

## Opening remarks

### Financial Market Infrastructures, Developments and Challenges<sup>1</sup>

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It is my pleasure to be here, and to welcome you to this seminar on Financial Market Infrastructures. In the last few years, especially since the Global Financial Crisis, international financial bodies and domestic authorities across different jurisdictions have made significant efforts to implement a set of reforms intended to enhance the functioning of different aspects of financial institutions and financial markets.

Naturally, a new set of standards and best practices have been proposed to strengthen the resilience of financial institutions and the banking system. But also, these reforms establish a renewed set of standards for financial market infrastructures, which facilitate the clearing, settlement, and recording of monetary and financial transactions. The specific standards for Financial Market Infrastructures were released in April, 2012 by CPSS-IOSCO, and are called Principles for Financial Market Infrastructures (PFMIs). These principles cover all the elements that affect infrastructure-related risks by incorporating, among other elements, continuity business, solvency, liquidity, efficiency, transparency, and legal certainty.

In Chile we are aware of the importance and the benefits of complying with these principles, not only to enhance the performance and stability of our financial market, but also because bringing our policies and framework closer to the best international practices means that our country remains attractive by foreign investors' standards.

Although many of the challenges of this agenda might require executive orders or legislative change, the Central Bank of Chile is actively involved in these discussions for a number of reasons. As a general principle, the constitutional law that rules the Central Bank establishes the normal functioning of internal and external payments as one of its main objectives. In some dimensions, the bank has interpreted this as a requirement to contribute to the stability in the financial system as a whole. In this respect, both our Constitutional Organic Law and other legal bodies have empowered the Central Bank to directly regulate or to issue legal opinions that affect almost all the financial market's infrastructures.

For example, the Central Bank manages the main high value payment system of Chile. The Real-Time Gross Settlement (LBTR) system operates since 2004 observing the best international standards. Also, the Central Bank is the main regulator of Combanc, the net banking payment system for local currency.

Also, referring to Central Counterparties and Securities Settlement Systems, the Law 20,345 on "Clearing and Settlement System of Financial Instruments" states that the

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rulebooks of these entities, or any change to them, shall obtain a favorable opinion from the board of the Central Bank in matters within its competence before being approved by the Securities and Insurance Commission (SVS). This attribution is taken by the Bank with the greatest responsibility and rigor, engaging a specialized technical team in this function, which has made important contributions to the discussion and improvement of the rulebooks of the Central Counterparties.

But beyond its specified roles, the Central Bank has an even deeper interest in the proper functioning of the market's infrastructures and their interconnections as they directly impact financial stability, one of our primary objectives.

In attention to all these responsibilities, the Central Bank in a joint collaboration with the Ministry of Finance requested the two leading international institutions in this field, the World Bank and the International Monetary Fund, to carry out an independent assessment of the current degree of convergence with international standards as a first step in the process of full implementation of the PFMI in Chile.

In this project, the Central Bank and the Ministry of Finance acted as coordinators, the World Bank as an on-site evaluator, the International Monetary Fund as a peer reviewer, and the Infrastructures and financial authorities also spent considerable time to deliver the background information. As a result of all this work, we currently have the assessment reports for each of the infrastructures, and a report that evaluates the legal and regulatory framework of financial infrastructures. These reports were published by the Central Bank and the Ministry of Finance on December last year.

The results are satisfactory, not only because assessments show a high degree of compliance with the PFMI, but also because they fulfill their initial purpose of providing a clear agenda of the measures that must be taken in order to fully observe them.

Some positive aspects that emerged from this assessment are worth noting: the soundness of our payment systems, supported by a very good overall assessment of the Real Time Gross Settlement and Combanc. Their comprehensive risk management contributes to financial stability. Additionally, the assessment stated that the Central Securities Depository's legal and regulatory framework ensures the safety and efficient transfer of securities and that the Central Counterparties incorporate international standards in their risk management practices. Finally, regarding financial authorities, the assessment concludes that our legal framework allows to clearly distinguish their respective powers and responsibilities, which allows each of our financial markets' infrastructures to be subject to appropriate and effective regulation, supervision, and oversight.

On the flip side, there are some gaps that need to be addressed. Some require legislative amendments. Two of them were already incorporated through the recently enacted Law 20.956, specifically the provisions related to the finality of payment systems and the enforceability of repos.

Another recommended legislative initiative is to develop a legal and regulatory framework that recognizes trade repositories in Chile. This project may not be feasible in the short

term, not only because it requires the coordination and agreement of different authorities, but also because, as we will see in one of the sessions today, there are several elements that are yet to be cleared in the international discussion.

Fortunately, the OTC derivatives market in Chile is more transparent than in other countries, since almost all transactions are currently reported to the Central Bank, which could serve as a base for the development of a Trade Repository. In this area, it is important to move towards eliminating barriers to data sharing among authorities.

Regarding recommendations at a policy level, one of them indicates that authorities should formally and explicitly adopt their commitment with the PFMI and make them extensive to regulation and supervision of the Financial Market Infrastructures. The policy joint statement is already prepared and agreed among the Ministry of Finance, the Central Bank, the Superintendence of Banks and Financial Institutions and the Superintendence of Securities and Insurance and will be published today.

Regarding the recommendations at a regulatory level, there is one that directly involves the Central Bank of Chile, which refers to the developing of an oversight framework for payment systems of systemic importance. Notwithstanding that the Bank is currently carrying out this task, in practice it is necessary to formalize and make transparent these procedures with the infrastructures, system users and the entire financial market. This task will be carried out with the highest priority this year. In addition, we have agreed that the SBIF, based on the general guidelines provided by the oversight chapter developed by the Central Bank, will establish supervisory mechanisms that consider the specific risk characteristics of Combanc as a payment system.

At the infrastructures level we have a long to do list and there is enough room for the infrastructures to be proactive in addressing the gaps that were detected. Particularly important are the recommendations related to increasing the transparency of these entities and improving their governance. These issues must be taken with the greatest importance. Likewise, their direct supervisors will have to play an important role in encouraging and ensuring that infrastructures make enough efforts in this area. The Central Bank has already taken measures to increase the transparency of its settlement system (LBTR) implementing a User's Committee Group and it will complete the CPMI-IOSCO Disclosure Framework this year.

Summing up, we are fully aware of the importance and the benefits of complying with these principles. To this end, we are convinced that permanent collaboration and coordination with the Ministry of Finance, the Superintendence of Securities and Insurance and the Superintendence of Banks and Financial Institutions is essential.

Many of the sessions in this seminar will discuss the topics I just mentioned. The purpose of this seminar is to give an opportunity for authorities, regulators, market participants and renown professionals to interact, discuss and review the Agenda that will guide an important part of the work of our institutions during this and the next years.

A final word to the people and institutions that helped put together this event. First of all, I would like to thank the World Bank and the International Monetary Fund as well as the Ministry of Finance and the Central Bank of Chile teams for their valuable cooperation to make the PFMI assessment possible. Next I would like to thank all of our distinguished speakers for joining us here in Santiago and for preparing outstanding presentations for this day. And last but not least, I thank the representatives from supervisory authorities and financial market infrastructures for their active participation in the assessment and for joining us today. I wish you all a fruitful and enriching day.