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LEGAL ALERT

CMF Opens Public Consultation on Proposed Regulation for REPOs, Self-Securitizations and Credit Risk Mitigants

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On April 25, 2025, the Financial Market Commission ("CMF") opened a public consultation on proposed amendments to Chapters 21-6 and 8-40 of its Updated Regulations Compendium for Banks and General Rules No. 303 and 451.

The proposal aims to enhance the implementation of the Basel III capital framework, adjusting the regulatory treatment of repurchase agreements ("REPOs") and self-securitizations, and setting forth provisions for credit default swaps and credit insurance used by banks.

****Key aspects of the proposal:****

• REPOs:

- Seeks to expand the secondary REPO market in response to liquidity weaknesses.
- Sets a 10% credit risk weighting (PRC) for secured REPOs under framework agreements recognized by the Central Bank of Chile, including close-out netting.
- Allows a 0% PRC if settled through a central counterparty recognized by the CMF.

• Self-securitizations:

- Eliminates the current 1,250% PRC, which is inconsistent with Basel III.
- Allows netting of the underlying asset with the securitized note acquired by the same bank.

• Credit default swaps and insurance:

- Sets requirements for banks to use these instruments as credit risk mitigants in capital requirements.
- Permits replacing the PRC of the covered exposure with that of the contract issuer, consistent with Basel standards.

The consultation will remain open until June 6, 2025.

Authors: Diego Peralta; Fernando Noriega; Felipe Moro