

Rodrigo Valdés
Minister of Finance

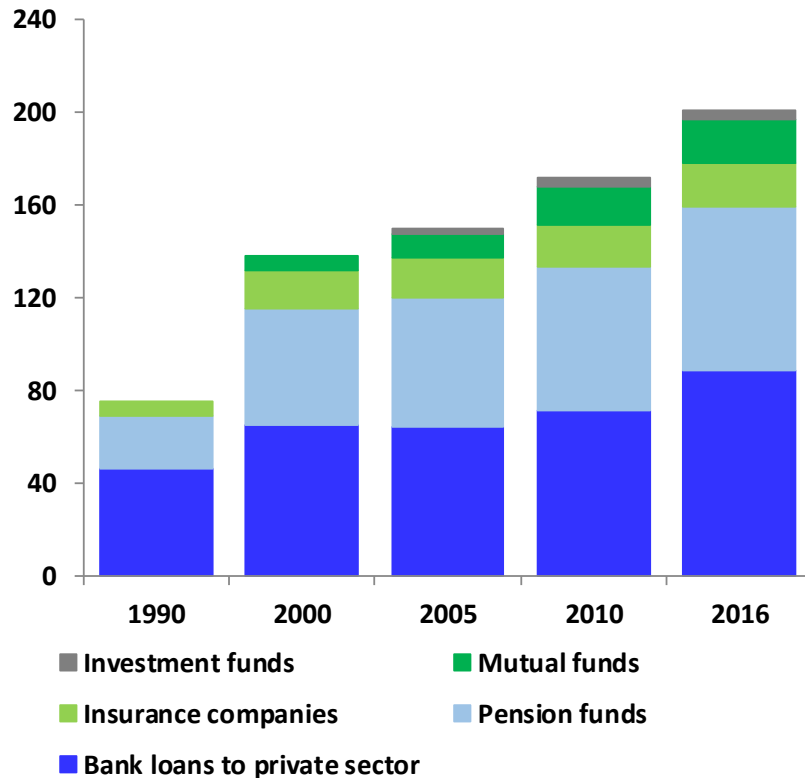
Chile Day 2017

Development and Regulation of the Chilean Financial Market

London, 29 June 2017

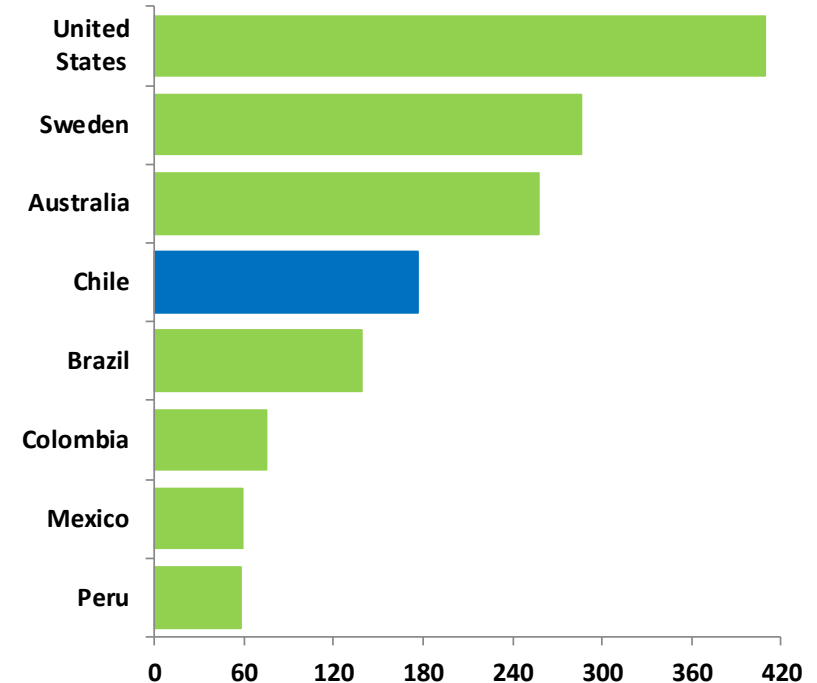
Financial markets

Financial assets (as percentage of GDP)



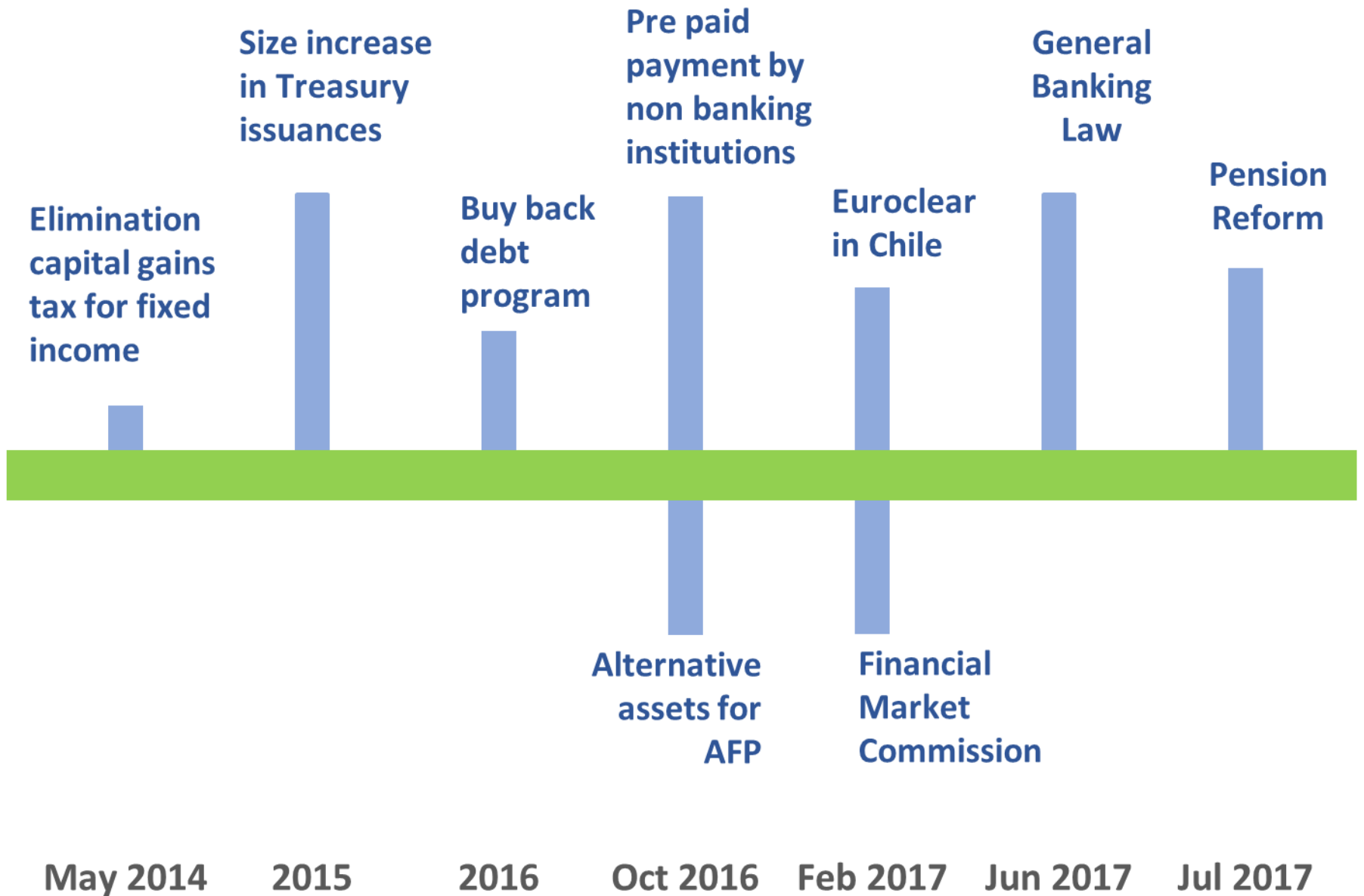
Source: SBIF, SP and SVS.

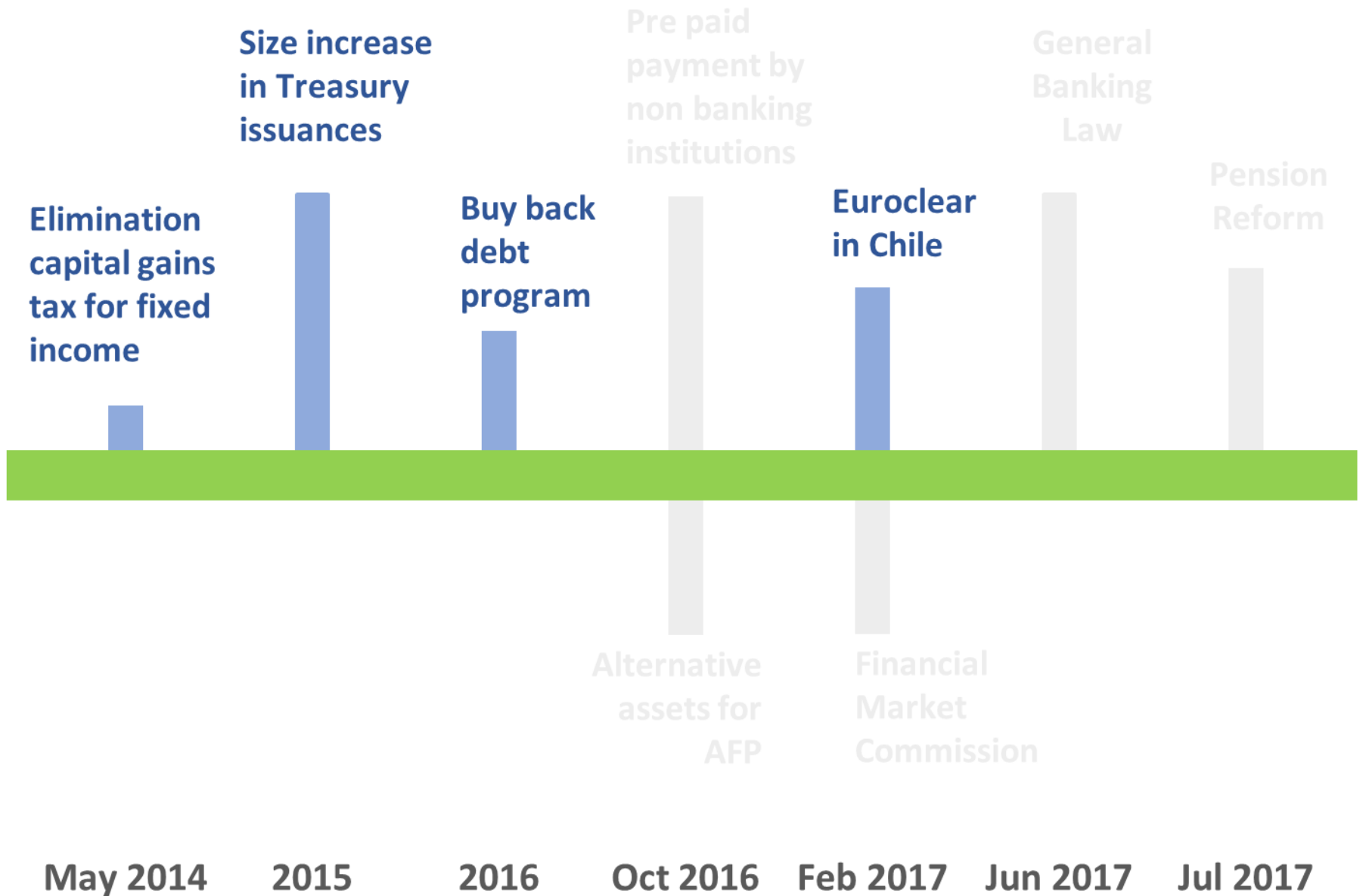
Financial assets, selected countries* (2013, as percentage of GDP)



* Includes pension fund assets, mutual fund assets, insurance companies assets and bank loans to private sector.

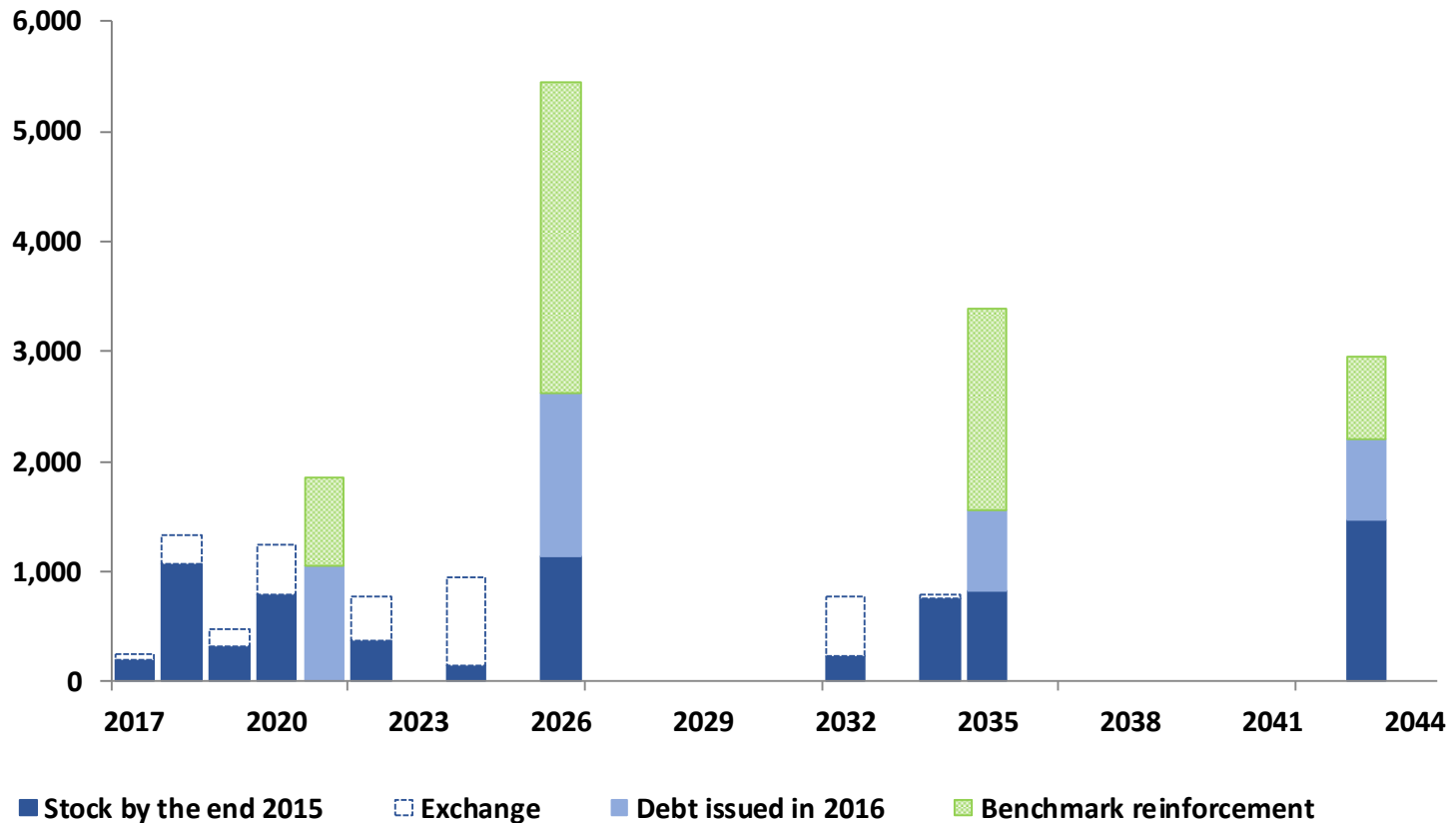
Source: Financial Market Indicators, World Bank.





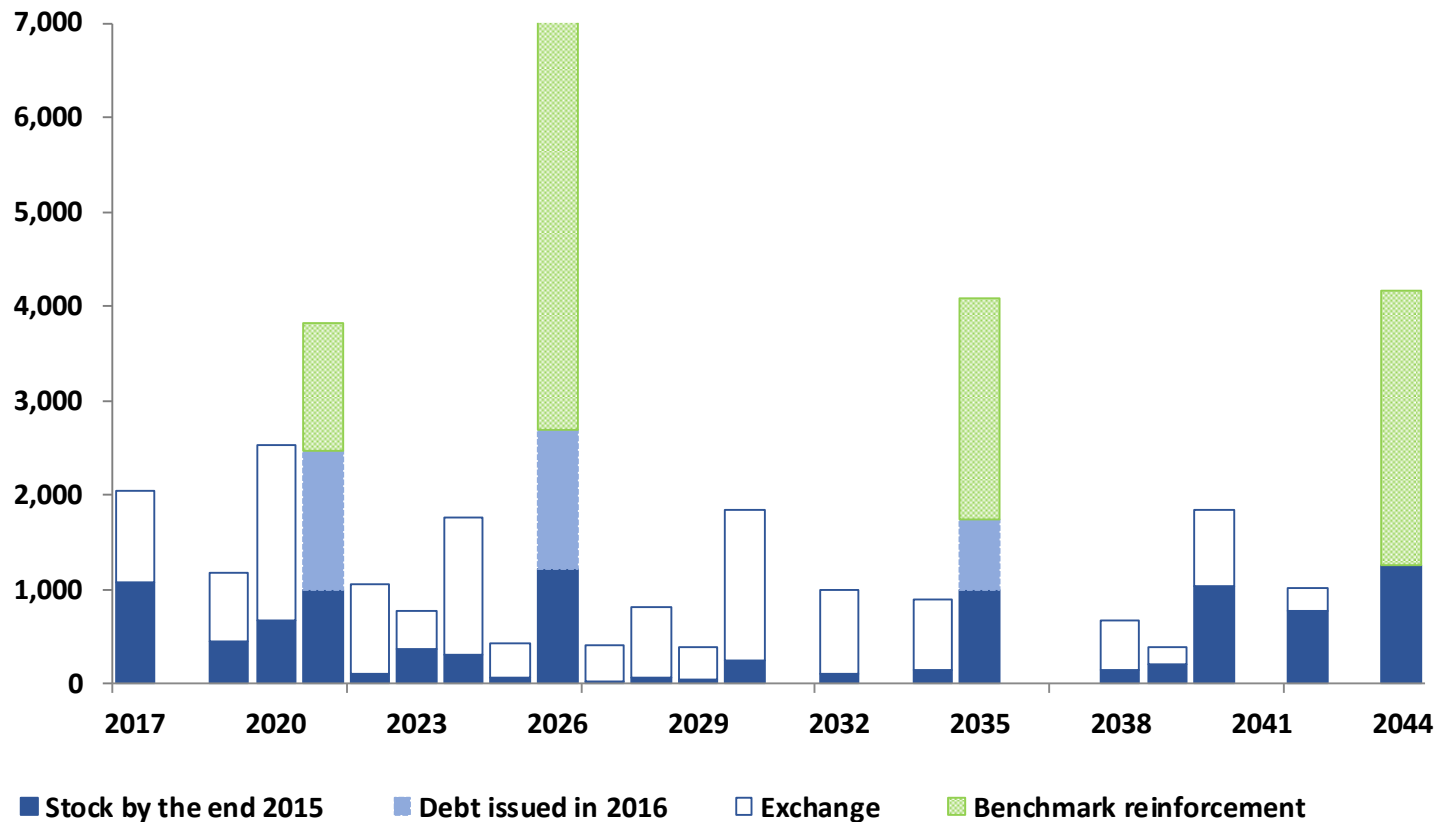
Buy back debt program

CLP bonds
(millions dollars)



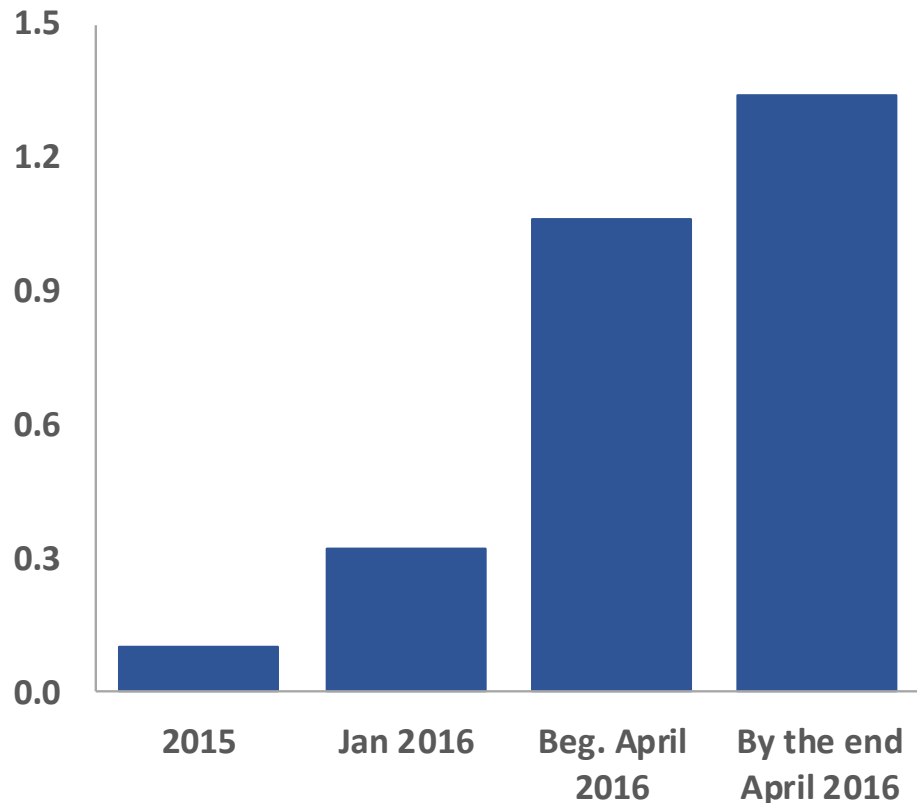
Buy back debt program

Inflation indexed bonds
(millions dollars)



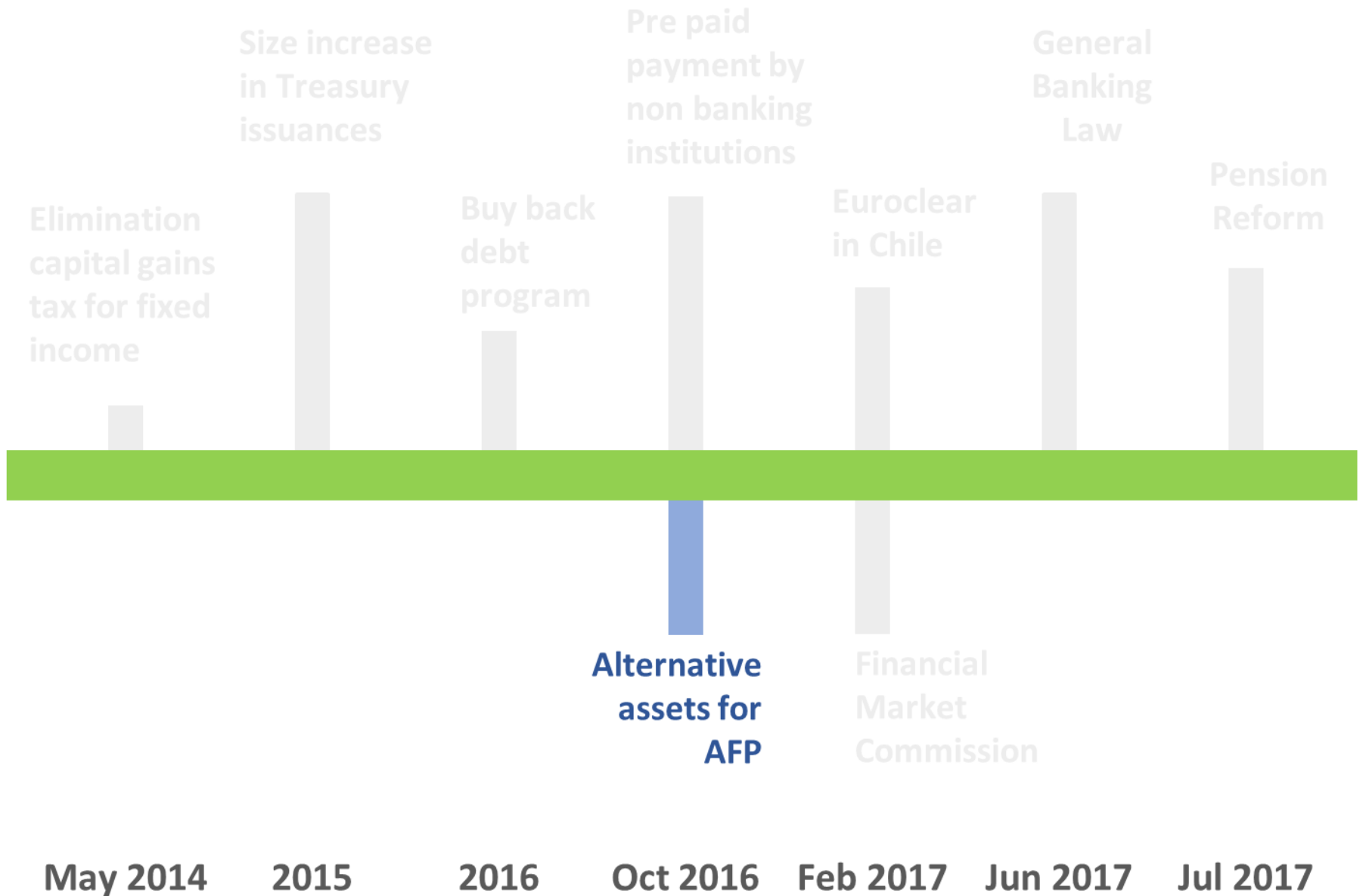
Chile in GBI-EM Index

Chile's weight in the index (percentage)



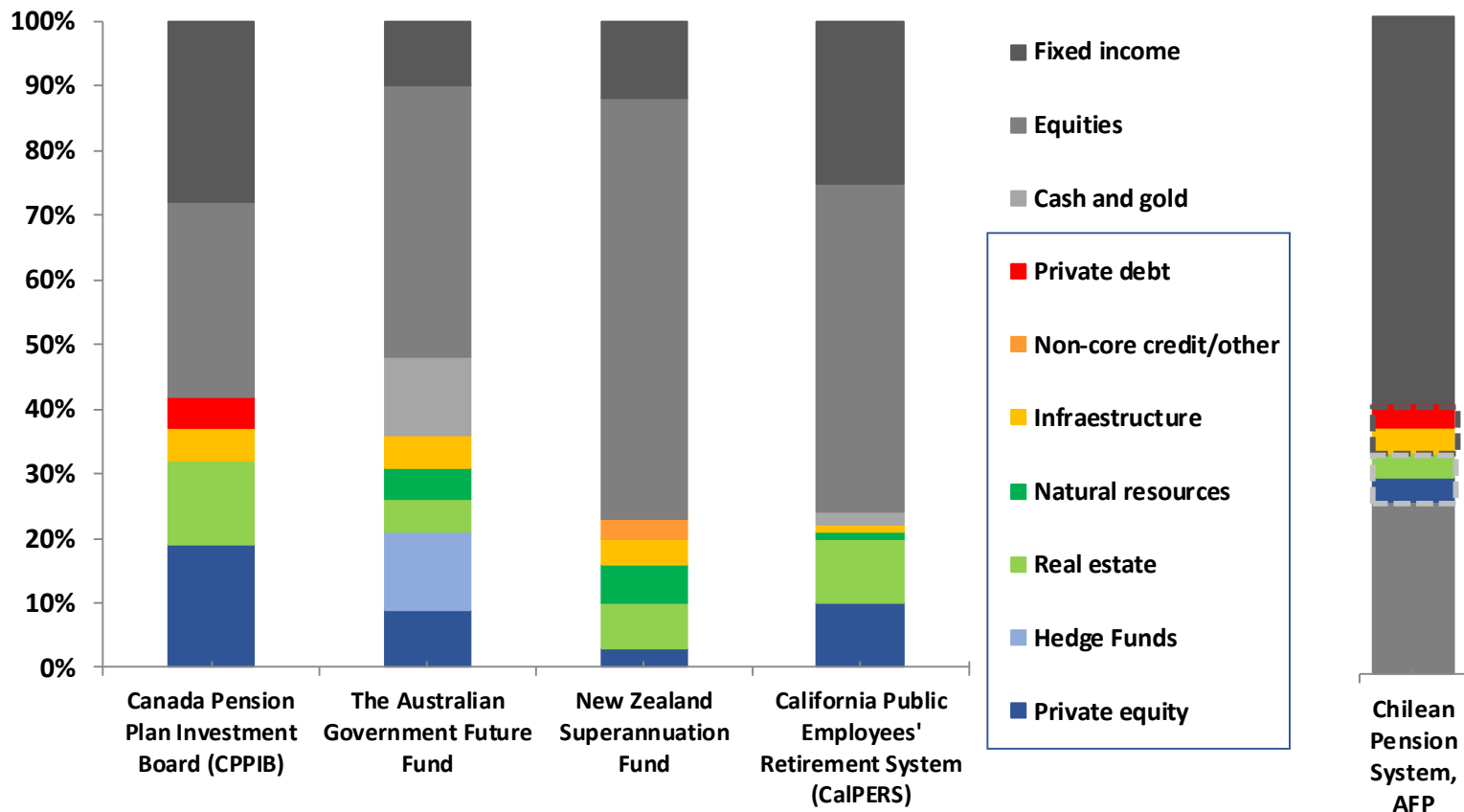
“Euroclearable” bonds

	BTP21	
Issuance date	17-Jan-17	
Due date	1-Mar-21	
Amount (millions dollars)	1,500	
Currency	CLP	
Yield	3,8%	
Foreign investors	22%	
	BTP21	BTP35
Issuance date	20-Jun-17	
Due date	1-Mar-21	1-Mar-35
Amount (millions dollars)	675	660
Currency	CLP	CLP
Yield	3,6%	4,6%
Foreign investors	19%	23%

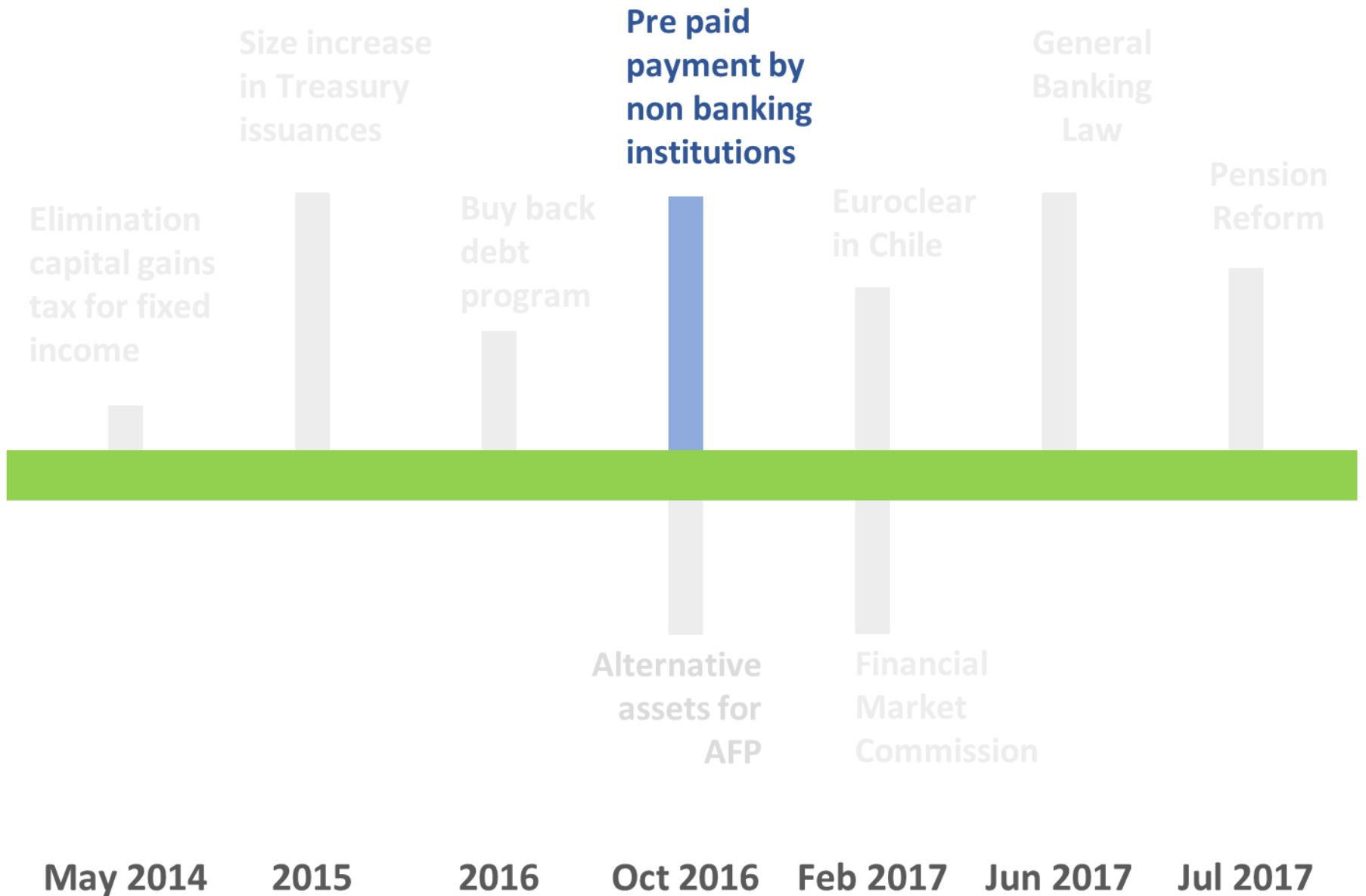


Alternative assets

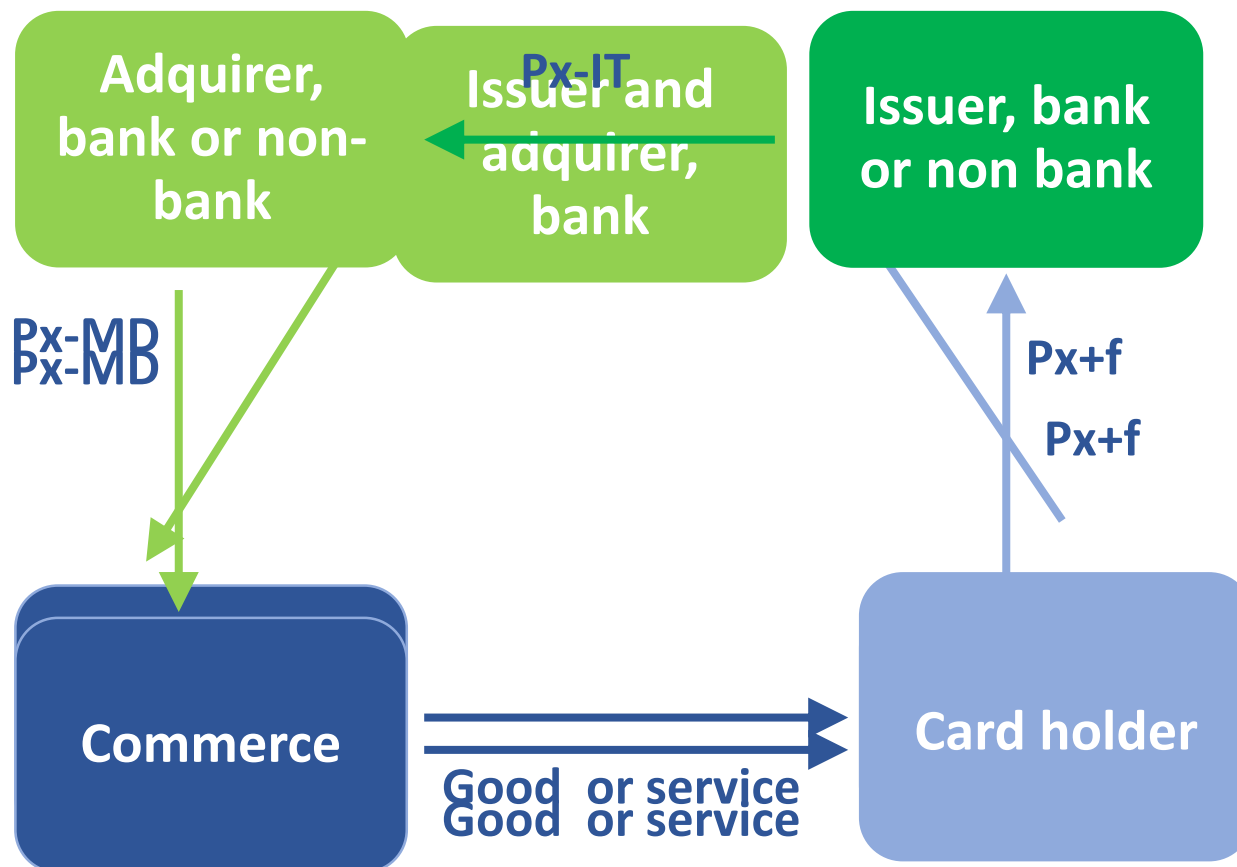
Composition of selected pension funds (percentage)



Source: BlackRock and SP.

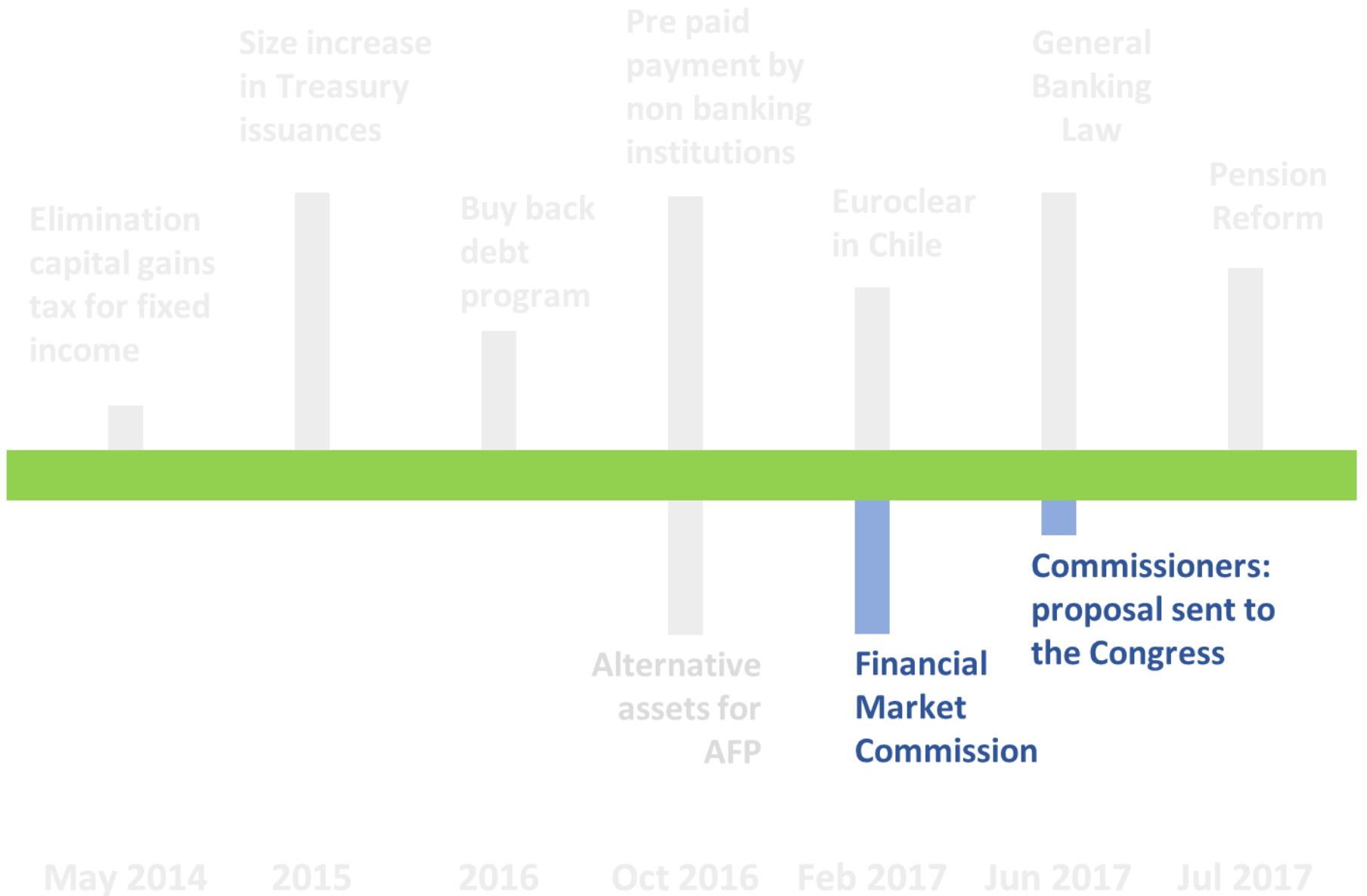


Payment system



Px: retail price.
 f: fee charge for using a card.
 IT: interchange tariff.
 MD: merchant discount.

Source: Ministry of Finance.



Financial Market Commission



**Collegiate
body**



**Public
consultation
and
regulatory
impact
assessment**



**Separation of
investigation
from
sanctioning
proceedings**



**New tools:
intrusive
measures,
lifting bank
secrecy and
leniency**



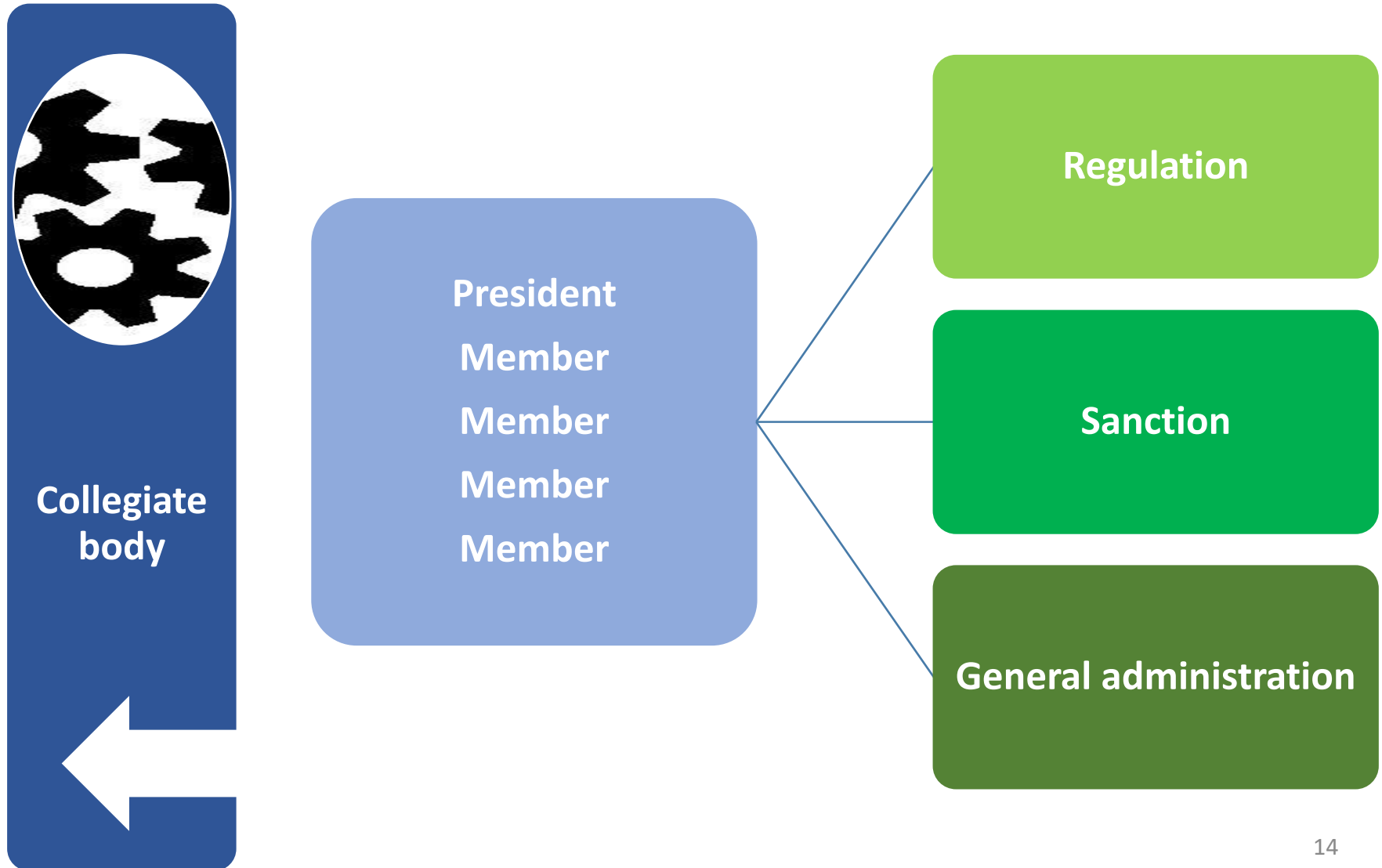
**Update of
sanctions**



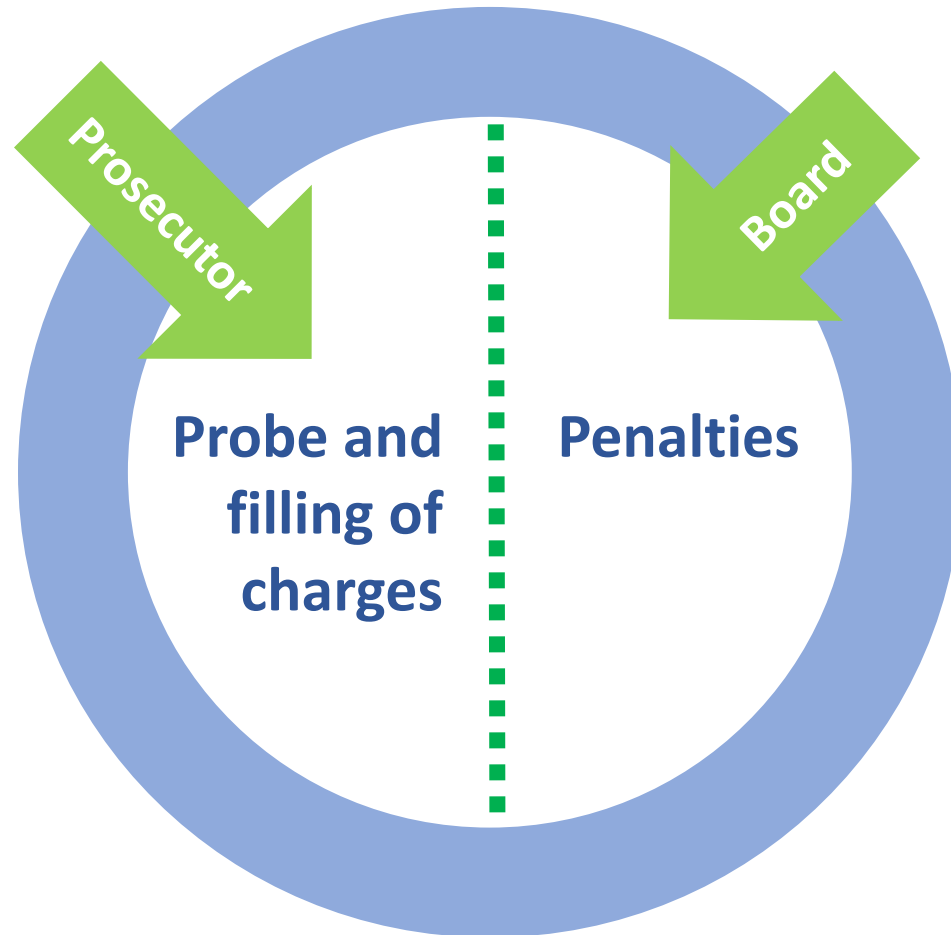
**Self
regulation**



Corporate governance



Investigation and sanctions



New tools to investigate



New tools:
intrusive
measures,
lifting bank
secrecy and
leniency

Lifting bank secrecy

- Court of Appeals authorization
- Condition to be member of IOSCO

Intrusive measures

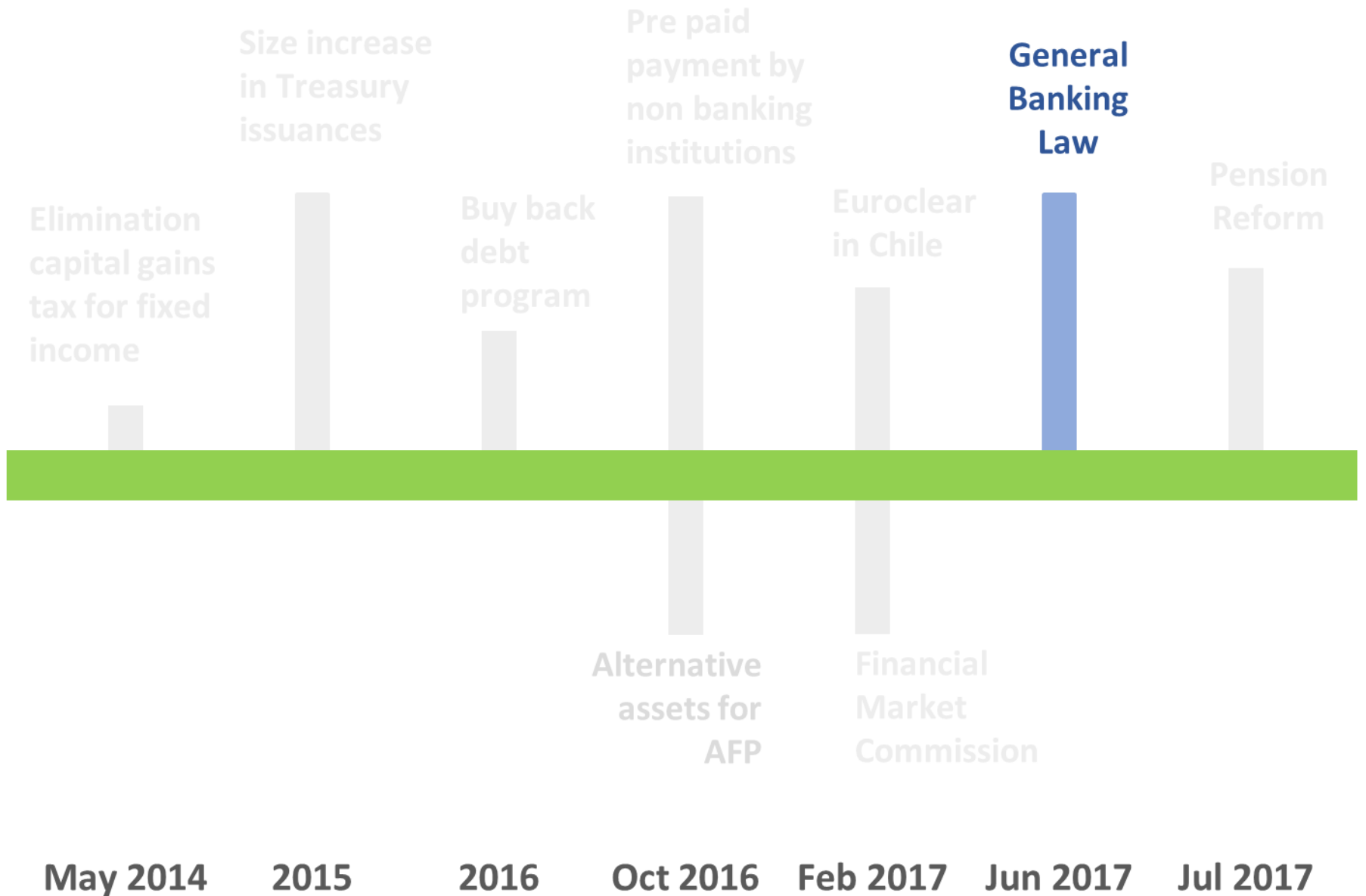
- Court of Appeals authorization
- Communication interceptions
- Search order

Self report

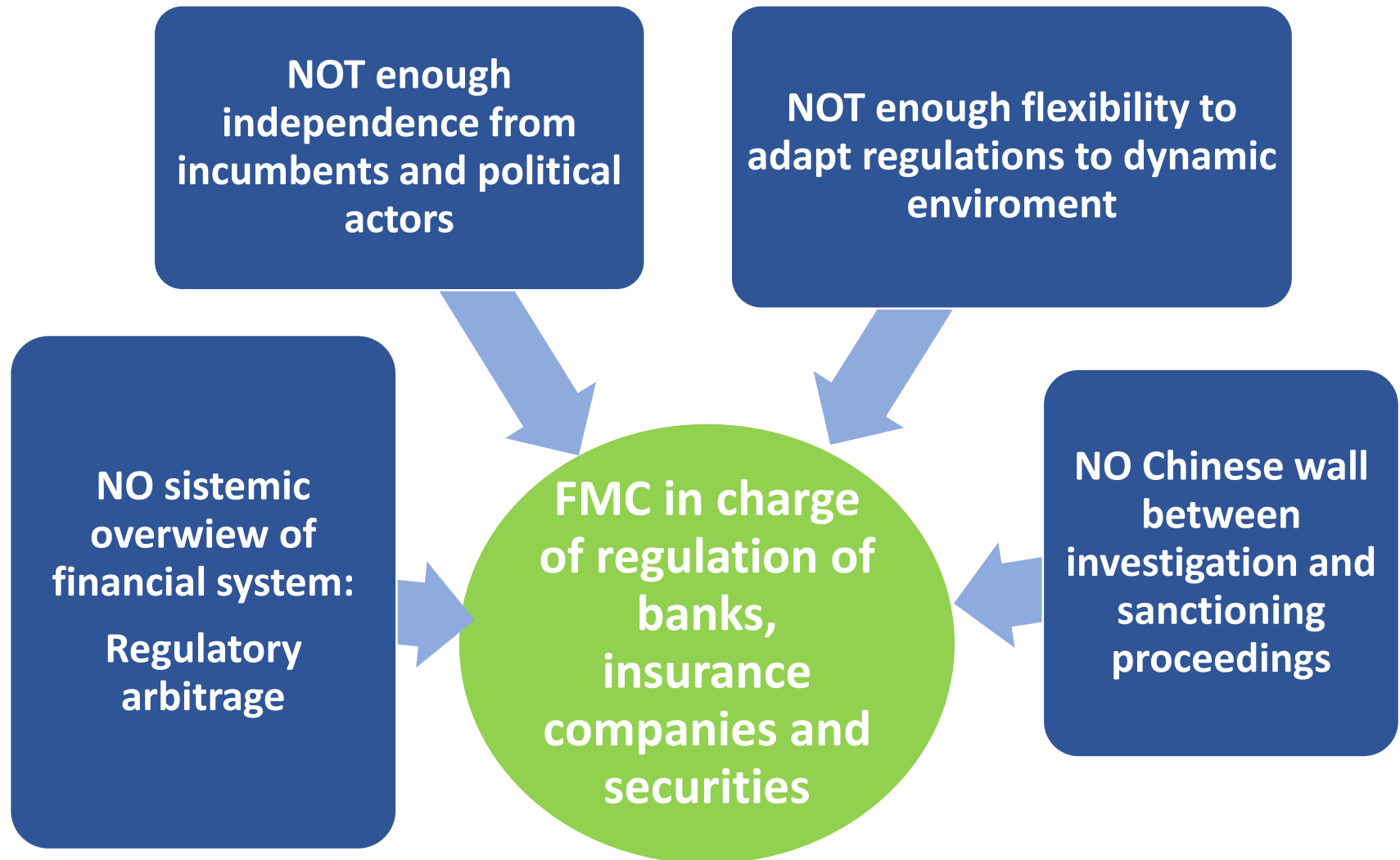
- Reduction up to 80% of the fine

Leniency

- Reduction of 100% of the fine.
- Criminal sanction: exemption or attenuating circumstance

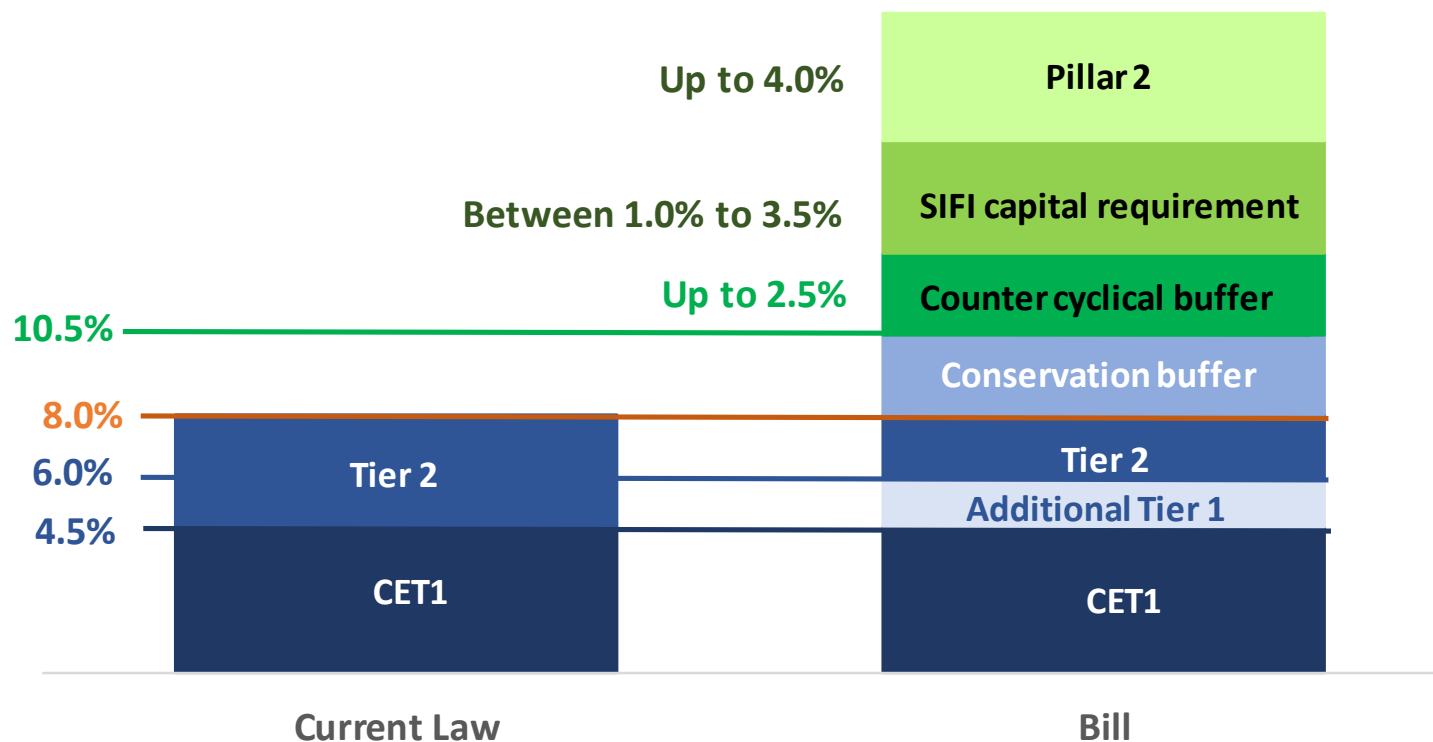


Board decision making



Capital requirements

Capital requirements
(as percentage of Risk Weighted Assets)



Capital requirements and RWA

Additional Tier 1

- Preferred stocks and/or CoCo bonds
- Changes in law to allow insurance companies and pension fund to buy CoCo, limiting their exposition

Pillar 2

- Up to 4% of RWA

Risk weights

- Will be define by FMC with Central Bank
- Capital mitigators
- Internal models

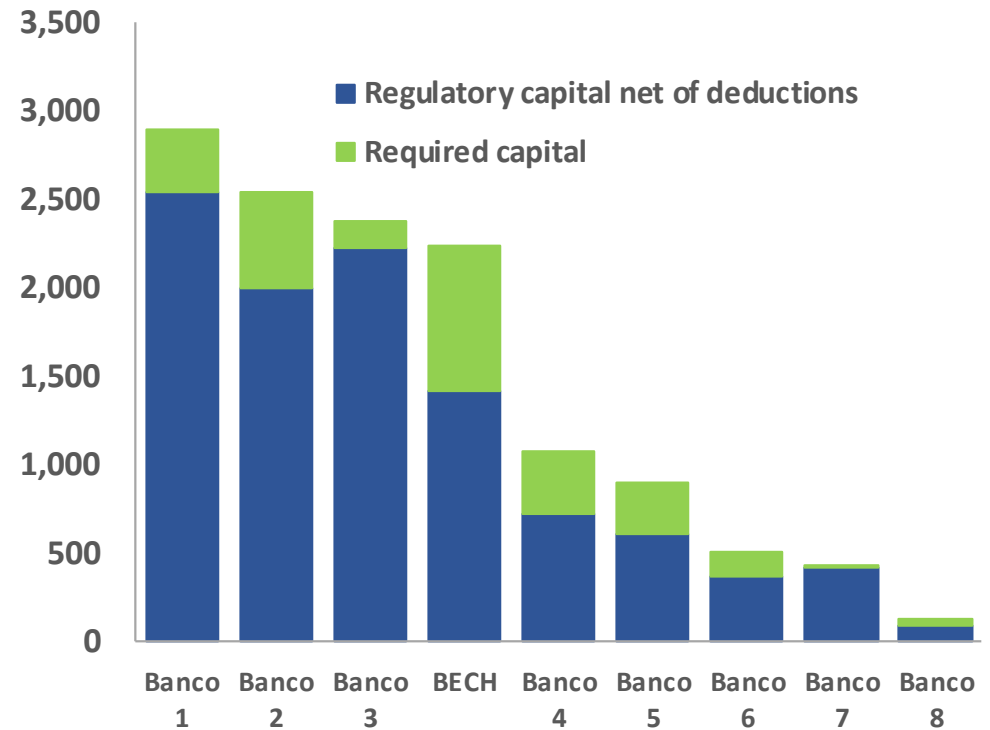
Capital deductions

- Goodwill, deferred tax assets

Cost for the banking system

Additional capital requirements for Chilean banking system
(millions dollars)

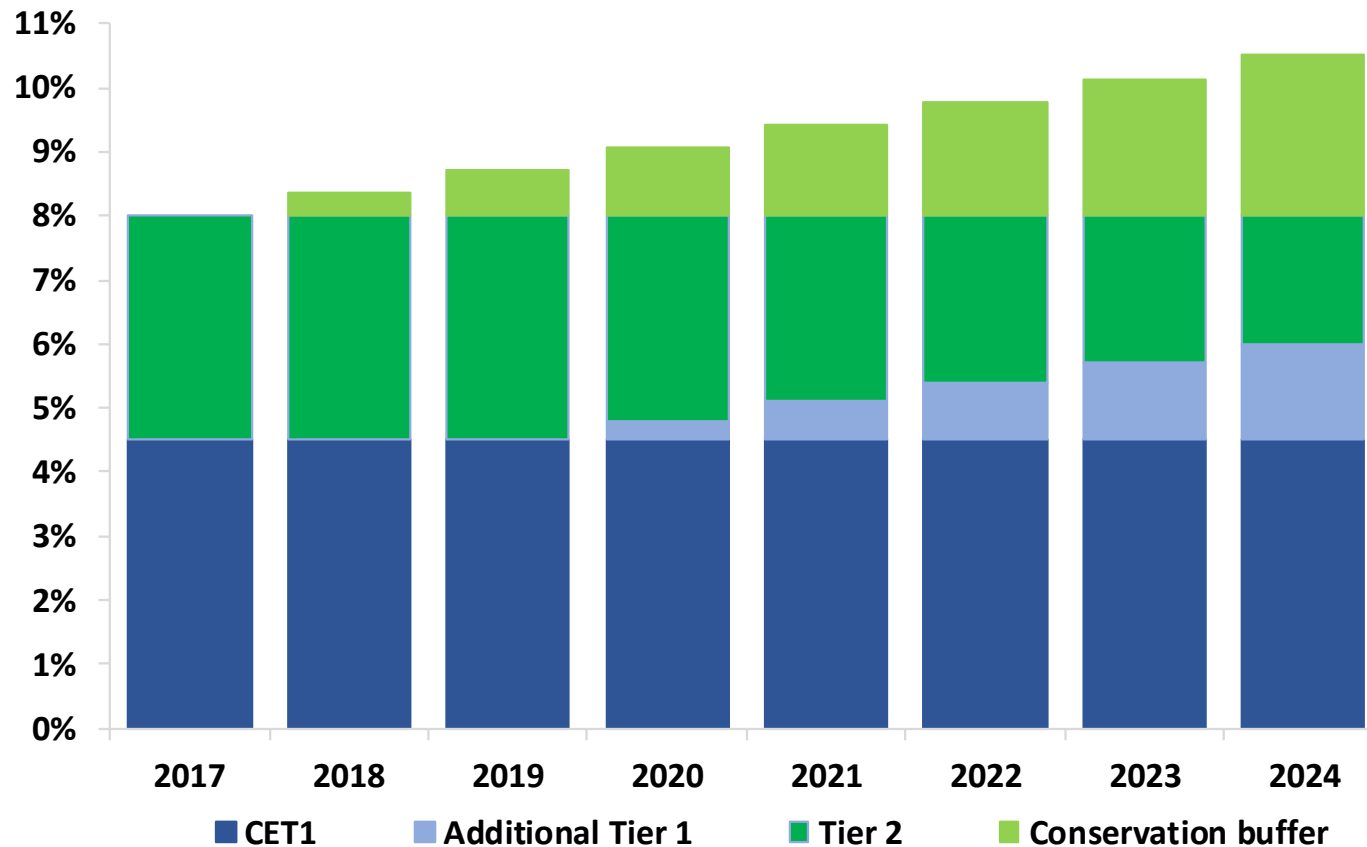
Regulatory capital	Apr.17
8.0%	0
10.5%	2,702
System total	2,702
BancoEstado	825



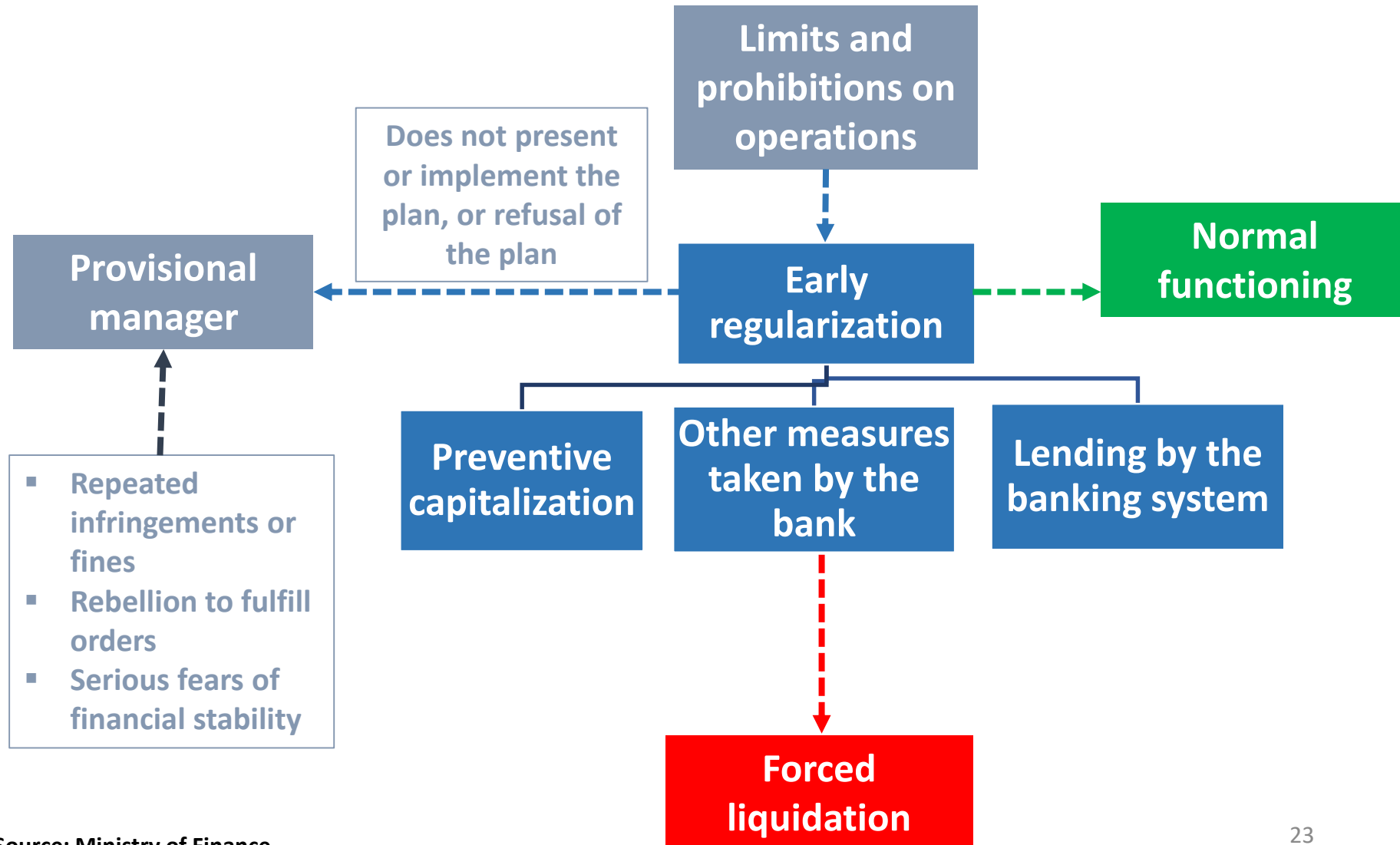
Transition period

Capital requirements

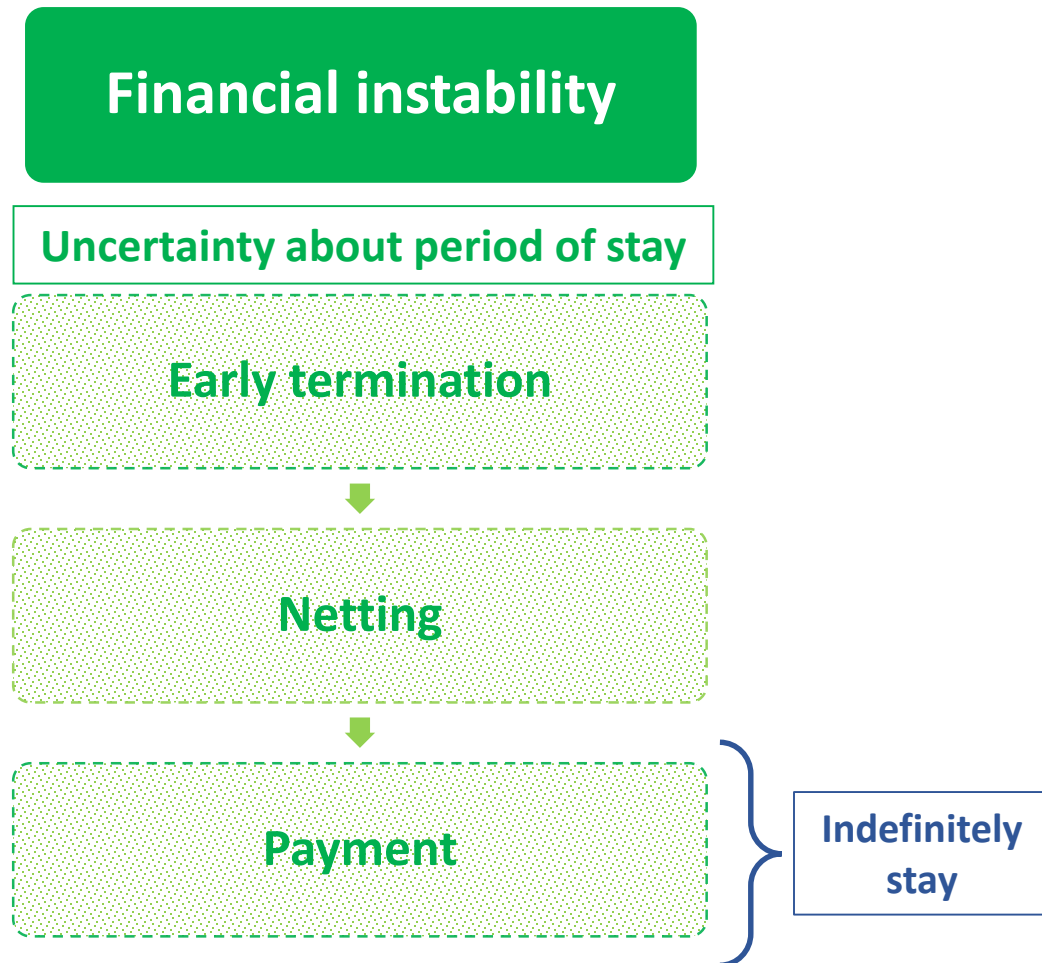
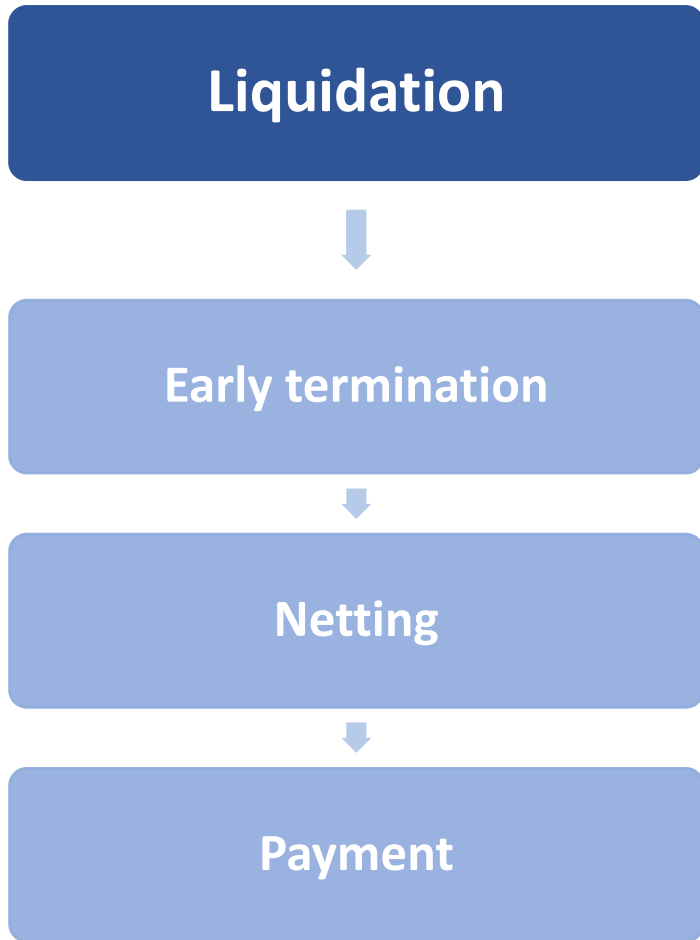
(as percentage of Risk Weighted Assets)



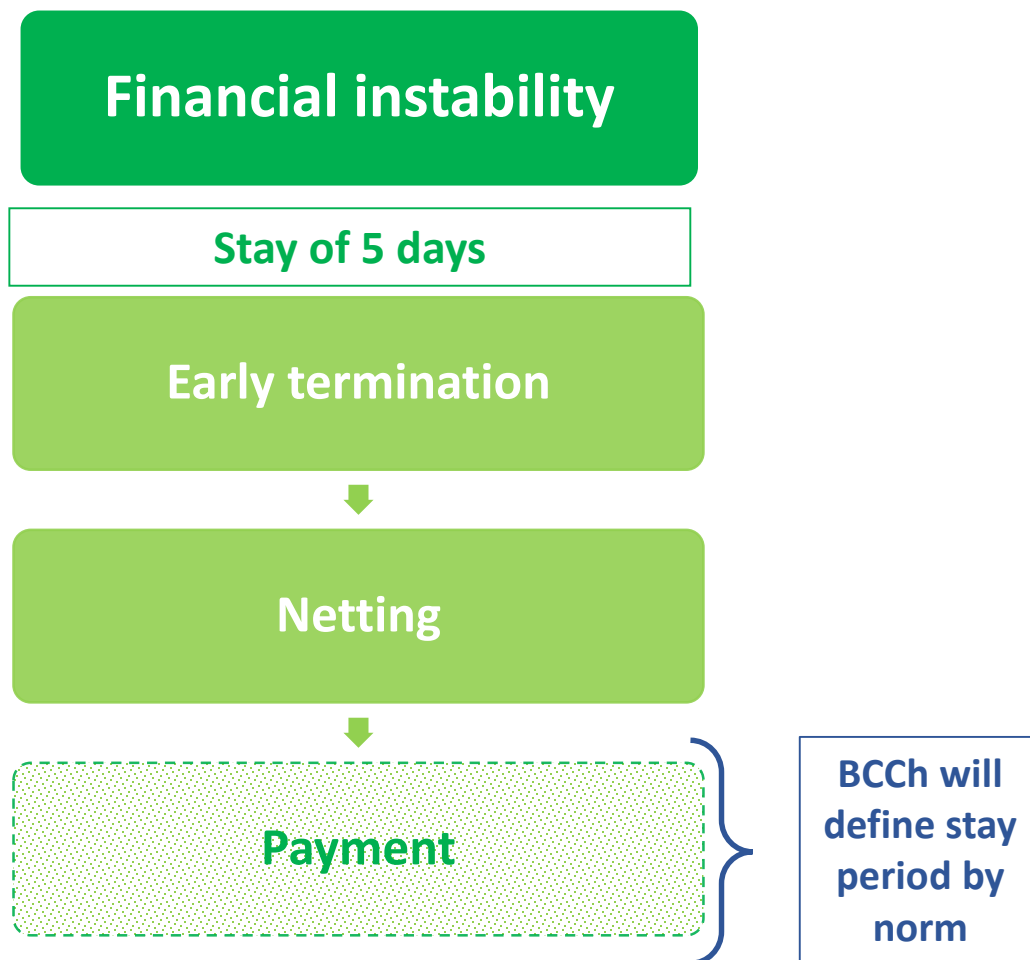
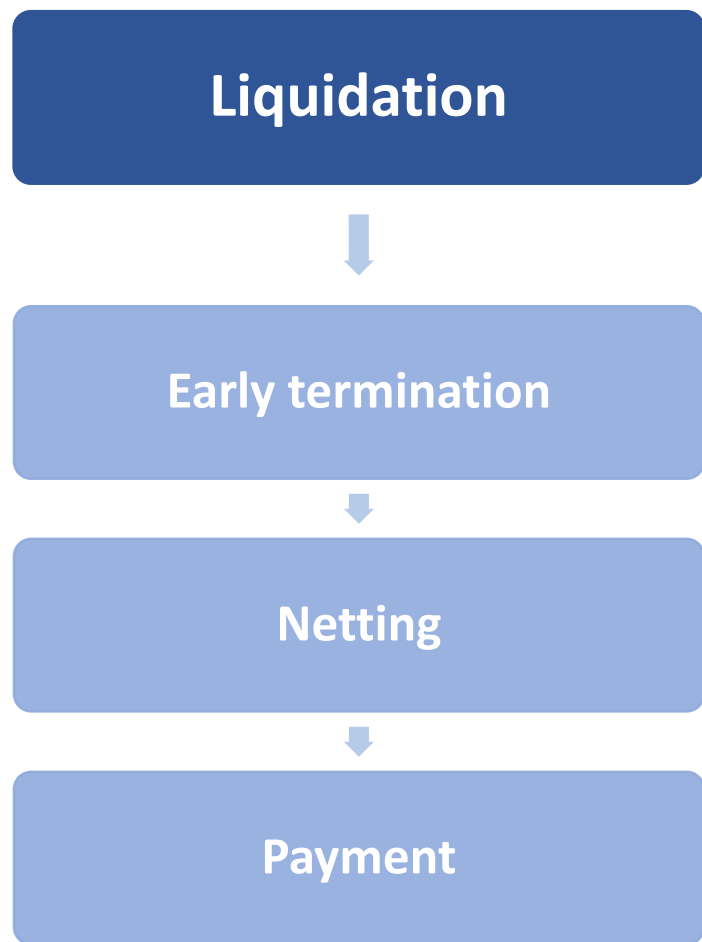
New tools to deal with weak banks

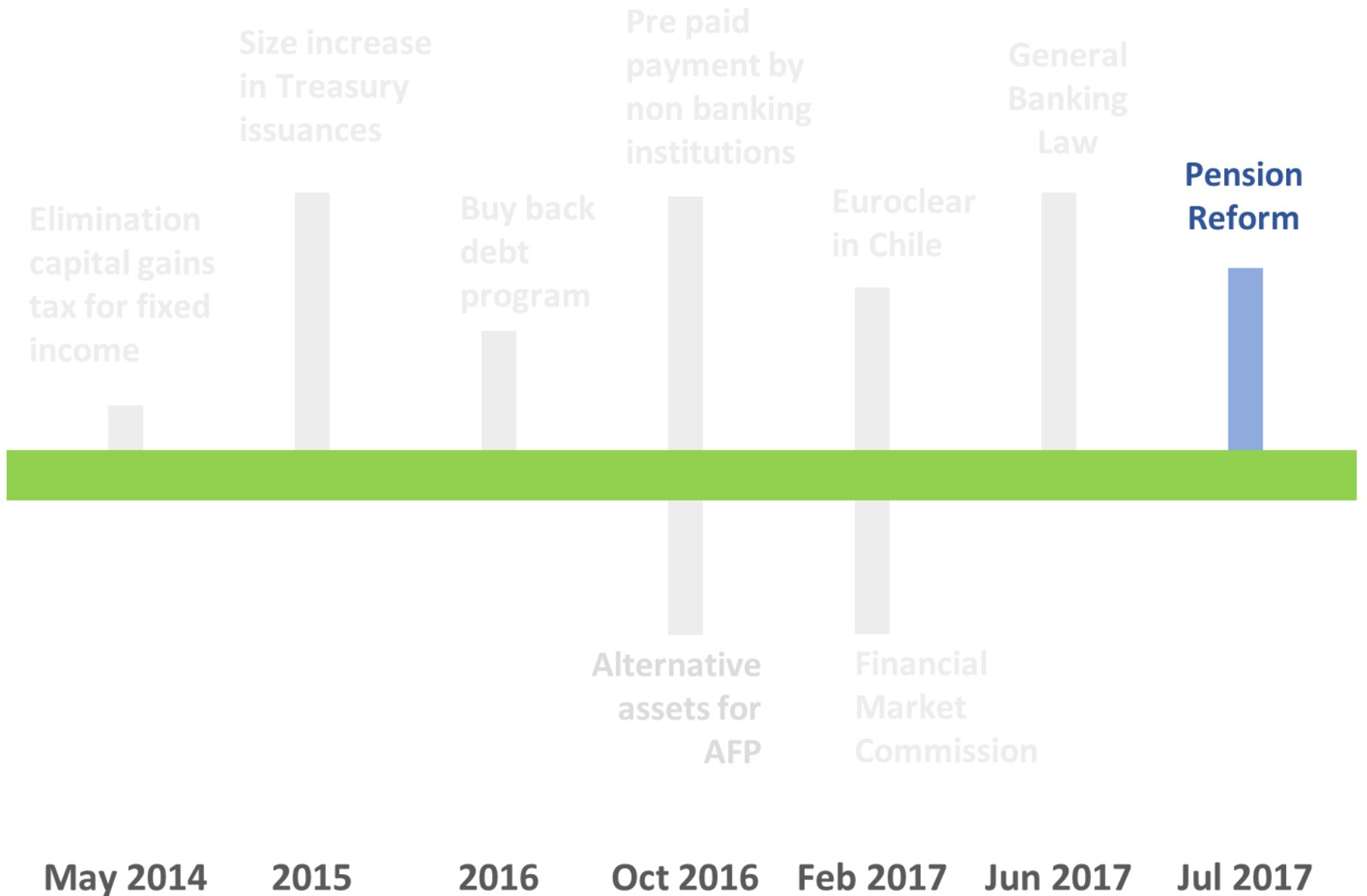


Close-out netting



Close-out netting





Insufficient pensions: women and middle class

		Median replacement rate*	
		Self-financed	Total
Gender	Female	12%	29%
	Male	33%	52%
	Total	20%	40%
Quintiles	1	14%	110%
	2	10%	55%
	3	18%	41%
	4	26%	35%
	5	26%	27%
	Total	20%	40%

(*) Replacement rate as compared to last income.

Note: total includes Solidarity Pillar.

Source: Superintendencia of Pensions.

Building blocks

Increase pensions through

- Higher contributions
- Higher savings
- Temporary intergenerational transfers
- Solidarity

Regulation and participation in private system

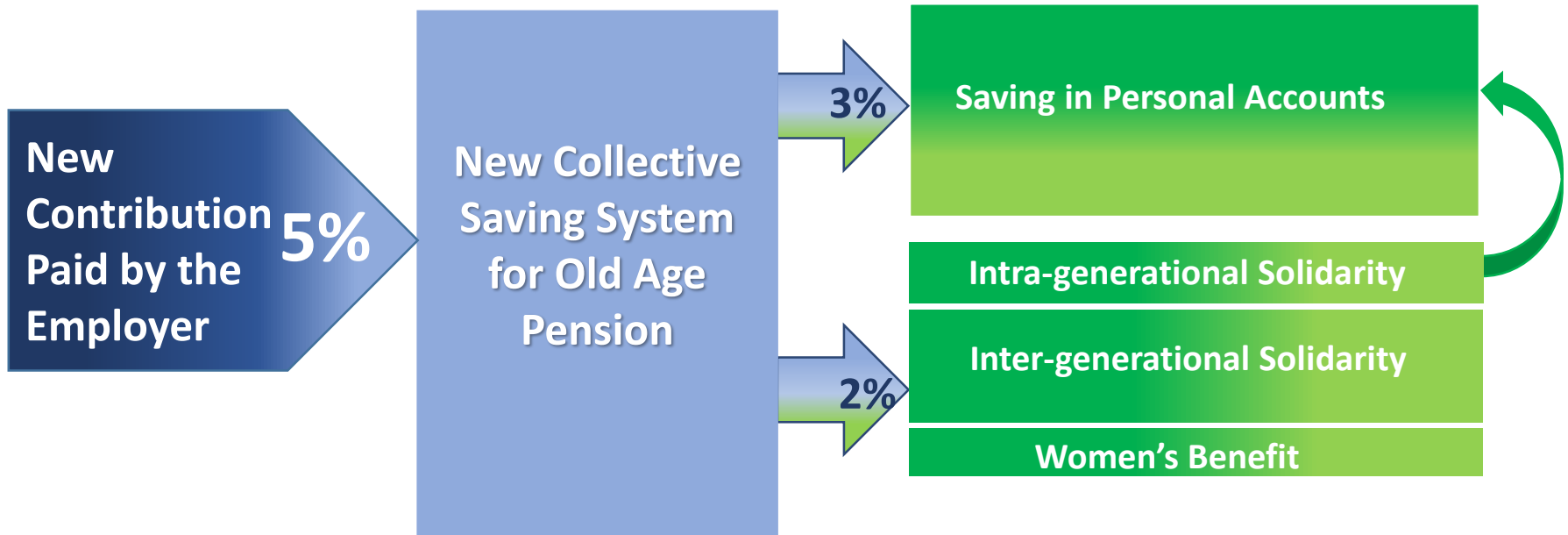
Specific parametric changes

- Self-employed

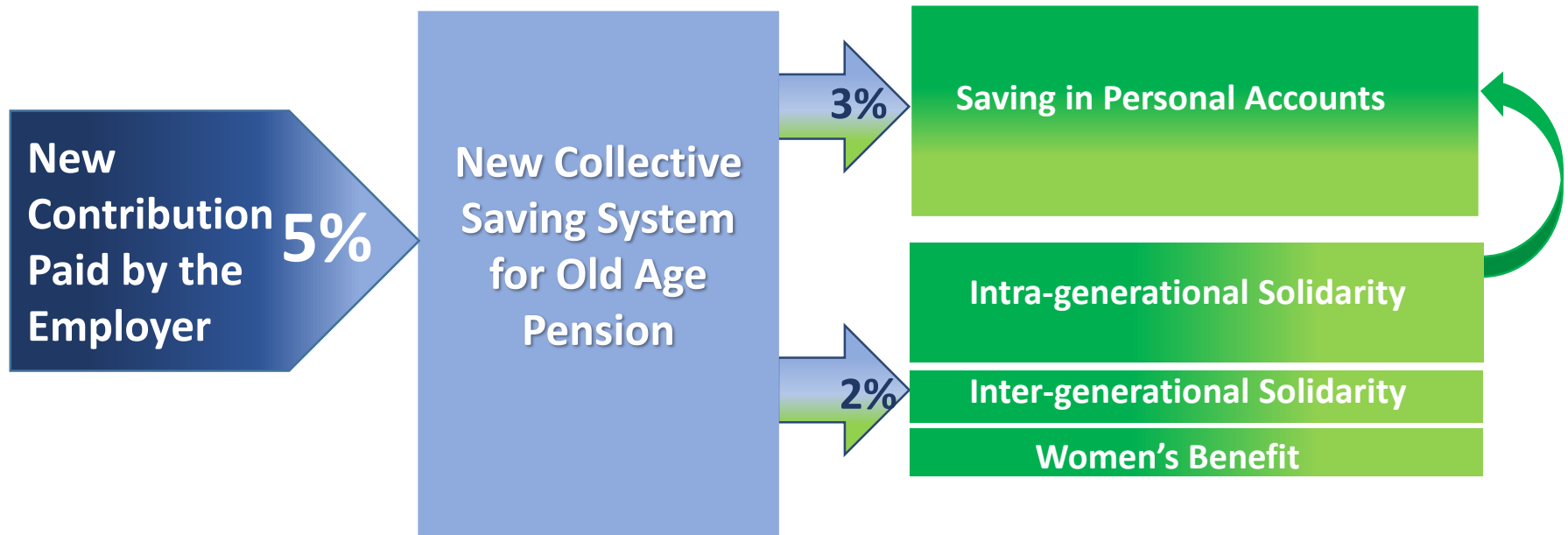
Improvements in the solidarity pillar

Strengthening of the collective voluntary savings scheme

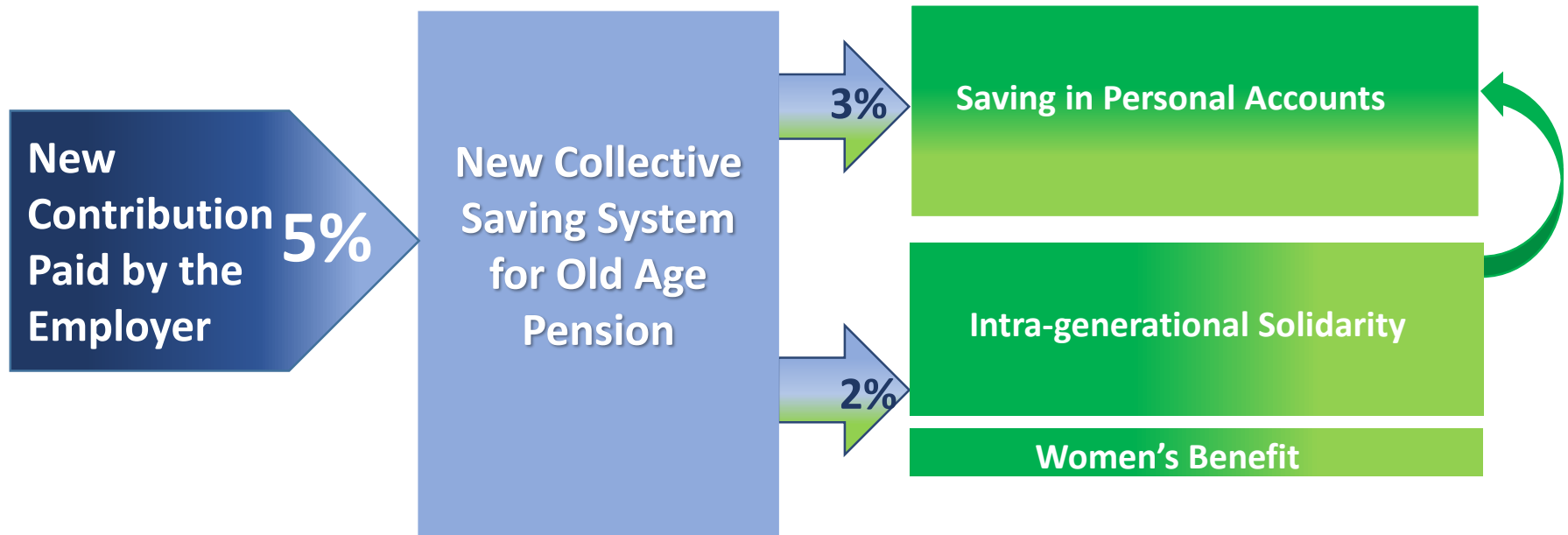
New Collective Saving System for Old Age Pension



New Collective Saving System for Old Age Pension

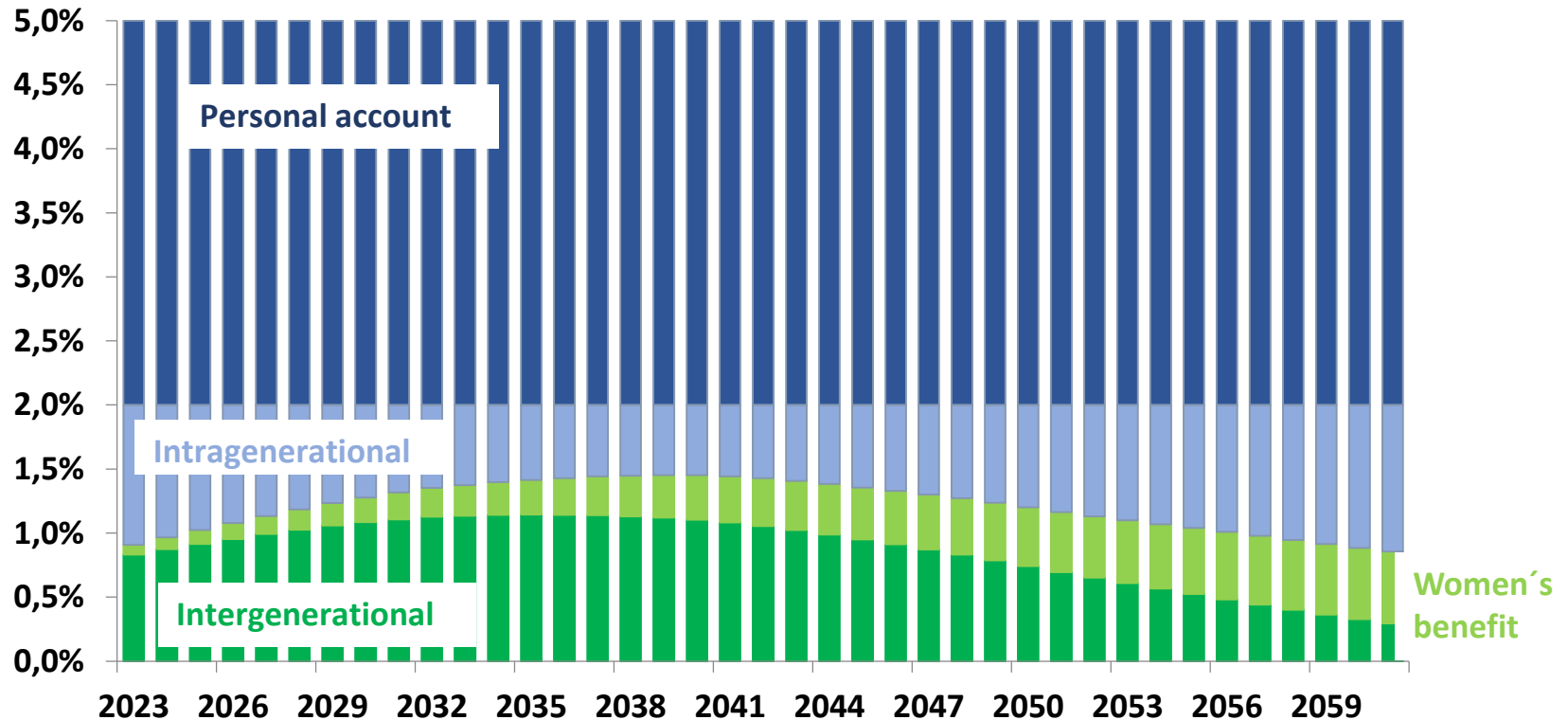


New Collective Saving System for Old Age Pension



Projected use of 5% contribution

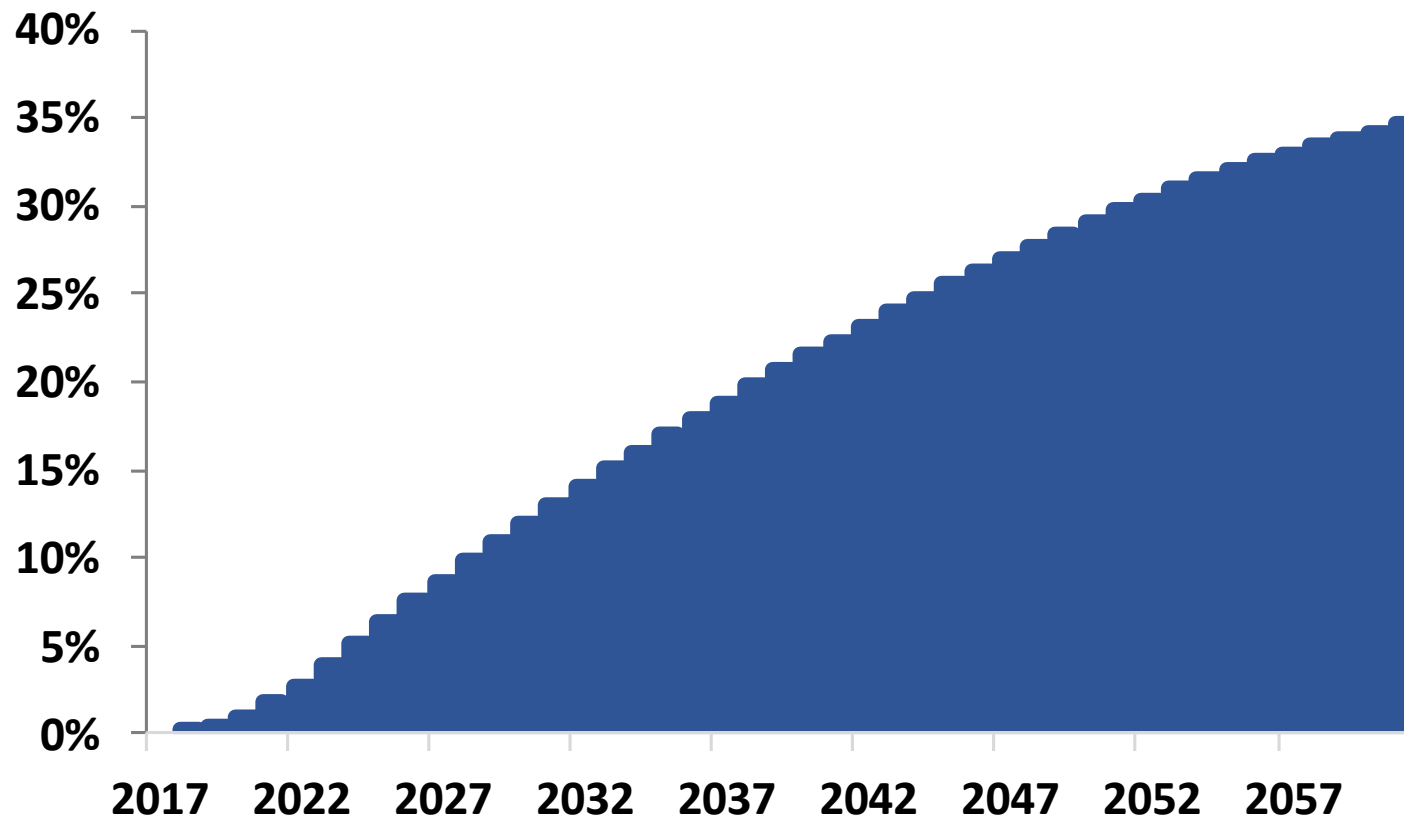
Additional contribution for pensions
(as percentage of the salary)



Source: Budget Office, preliminary estimates.

Assets build from additional 5%

Stock of savings
(as percentage of GDP)



Public manager of 5%

Why?

- Social validation
- Diversification:
 - AFPs need liquidity
 - AFPs need very attentive affiliates

Design

- Constitutionally independent
- Clear mandate
- Highly professional

Regulation improvements and participation

Contributors participation

- Through a representative in the Investment and Resolution of Conflicts of Interest Committee
- In the election of board directors of the companies where their pension funds are invested

Multi-funds and fees

- Further restrictions in the multi-funds system
- Added P&L sensitivity to performance
- Strengthening of auctioning mechanisms
- Strengthening the regulation of intermediation fees

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