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LEGAL ALERT

Financial Market Commission publishes, for public consultation, new regulations on regulatory capital calculation for banks

On November 19, 2019, the Financial Market Commission published, for public consultation purposes, a proposed amendment to its Updated Regulations Compendium, by means of the enactment of a new Chapter 21-1, which sets the rules that banks shall observe to determine their effective patrimony, in order to fulfill the legal requirements set forth in the General Banking Act, (the "New Regulation").

The New Regulation considers the amendments that were introduced on January 2019¹ to the General Banking Act, in accordance with Basel III guidelines, and in this regard, it adopts the terminology used by the Basel Committee on Banking Supervision to define three different capital levels:

i.- The Common Equity Tier 1 (CET1) Capital;

ii.- The Additional Tier 1 (AT1) Capital, and

iii.- The Tier 2 (T2) Capital.

Pursuant to the New Regulation provisions, the banks' basic capital will be equal to CET1, after certain deductions corresponding to the value of assets whose economic value is considered either undetermined or low, or whose liquidation is difficult in financial stress scenarios. Moreover, banks' effective patrimony shall be the sum of (i), (ii) and (iii), after such deductions.

The New Regulation will take effect on March 1, 2020, although it sets a gradual application of its rules, until December 1, 2024, where it shall be fully implemented.

The consultation period will be open until January 17, 2020.

1 Read previous news alert.

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