

## **FMC PUBLISHES, FOR PUBLIC CONSULTATION, TWO NEW REGULATIONS ON RISK-WEIGHTED ASSETS DETERMINATION AND BANKS CAPITAL BUFFERS IMPLEMENTATION**

On January 27, 2020, the Financial Market Commission (“FMC”) published, for public consultation purposes, a proposed amendment to its Updated Regulations Compendium, by means of introducing two new Chapters:

- Chapter 21-6, on credit risk-weighted assets determination, and
- Chapter 21-12, on additional basic capital.

### **Chapter 21-6**

In accordance with article 67 of the General Banking Act (“GBA”), the FMC shall set standardized methodologies for purposes of determining banks’ risk-weighted assets.

Following Basel III standards, the proposal establishes (a) a standard methodology, and (b) the principles for the use of internal methodologies when determining such weighting.

The standard methodology, on the contrary of what nowadays occurs, is more risk-sensitive, since it has categories that depend on the kind of counterparty and certain risks factors.

As to the internal methodologies, the proposal allows banks to directly calculate their risk-weighted assets, to the extent minimum requirements set forth by the FMC are met, and it authorizes it in consequence.

In any of these two cases, the proposal sets credit risk mitigators, including guarantees and financial securities, among others.

### **Chapter 21-12**

Pursuant to articles 66 bis and 66 ter of the GBA and in accordance

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with Basel III standards, the proposal establishes the additional capital contributions applicable to banks in Chile, distinguishing two buffers:

**a) Conservation buffer:** It shall be set on regular functioning periods and is equal to 2.5% of the risk-weighted assets, net of required financial covers (provisiones exigidas);

**b) Counter-cyclic buffer:** It solely shall be set at Central Bank's request and may range between 0% and 2.5% of the risk-weighted assets, net of required financial covers.

Additional banking capital required as a consequence of this regulation will be equal to the sum of a) and b). If a shortfall occurs, the bank shall restrict dividends distribution and the purchase of bank' shares by its controlling shareholders will be forbidden, unless the FMC approves it.

The consultation period for Chapter 21-6 will be open until April 15, 2020, and the consultation period for Chapter 21-12, until March 31, 2020.

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