

October 8th, 2020

Congress approves bill that improves financial market functioning

Santiago, October 8th, 2020. In early June-2020, the Ministry of Finance sent a bill to Congress that improves financial market functioning and facilitates access of large firms to financing in the local capital market. After a few months of discussion, the Congress approved the bill, that is set to become law in the coming days, once published in the Official Gazette.

In sum, the bill modifies several laws (described below), that expedites the debt issuance process in the local capital market, increases the range which pension funds may invest in alternative assets, and incorporates improvements that enhance the solvency of insurance companies.

1. Modifications to the Law that Establishes the Pension System (DL No. 3.500)

To broaden the type of instruments in which the pension funds are allowed to invest, 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 No. 18,045) & Public Limited Companies (Law No. 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 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. It is important to note that at the moment of the automatic inscription the respective risk rating must be presented.

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

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>

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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 (DL No. 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.