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CHILEAN CENTRAL BANK SUBMITS TO CONSULTATION REGULATION FOR THE SETTLEMENT OF DERIVATIVE CONTRACTS

The Central Bank of Chile has submitted for consultation a draft regulation for the settlement of derivative contracts entered into under any of the Master Agreements approved thereby, should certain events affecting the solvency of one of the parties thereto occur. (Read more).

As per the regulations currently in effect, should any such event occur, the counterpart cannot terminate early the corresponding contract (whilst the event is still occurring) looking for its settlement via the off-setting of the reciprocal obligations, mechanism that would otherwise allow the payment of the difference between the corresponding amounts instead of the total amounts outstanding. This circumstance has conveyed the declaration of Chile as a non-netting jurisdiction, which in practical terms produces a higher cost for the Chilean parties entering into these transactions with foreign counterparts.

If approved, the draft regulation, unlike the one in effect today, will allow the parties having submitted themselves to the same, to agree that the occurrence of any such critical events allows the early termination and the netting of the corresponding obligations, once two banking days have elapsed as from the event.

The proposed regulation, reflects the best practices prevailing nowadays in the most relevant markets.

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