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# CHILEAN CENTRAL BANK LAUNCHES PUBLIC CONSULTATION ON PROPOSED AMENDMENTS TO CHAPTERS III.B.1 AND III.D.1 OF THE COMPENDIUM OF FINANCIAL REGULATIONS

On June 29, 2021, the Central Bank, pursuant to the resolution reached by its Board in the meeting held on June 24, 2021, launched a public consultation on proposed amendments to Chapters III.B.1 and III.D.1 of the Compendium of Financial Regulations ("CFR").

The proposed amendments respond to the process of ceasing of publication of the London Interbank Offered Rate ("*Libor*") by its administrator, ICE Benchmark Administration, and to the foreign regulators, and in some cases legislators', efforts for determining interest rates that may be used as Libor's replacements, once the latter is no longer published on a representative basis.

Interest rates recommended by several entities are listed below (jointly, the "Risk-Free Rates"): **(i)** United States: SOFR (Secured Overnight Financing Rate), **(ii)** European Union: ESTR (Euro Short-term Rate), **(iii)** England: SONIA (Sterling Overnight Index Average), **(iv)** Japan: TONA (Tokyo Overnight Average Rate) and **(v)** Swiss: SARON (Swiss Average Rate Overnight).

## I. *Basis of the amended regulations*

### 1. Chapter III.B.1. of the CFR

By means of Chapter III.B.1 of the CFR, the Central Bank, complying with article 35 of the Organic Constitutional Law of the Central Bank, established the terms and conditions under which banks are authorized to receive funds from the general public. Among other matters therein regulated, number 11 refers to the floating interest rates that may be used by banks in loans denominated in foreign currency and granted to people residing or domiciled in Chile, indicating that such loans must use "*the Libor rate, the Prime or other rate widely recognized and used in the international financial markets*".

### 2. Chapter III.D.1. of the CFR

By means of Chapter III.D.1 of the CFR, the Central Bank, complying with, among others, article number 6) of article 69 of Decree with Force of Law number 3 (the "Chilean Banking Act"), established the terms and conditions under which banks are authorized to operate with derivative products, as long as any payment owed under them must be paid in Chilean pesos. Among other matters regulated in this Chapter, number 2 refers to rates that must be used in interest rates derivatives, indicating that the latter "*can reference the rates of the promissory notes issued by the Chilean Central Bank, interbank rates, TIP, TAB, Libor, Prime and the rates of the notes and letters of credit mentioned in number 3 below, reported in a stock exchange, and the prices of fixed income instruments reported in a stock exchange or in the biddings carried out by the Chilean Central Bank*".



*Carey y Cía. Ltda.*
*Isidora Goyenechea 2800, 43rd Floor.*
*Las Condes, Santiago, Chile.*
*www.carey.cl*

## II. *Regulation on public consultation*

The regulation on consultation supplements number 11 of Chapter III.B.1 of the CFR and number 2 of Chapter III.D.1 of the CFR, adding an express reference to the Risk-Free Rates, aiming to leave record that those rates may be used in the operations regulated in the mentioned chapters.

## III. *Amendment to legacy contracts*

The Central Bank, through the statement issued for communicating the commencement of this consultation process, indicated that the "*the parties of any credit agreement or interest rate derivative shall be responsible for the incorporation of any provision necessary for replacing Libor with any applicable foreign interest rate*".

***AUTHORS:** Diego Peralta and Rafael Mackay.*