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LEGAL ALERT

Close-Out Netting in derivatives transactions: Central Bank of Chile enacts new regulations

Today, the Central Bank of Chile (the **Central Bank**) incorporated a new Chapter III.D.2 to its Financial Regulations Compendium, which contains provisions applicable to the acknowledgement and regulation of master agreements for bilateral derivatives, where one of the parties is a bank established in Chile or an institutional investor (the **“Derivative Agreements”**).

This new regulation includes general terms and conditions that the Derivative Agreements shall meet to qualify for close out netting purposes, ruling that the parties of the Derivative Agreement who accept the new regime set by the Central Bank through this regulation, will be empowered to agree that the close out netting provisions of their respective agreements may become effective as a consequence of the occurrence of specific critical situations. All of this, previous to the bankruptcy of the bank or the institutional investor, and to the extent that such close out netting does not become effective immediately, but prior request of the compliant party and once two banking days have elapsed as from the event.

Furthermore, it is ruled that in these cases, the payment of the net balance resulting from the netting shall only be requested once the critical situation is regularized, or, if it is the case, when a bankruptcy or insolvency procedure has started, whichever occurs first.

Previous to the issuance of these new regulations, the Central Bank submitted a **public consultation** in this regard. Some of the comments received during this process become part of the current provisions of this new Chapter III.D.2.

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