

Ministry of Finance sends bill that Facilitates Large Firms' Access to Financing in the Local Capital Market

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In the context of the COVID-19 pandemic, economic policy authorities in Chile swiftly implemented a wide range of policy measures to mitigate the fallout on households and firms. With respect to firms, the Government of Chile has supported liquidity and access to working capital through tax-related measures, enhanced credit facilities for bank and non-bank financing, and implemented adjustments to labor legislation that allows for a transitory reduction of its wage bill. Separately, the Central Bank of Chile reduced the monetary policy rate to its technical minimum (0.5%), and implemented a broad set of non-conventional policy measures to support liquidity and the credit channel. The Financial Market Commission (CMF) increased monitoring and supervisory activities, issued and/or modified rules to allow for greater flexibility to financial entities – including deferring the initial phase-in of Basel III standards on capital requirements-, and worked closely with other local and foreign financial markets oversight bodies, among others.

In this context, the Ministry of Finance sent a bill to Congress that modifies several laws, with the objective of facilitating the access of large firms to financing in the local capital market.

In summary, the bill considers legislative changes to the following laws:

1. Modifications to the Law that Establishes the Pension System (DL #3.500)

The proposed regulatory change facilitates access of issuers to the capital of pension funds, as the latter shall be allowed to trade instruments prior to the formal registration of instruments in the CMF. To be precise, the range of investments available for pension funds is widened, allowing them to trade debt instruments that are not yet registered in the CMF in local exchanges, as long as the issuer is registered.

Separately, the upper limit on alternative investments, established by the Central Bank, is raised from 15% to 20%. It must be noted that current limits established by the Central Bank vary across the pension fund type in a range between 5% and 15%, and were recently raised to those described below:

Pension Fund Limits on Alternative Investments¹

Type of Fund	A	B	C	D	E
Current Limits	13%	11%	9%	6%	5%

Source: Central Bank of Chile

2. Adjustments to Legislation on the Stock Market (Law #18.045) & Public Limited Companies (Law #18.046)

In order to reduce processing time in the registration of a given security in the Securities Registry, the bill considers an automatic securities registration that shortens the registration period from a maximum of 90 days to just 1 day. The automatic registration shall be available

¹ More information at: <https://www.bcentral.cl/contenido/-/detalle/banco-central-de-chile-aumenta-limites-de-inversion-en-activos-alternativos-para-fondos-de-pensiones>

for issuers that are already registered, and hence, are already supervised and have set up the necessary IT systems that allow them to comply with the law.

In addition, issuers will no longer need to have the instrument rated at the time of the registration of the security, thereby allowing for the rating process to take place in parallel with the debt structuring. It must be noted that the risk rating will still be required, but at the time of the issuance.

The minimum period to communicate the date of a shareholder meeting to shareholders shall be shortened from 15 to 10 days.

Finally, in order to facilitate the issuance of convertible bonds, the right to waive the preferential option is allowed at the same shareholders' meeting in which the issuance of the convertible bond is agreed upon. This change is expected to shorten the issuance period by approximately 35 days.

3. Modifications to Legislation on Insurance Companies, Public Limited Companies, Exchanges (DFL #251)

The decreases in capital and the distribution of dividends of insurance companies are subject to compliance with capital and solvency requirements.

Regarding capital decreases, companies that present a ratio of equity strength below 1.2, may not decrease capital. Regarding the distribution of dividends, companies with a ratio of equity strength below 1.1, cannot distribute dividends, and between 1.1 and 1.2 can distribute only 50% of profits.

Flexibility is provided to the CMF to determine the maximum limit of financial indebtedness of insurance companies within a certain range, leaving a minimum of once the equity, currently existing, and a maximum of one and a half times the equity.

Rules regarding risk classification that require certain investments representing technical reserve and risk equity are modified, allowing the determination of said classifications to be made by the CMF and thus allowing the latter to act in the event of contingencies.

The applicable rules for the treatment of excesses are modified, in the event that the limits established for investments representing technical reserves and risk equity are exceeded, allowing such investments to remain representative of technical reserves and risk equity for a time, in case the breach is not due to causes attributable to the company.