



BOX III.2

Extension of Central Bank's Payment Systems Access and Liquidity Facilities to Non-banking Entities

Currently, the settlement of payments through current and settlement accounts at the Central Bank of Chile (BCCh), as well as the granting of deposit or liquidity facilities (intraday liquidity, standing liquidity) and emergency liquidity by the BCCh, is legally restricted to banking institutions only^{1/}. This is consistent with international practices, as banks were the only entities traditionally performing the role of financial intermediation and providing payment services to the rest of the financial system. The settlement of payments at the Central Bank mitigates the credit risk between institutions, since it is carried out at the place where the money is issued (central bank money or reserves) in a gross manner and in real time, making it a standard worth recommending.

However, with the evolution of financial markets the growth of depository institutions such as larger Credit Unions, that can achieve systemic relevance and provide the same services as a bank, or the emergence of Financial Market Infrastructures (FMIs) that concentrate systemic risk and process sensitive operations of the rest of the financial system, such as payment systems and central counterparties, it became necessary to assess the extension of the mentioned central banking services to this type of entities^{2/}.

This has also been identified in the context of different international evaluations which, together with the BCCh's own assessment based on criteria such as financial stability, competition and neutrality of access, have deemed it convenient to extend the scope of the BCCh's provision of financial services to other financial institutions beyond banks^{3/}.

The Bill to Strengthen the Resilience of the Financial System and its Infrastructures (Resilience Bill), considers legal amendments necessary to improve the operation of financial institutions that are key to the system, as well as the level of responsiveness to financial stress situations by the financial system and authorities^{4/}. In particular, with respect to the dimension of initiatives that extend access to BCCh services to non-banking entities, adjustments are incorporated to the Constitutional Organic Law of the BCCh, as well as to other complementary laws, which would mainly allow for the following (Table III.2):

- i. **Extend the provision of financial services currently available to banks, i.e. access to current and settlement accounts, provision of facilities and emergency liquidity assistance (ELA), to systemically important credit unions that meet minimum size and equivalent prudential regulation.**

In particular, the Resilience Bill contemplates that credit unions meeting certain prudential and size requirements that attain systemic relevance may request access to services provided

^{1/} Accordingly, banks are the only entities that may open a Participant account in the Sistema LBTR operated by the BCCh

^{2/} Central Counterparties currently have access to settlement accounts at the BCCh granted by Law No. 20,345.

^{3/} *"Report on the Observance of Standards and Codes (ROSC)"* Chile (2016), conducted by the International Monetary Fund (IMF) jointly with the World Bank; *"Technical Assistance Report on Central Bank of Chile Services to Non-Banking Financial Institutions"* (TA on Access to Central Bank Services) of 2020; *Financial System Assessment Program (FSAP)* of 2021, of the IMF, which identify the main gaps with respect to the REPO market.



by the BCCh equivalent to those of banks, given that they fulfill an equivalent role in financial intermediation, and are entities that may take deposits from the public, just as banks do. This proposal goes hand in hand with other amendments proposed in the Resilience Bill aimed at strengthening the regulatory and supervisory framework of such entities, in terms prudential requirements, risk management and operational standards, which would be a necessary condition for access to BCCh infrastructure in similar terms to banks^{4/}.

ii. Extend the current account and settlement account facility to infrastructures such as Clearing Houses for Large-Value Payments (CCAVs) and Retail Payments Clearing Houses (CPBV), Central Securities Depository (CSDs) and to CPBV participants to settle their net positions in central bank money.

In the case of CCAVs, they are considered systemic payment systems since they process fund transfers and payments of large amounts and importance to the economy among participating banks. Additionally, equivalent access to settlement accounts will be granted to CPBVs and their participants (which include non-bank card issuers, acquirers, and Credit Unions) in order to improve the efficiency and security of retail payments' settlement process, in addition to allowing the promotion of this type of clearing house in the payment system under a defined regulatory framework with the corresponding benefits in efficiency and risk management, and also evaluating further innovations such as fast payments.

Finally, access to current and settlement accounts at the BCCh would be granted to central securities depositories for their important role in promoting the normal functioning of payments by coordinating and providing the necessary information for the financial settlement of the transactions carried out. Additionally, this would allow us to continue promoting the application of the Delivery versus Payment (DvP) standard in the market.

iii. Finally, the power to provide both deposit facilities and emergency liquidity assistance is extended to Central Counterparties (CCPs).

By granting these services, the existing conditions for local CCPs would be aligned with the situation of CCPs in other jurisdictions, where they are granted with this type of central banking financial services because of their systemic importance.

The BCCh constantly monitors the adoption of international standards, principles, and best practices for the development of more robust and resilient markets, following the recommendations of international organizations in the matter. It is believed that implementing these changes would provide financial markets with the appropriate toolkit and standards for risk mitigation and give the authorities additional instruments to better deal with episodes of financial disruption. Additionally, it will increase the interoperability of the Sistema LBTR with new infrastructures and non-bank entities of systemic importance, fostering a more competitive market and favoring innovation in the payments ecosystem.

^{4/} In the current discussion process in Congress, as of the close of this Report, the items referring to the credit unions have been rejected.



TABLE III.2 BILL TO STRENGTHEN THE RESILIENCE OF THE FINANCIAL SYSTEM AND ITS INFRASTRUCTURES (1)

	Current Account/ Settlement Account	Standing Deposit Facility	Intraday Liquidity Facility/Standing Liquidity Facility	Emergency Liquidity Assistance
Clearing Houses for Large-Value Payments (CCAV) and Retail Payments (CPBV)	✓			
Participants in CPBVs (banking entities, card issuers and acquirers, credit unions)	✓			
Central Securities Depositories	✓			
Central Counterparties (CCPs)	✓ (2)	✓		✓
Large Credit Unions	✓	✓	✓	✓

(1) Based on the message text Bill to Strengthen the Resilience of the Financial System sent to Congress for processing

(2) At present, the CCPs already have access to this service.

Source: Central Bank of Chile.