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LEGAL ALERT

Central Bank of Chile allows netting in Repo transactions under recognized master agreements

On December 16, 2025, the Central Bank of Chile ("BC") reported the amendment to Chapter III.D.2 of its Compendium of Financial Regulations ("CNF") through Circular No. 3013-979, with the purpose of allowing the netting of reciprocal obligations (netting) in repurchase agreement and reverse repurchase agreement transactions (hereinafter, "Repos"), when such transactions are entered into under master agreements recognized by the BC for purposes of Article 140 of Law No. 20,720

This amendment is particularly relevant from both an insolvency and prudential perspective, as it expressly recognizes the validity of close-out netting mechanisms in certain master Repo agreements. The main aspects of the amendment are summarized below.

****RECOGNITION OF MASTER AGREEMENTS****

Chapter III.D.2 of the CNF provides for the recognition of master Repo agreements for purposes of netting related obligations arising upon the voluntary or forced liquidation of one of the parties:

- Master Repo agreements entered into between counterparties other than banks established in Chile.
- Master Repo agreements where at least one of the counterparties is a bank established in Chile.

The main distinction between these two cases is that, with respect to the agreements referred to in item (ii), recognition is subject to compliance with the minimum general terms and conditions set forth in Chapter III.D.2 of the CNF, a requirement that does not apply to the agreements referred to in item (i).

Annex No. 1 of Chapter III.D.2 of the CNF expressly recognizes the following master Repo agreements:

- The Global Master Repurchase Agreement (GMRA), in its 1995, 2000 and 2011 versions, approved by international financial associations such as the International Capital Market Association (ICMA) and the Securities Industry and Financial Markets Association (SIFMA).
- The 1996 Master Repurchase Agreement (MRA), approved by international financial associations such as SIFMA.
- Any amendment, adaptation, replacement or supplement to the foregoing agreements, provided that it does not conflict with the terms and conditions set forth in Chapter III.D.2 of the CNF.

****Minimum general terms and conditions****

Chapter III.D.2 of the CNF sets forth the minimum general terms and conditions that must be included in master Repo agreements when one of the parties is a bank or an institutional investor. These include, among others, termination events, netting procedures and early enforceability provisions.

In particular, and in line with the regime applicable to derivatives, the regulation conditions the exercise of early enforceability clauses triggered by financial instability events, poor management or other events occurring prior to the forced liquidation of a bank established in Chile or another institutional investor, on the lapse of at least two banking business days from the date on which the relevant event occurred (stay period). The specific enforceability events are detailed in Annex No. 2 of Chapter III.D.2 of the CNF.

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