shareholders
  - Limiting the conflict of interest inside the firms
  - New responsibilities and sanctions for external auditors



# Laws and regulations in Congress

- **Insurance companies:**
  - Invest directly in infrastructure
  
  - Raise the limit to invest abroad
  
- **Pension funds:**
  - Invest in alternative assets
  
  - Portfolio diversification



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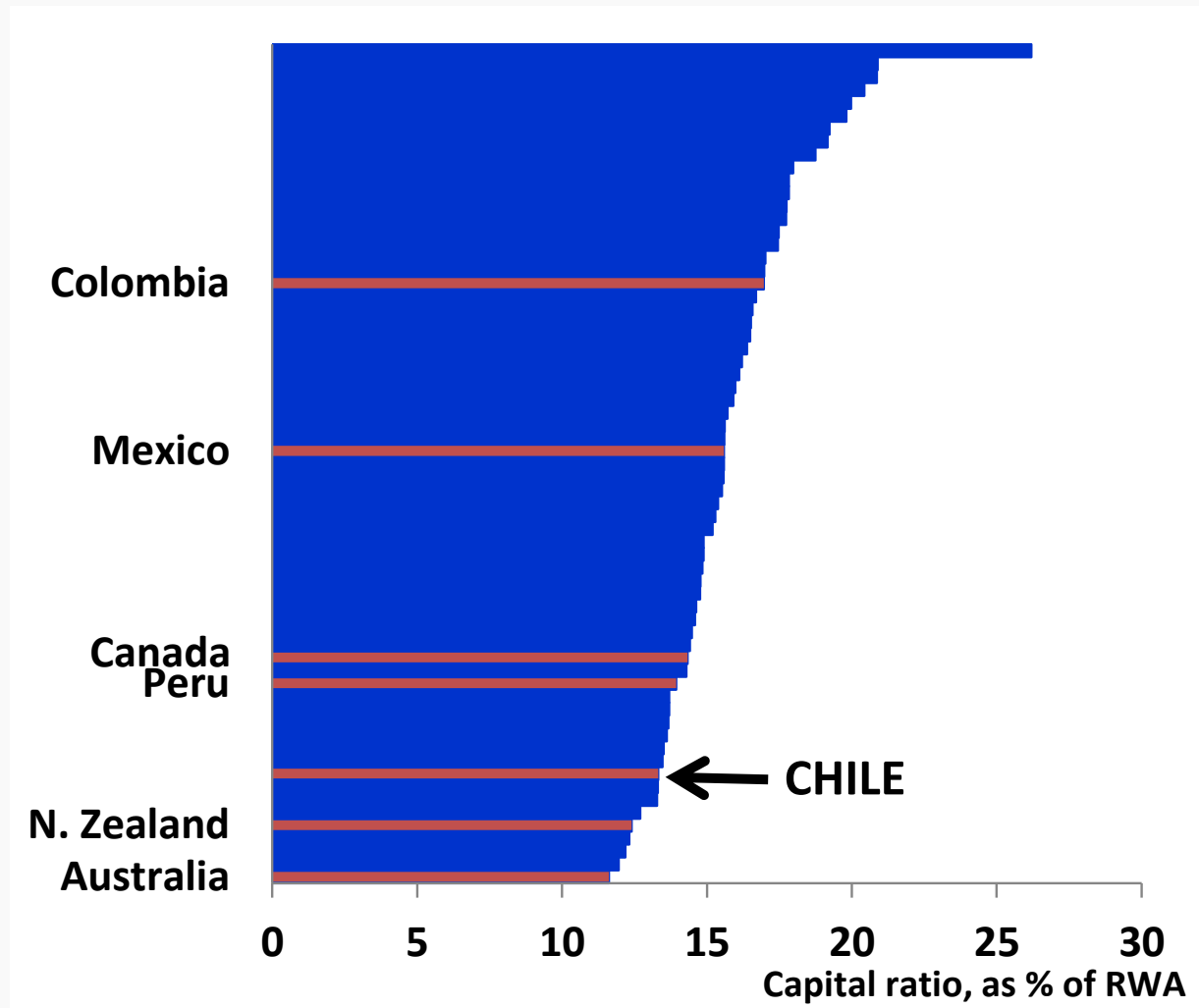
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# Bank capital outlook

## Bank Regulatory Capital to RWA, % (2013)

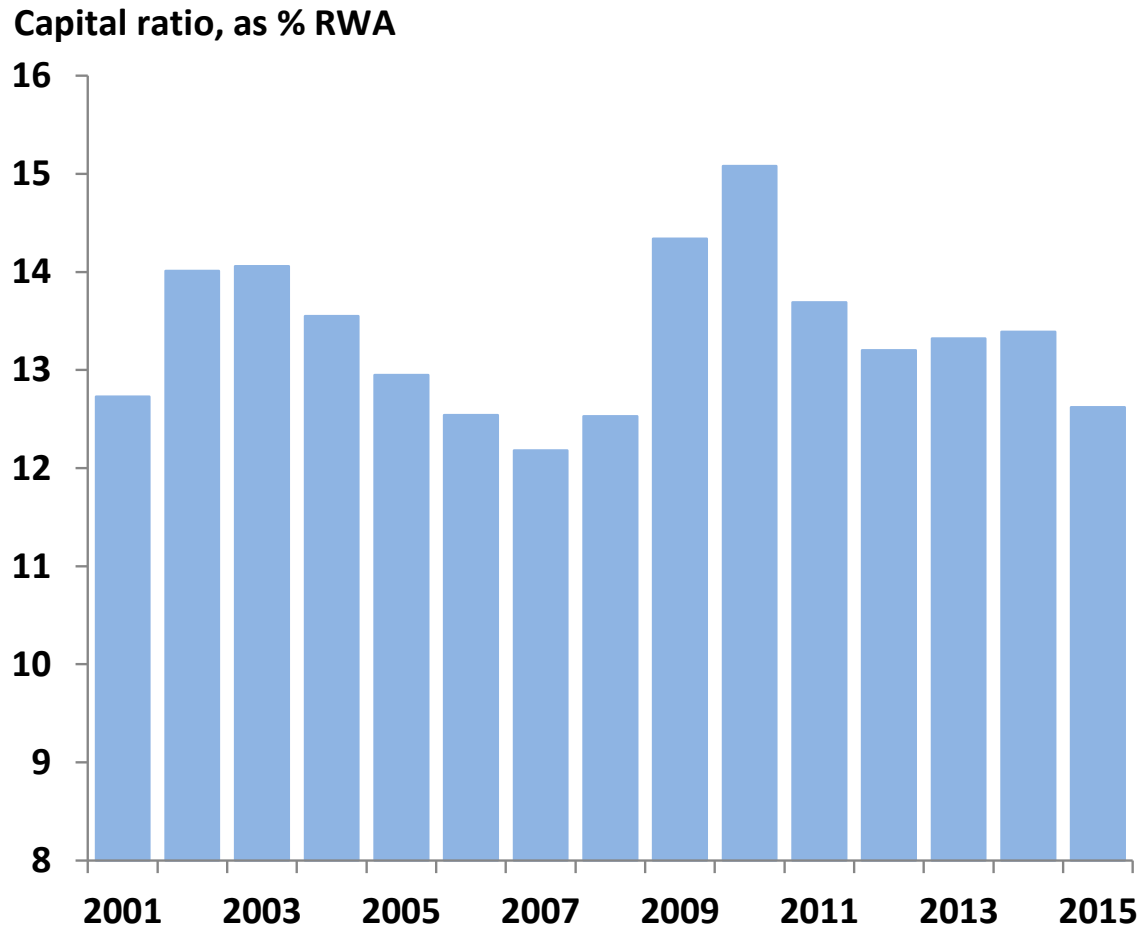


Source: World Bank.



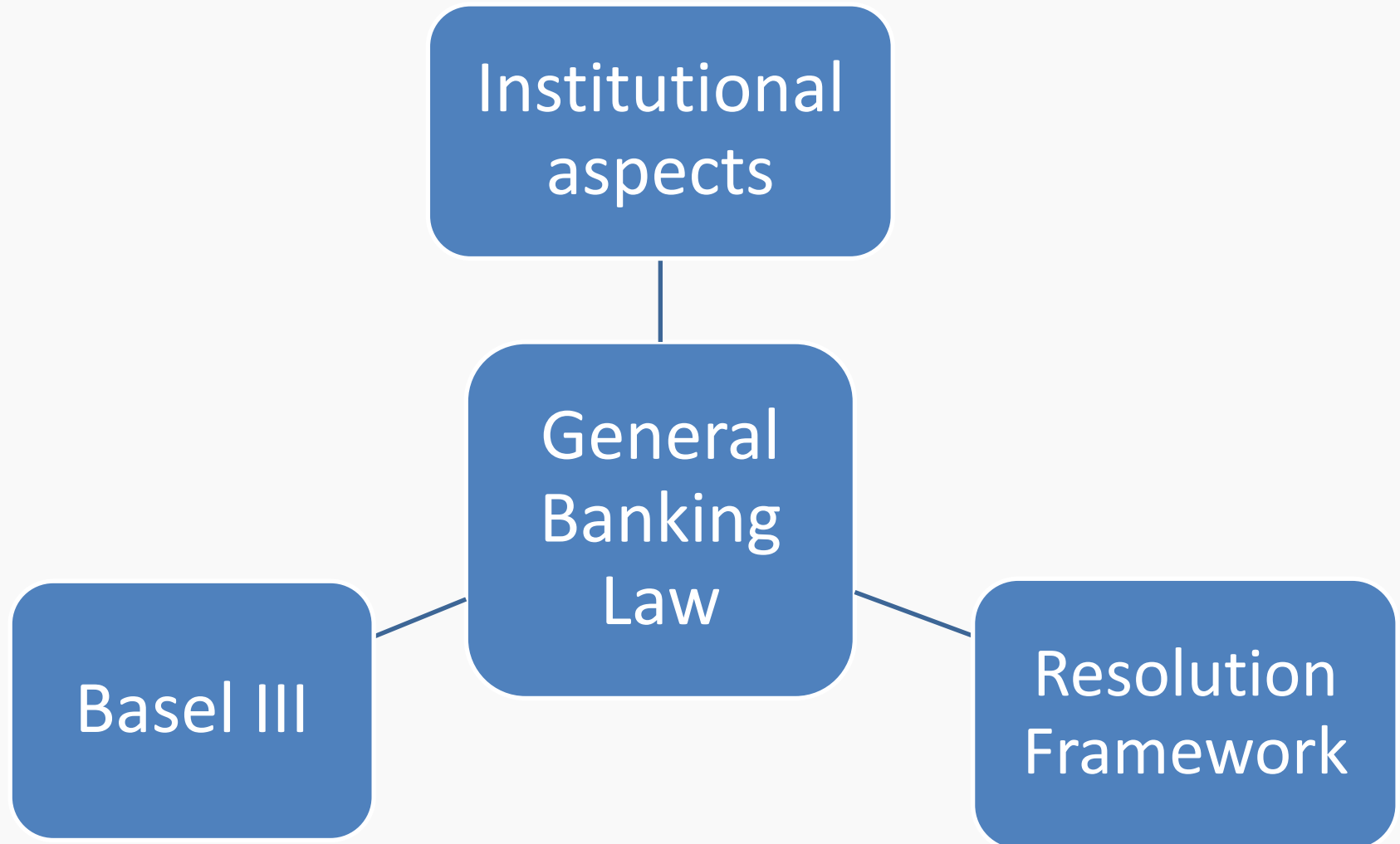
# Bank capital in Chile

## Bank Regulatory Capital to RWA





# Changes to General Banking Law





# Changes to General Banking Law

Basel III

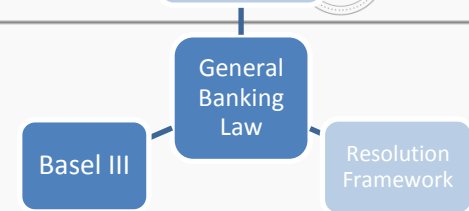
General Banking Law

Resolution Framework

	General Banking Law, Chile	Basel I	Basel III	Proposed changes to General Banking Law
<b>Tier 1</b>	<b>≥4.50%</b>	<b>4.00%</b>	<b>≥6.00%</b>	<b>≥6.00%</b>
Common equity	≥4.50%	4.00%	≥4.50%	≥4.50%
Additional Tier I	-	-	≤1.50%	≤1.50%
<b>Tier II</b>	<b>3.5</b>	<b>4.00%</b>	<b>≤2.00%</b>	<b>≤2.00%</b>
<b>Regulatory capital</b>	<b>≥8.00%</b>	<b>≥8.00%</b>	<b>≥8.00%</b>	<b>≥8.00%</b>
<b>Conservation buffer</b>	<b>-</b>	<b>-</b>	<b>2.5%</b>	<b>2.5%</b>
<b>Minimum capital requirement</b>	<b>≥8.00%</b>	<b>≥8.00%</b>	<b>≥10.50%</b>	<b>≥10.50%</b>
<b>Systemic bank</b>	<b>-</b>	<b>-</b>	<b>1.0%-3.5%</b>	<b>≤3.50%</b>
<b>Countercyclical buffer</b>	<b>-</b>	<b>-</b>	<b>0%-2.5%</b>	<b>0%-2.5%</b>
<b>Pillar II</b>	<b>-</b>	<b>-</b>	<b>defined by SBIF</b>	<b>defined by SBIF</b>
<b>Leverage ratio</b>	<b>3.0%</b>	<b>-</b>	<b>3.0%</b>	<b>3.0%</b>



# Changes to General Banking Law



- **Additional Tier 1: perpetual bonds and preferred stocks**
- **Establish by regulation:**
  - ❖ Capital deductions
  - ❖ Risk weights
  - ❖ Capital mitigators
- **Transition period of 6 years**



# Changes to General Banking Law



- **Individual authority:**
  - **Appointed using the Civil Service System (ADP)**
  - **Fixed term**
  - **Causes for remotion established by law**
  - **Subject to post-employment restrictions**
  - **Strengthened “check and balances” framework of the Central Bank: Basel III and resolution**



# Changes to General Banking Law



- Legal protection for the regulator's staff and other people, hired by SBIF, involved in the sanction process
- Regulatory coordination with other government bodies
- Public consultation and regulatory impact assessment of new norms



# Changes to General Banking Law



- **New tools for the regulators:**
  - Early regularization plan
  - Intermediate stage between early regularization and liquidation: Purchase and Agreement (P&A)
    - ❖ Current creditor preferences unchanged
    - ❖ Some degree of bail-in in steady state



# Changes to General Banking Law



- Central Bank's guarantee to cash accounts and sight deposits unchanged
- Increase of government's guarantee to deposit



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## Measures

- **Non-banking institutions could issue prepaid means of payments.**
  
- **Credit Bureau**
  
- **Facilitate financing to SMEs:**
  - ❖ **New financing for non-banking lenders (Corfo).**
  - ❖ **Expanded coverage of Pro Investment Fund (Corfo).**
  - ❖ **Allow DCV to keep invoices.**
  - ❖ **Limit to 8 days to acknowledge invoice reception.**



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