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CONGRESS APPROVES BILL THAT STRENGTHENS THE FINANCIAL SYSTEM AND ITS INFRASTRUCTURE

On October 11 of this year, the Chamber of Deputies approved in the third constitutional procedure the amendments proposed by the Senate to the bill that strengthens the financial system and its infrastructure (the "Bill").

These improvements relate to five general issues, which we examine below:

Repurchase agreements market (REPOs)

The REPO market in Chile has not had the expected development due to uncertainties in the applicable insolvency legislation. Therefore, the following legislation is reformed:

1.- Law No. 20,720 ("Insolvency Law")

Article 57 of the Insolvency Law is amended in order to exempt from the application of bankruptcy financial protection in the context of a bankruptcy reorganization proceeding, to REPO transactions in which the debtor is an institutional investor, assimilating them to the system currently applicable to derivative transactions.

Article 140 of the Insolvency Law provides that once the Liquidation Resolution has been issued in the context of a bankruptcy liquidation proceeding no compensation that has not operated before by operation of law can take place, except in the case of related obligations (currently applicable only to derivative transactions).

The Bill amends such article by including obligations that although in different currencies, arise from REPO transactions on financial instruments (as such term is defined in Article 1 N°8 of Law No. 20,345) under the concept of related obligations, if compliant with the requirements therein set forth.

Therefore, different obligations arising from derivative and REPO transactions entered as related obligations will be understood to be due, liquid and currently payable at the date of issuance of the

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Liquidation Resolution.

In general, the Bill includes REPO transactions in all other aspects regulated by Article 140, which previously only included derivative transactions (operability of the causes of termination and early enforceability in transactions of banking companies or institutional investors and effects of the cessation of the contractual position).

2.- General Banking Law ("GBL")

Modifications are introduced to its Titles XIV and XV. In this context, exceptions to REPO operations are included, for the purpose of also applying thereto the provisions regarding compensation as per Article 140 of the Insolvency Law, when it is appropriate to take measures for the early regularization of banks or their forced liquidation (Articles 116, 117, and 136 of the GBL, respectively).

Expansion of the services of the Central Bank to financial market infrastructures and non-banking financial intermediaries

Currently, the Central Bank of Chile ("CBC") provides various financial services to entities, mainly banks. The Bill amends Law No. 18.840 ("LOCCBC") to broaden access to these services to non-banking financial institutions ("NBFI") and financial market infrastructure companies ("IMF"). This is reflected in amendments to the LOCBC that will allow the CBC to:

• Finance and refinance management companies established as Central Counterparty Entities ("CCE") and Credit and Savings Cooperatives ("CAC") with effective equity not less than 800,000 Unidades de Fomento ("UF").
• Provide the following services to CCE and CAC: open lines of credit, discount and rediscount negotiable instruments, transfer credits granted by international or foreign institutions, assign, and acquire portfolio placements and investment documents, and receive and make deposits in national and foreign currency.
• Grant credits in case of urgency due to a transitory lack of liquidity to CCE and CAC.
• Exceptionally buy and sell in the open market to other financial institutions supervised by the Financial Market Commission (“CMF”) or to funds supervised by the Superintendence of Pensions, securities, and commercial paper issued by banking companies.
• Provide banking services that do not involve financing to CCE, CAC, payment system management companies (High and Low-Value

Clearing Houses), and non-banking participants in such systems, custody, and deposit companies of securities ("EDCV"), and foreign or international financial organizations.
• Open bank accounts for CCE, CAC, payment system management companies, non-banking participants in such systems, and EDCV.

Enhancement of the institutional framework for IMF

For the improvement of the institutional framework of the IMF, modifications are introduced to:

1.- Law No. 20,345 ("Law on Systems for the Compensation and Settlement of FinancialInstruments" or"SCL Law")

• Foreign CCEs are included, which may operate in Chile following recognition by the CMF.
• Payment system management companies may access the Real-Time Gross Settlement ("RTGS") system of the CBC.
• EDCVs may establish subsidiaries that can operate as CCEs or clearinghouses.

2.- Law No. 18,876 ("Law on EDCVs")

It is established that an ancillary activity to the business of EDCVs is the administration of SCL.

Perfecting Aspects Applicable to CAC Legislation

The Bill incorporates the following modifications to the General Law of Cooperatives:

• The refund of contributions without a prior equivalent capital contribution will be allowed for CACs supervised by the CMF that submit a request accompanied by an approved contribution refund plan from said regulator.
• CMF-supervised CACs may not make investments in participation shares of other cooperatives, except to become shareholders or have participation in a cooperative supporting the business and to participate in federations, confederations, and auxiliary institutes.
• Control and regulatory requirements for CACs whose effective capital exceeds 400,000 UF are strengthened. In this way, CACs will be exclusively subject to supervision by the CMF, and it will be the responsibility of this entity to issue a General Rule that defines the regulatory guidelines applicable to CACs by reference to the GBL as

stated in Article 87.
• Additionally, the CMF will have powers from the Department of Cooperatives for its prudential work regarding systemic CACs and must observe the principle of proportionality in the issuance of regulations.

Incorporating a simplified procedure for obtaining a tax ID to facilitate the internationalization of the Chilean peso

To enhance the internationalization of the Chilean peso, the Bill introduces the following amendments to the Tax Code:

• (a) The Director of the Chilean IRS may establish, by resolution, simplified procedures for obtaining a Tax ID.
• (b) Correspondent banks or financial institutions established in Chile may request registration in the Tax ID or the granting of an alternative tax identification or enrollment number, complying with certain conditions. The following may benefit:

• Foreign or international banks or financial institutions that open correspondent current accounts in banks or financial institutions established in Chile and directly carry out financial operations with them.
• Individuals, legal entities, or other entities without domicile or residence in the country, who are clients of the entities mentioned in the previous clause i. and are represented by them to carry out financial operations on their behalf with individuals, legal entities, or other entities domiciled or resident in Chile or abroad.

However, these entities must be residents or domiciled for tax purposes in countries or jurisdictions that have entered into agreements with Chile or are part, along with Chile, of multilateral treaties that allow the exchange of information for tax purposes. In addition, their operations must be carried out through a bank or financial institution established in Chile and relate to financial operations in Chilean pesos authorized by the CBC. The Director of the Chilean IRS must specify which of these operations may benefit from this simplified procedure.

Miscellaneous aspects

In addition to the central aspects, the Bill introduced a series of other

modifications that we summarize below:

• Art. 33 bis of the LOCCBC: The CBC may withdraw certain series or denominations of banknotes or coins from circulation, which will retain their legal tender for a specified period established by the Board, not less than 6 months.
• Art. 64 of the LOCCBC: Penalties for the crime of counterfeiting banknotes are increased. The criminal offense is expanded to include foreign legal tender coins and the commercialization and manufacture of items for this crime.
• Art. 48 of the Securities Market Law: In order to safeguard public and investor interests, Stock Exchanges are empowered to suspend transactions of one or more securities for up to 5 business days. It may also suspend the transaction of all securities simultaneously for a maximum period of one business day and shall inform this to the CMF immediately.
• Art. 59 letter a) Law on the Administration of Third-Party Funds and Individual Portfolios: Mutual funds that are not directed at qualified investors may not, in any case, invest the fund's resources in a percentage greater than determined by the CMF in assets with a certain level of liquidity and depth. (Currently limited to not investing more than 50% of its assets in securities without liquidity and depth requirements).

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