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CMF PUBLISHES DOCUMENT WITH GUIDELINES FOR A LAW ON FINANCIAL CONGLOMERATES IN CHILE

The Financial Market Commission (Comisión para el Mercado Financiero or CMF) published on its website the document "Guidelines for a Law on Financial Conglomerates in Chile" in which, among other matters, analyzes the relevance of including financial conglomerates as part of the institutions under its supervision and proposes a legal framework.

Accordingly, the CMF deems necessary a Financial Conglomerates Law (FCL), which main elements would be the following:

Definition and scope of the financial conglomerate

The financial conglomerate would correspond to the group of companies belonging to a business group (article 96 of the Securities Market Law) that, among the entities that comprise it, have (i) at least one prudentially regulated financial entity (insurance companies; banks; credit card issuers, fund providers or operators; securities intermediaries; third-party fund managers; and pension fund managers or severance fund managers), and (ii) any other entity engaged in financial activities (concept to be defined in the FCL), whether regulated or unregulated, including activities developed abroad by companies being members of local conglomerates.

All financial conglomerates operating in Chile would become entities subject to the regulation and supervision of the CMF, except for those excluded by the CMF due to lack of material impact on financial entities prudentially supervised, or from a normal functioning of the financial system standpoint.

Structure and ownership of the financial conglomerate

Economic groups, including companies being part of a conglomerate, must organize their corporate structure in order to separate financial activities from other activities of the group. For this purpose, conglomerates should incorporate, as a special corporation (sociedad anónima especial), a financial parent company domiciled in

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Chile subject to a licensing and registration process. Both the initial structure of the conglomerate and the adoption of material changes (e.g., acquisitions, mergers, divisions, etc.) would be subject to the approval of the CMF. Regarding cross-border conglomerates, authorization may only be granted if there is supervision in the country of origin that allows adequate oversight of the risk of the conglomerate's operations and has the authorization of the respective supervising agency.

The founding and/or controlling shareholders of the financial parent company would have to comply with similar requirements to those of Article 28 of the General Banking Law, thus establishing permanent requirements of moral suitability and integrity to control a financial conglomerate. In addition, information regarding the transactional links among the entities comprising a conglomerate and its related parties would be required, extending the rules on transactions with related parties of Title XVI of the Corporations Law.

Solvency of the financial conglomerate

The FCL would establish as a requirement that the conglomerate must have sufficient consolidated equity to face the risks derived from its activities. Specifically, the company which consolidates the conglomerate must have a consolidated purged equity that is at least equal to the sum of the equity requirements of each of the activities it performs, as determined by the CMF. The solvency requirement would also be complemented with the CMF authority to require corrective measures.

Corporate governance

It is proposed that the CMF may require transactions and exposure policies among the companies of the conglomerate and those related to them within the controller's economic group. In addition, the board of directors of the parent company would have the obligation to ensure a consolidated vision in the management of the conglomerate and should be composed of people with adequate competencies and moral characteristics in accordance with their responsibilities. The board would also be required to periodically review exposure to market, credit, liquidity, operational, reputational and contagion risks; update risk appetite definitions; evaluate and manage consolidated capital adequacy and debt policies; and approve various risk management policies, including stress tests for each of the conglomerate's industries. Finally, feasibility or action plans approved

by the parent company's board of directors would be required to address situations of financial instability.

Information to the regulator and the market

The CMF would have broad powers to determine the type, periodicity, and characteristics of the information to be reported by each conglomerate to the authority. This would consider the request for information regarding any entity that is part of the conglomerate, even if it is not supervised individually.

Additionally, conglomerates would be required to publish consolidated financial statements, with particular emphasis on the disclosure to the market of information of interest related to the organization as a conglomerate.

CMF authorities

Among the broad authorities of the CMF to be included in the FCL, it is worth mentioning the authority to require capital regularization plans, suspend the registration of bonds and other debt instruments, restrict the payment of dividends, revoke the authorization to operate as a conglomerate, and require stress tests, among others.

Transition period

A 7-year transition period would be incorporated in the FCL to make the provisions on conglomerates' regulation fully enforceable, without prejudice of enhancing the monitoring of conglomerates' simultaneously with the discussion of the law proposal.

Link to the guidelines here **.** The deadline for comments is December 29, 2023, e-mail address conglomerados@cmf.cl .

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