



# **CAPITAL MARKETS DEVELOPMENT: OPPORTUNITIES AND CHALLENGES FOR THE INTEGRATED REGULATOR Chile Day Londres**

Solange Berstein Jáuregui  
Presidenta CMF

Septiembre 2023

# The Financial Market Commission's view on Financial Development

The Financial Market Commission (CMF) has a legal mandate that comprises three mandates:



## Prudential

Focus on solvency, risk management and financial stability



## Market Conduct

Focus on reducing information asymmetries and safeguarding public confidence



## Market Development

Create conditions that **facilitate innovation** and user **access to better and new financial products and services**, achieving **higher financial inclusion**.

Most of the regulatory actions have a potential impact on the development of the financial market. For this reason, the CMF conducts an evaluation process that includes a public consultation before the regulations' final issuance.

# What can be understood by Financial Development?

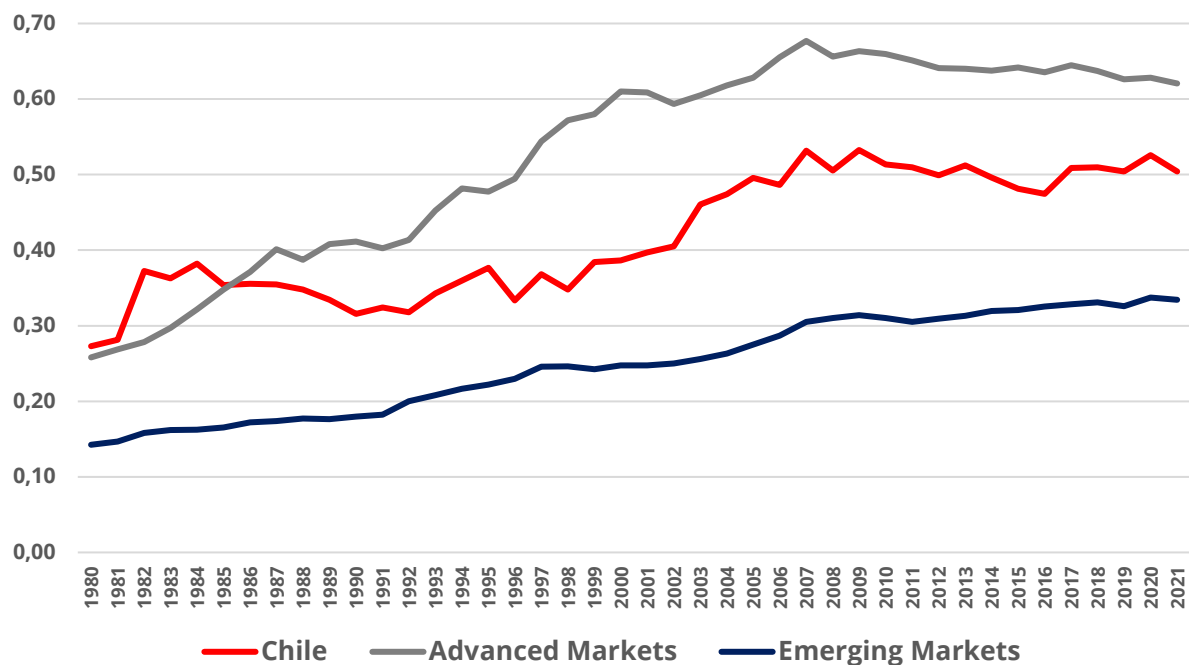
*“**Financial sector development** thus occurs when financial instruments, markets, and intermediaries ease the effects of information, enforcement, and transactions costs and therefore do a correspondingly better job at providing the **key functions of the financial sector in the economy.**”*

*“Developed financial markets, when they function properly, allow the **transfer of resources** from savers to investors and contribute to making the **economy more robust to shocks** by allocating risks appropriately...There is also some evidence that financial market development **brings real benefits to the poorest members of society and reduces income inequality.**”  
(IMF 2009)*

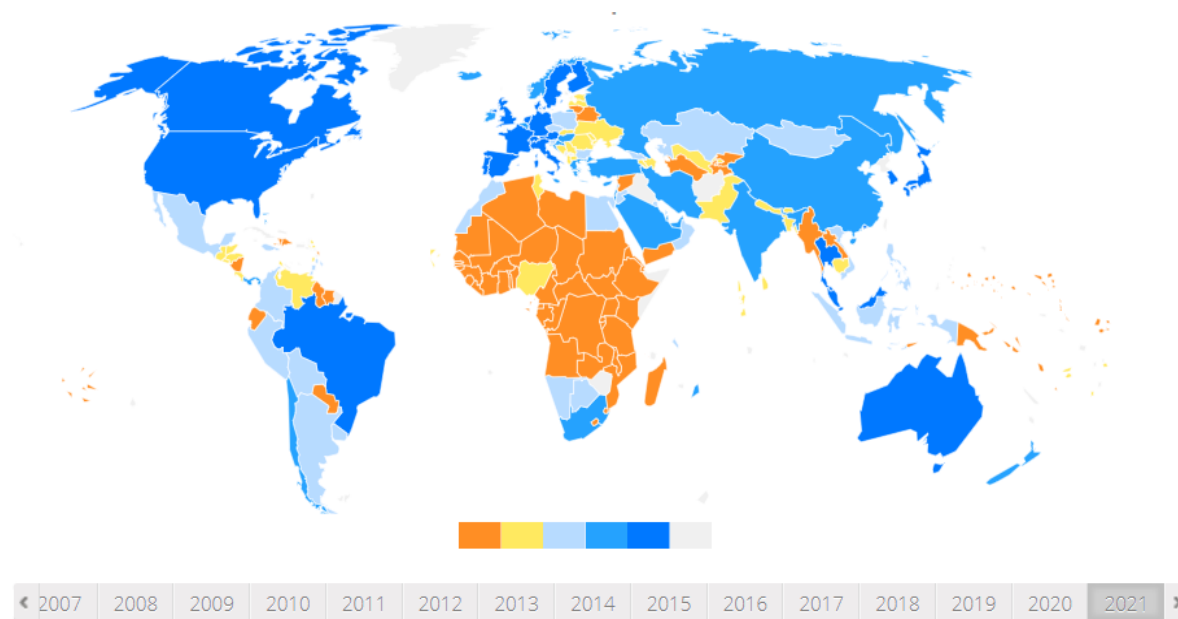
In this context, a financial development mandate might include activities such as **education and financial inclusion, promote efficiency, competition and innovation**. While at the same time preserve **financial sector stability and consumer protection**.

# IMF Financial Development Index

Financial Development Index 1980-2021



Financial Development Index



# Three concepts behind Financial Development

## ACCESS

- Coverage of financial services such as credit, insurance, saving and payment methods.
- Market based financing for small and medium size companies.

## DEPTH

- Competitive prices.
- Enough liquidity
- Higher number of participants.
- More and better financial products and services' supply.

## EFFICIENCY

- Low costs in terms of fees and spreads.
- Stock market turn over.
- Clear rules/regulation.
- Proportionality in regulation.

At all times, **Financial Education** must accompany financial development. If financial customers **do not know what their options are; the characteristics of the available financial products; and the consequences of their actions**, there will be no solid nor sustainable market development.

**Financial innovation** should be promoted to enable financial development in terms of **access, depth and efficiency for financial service providers and markets.**

# Considering the early stage of the CMF's Financial Development mandate, which are the most important steps that have been taken?

- In terms of **ACCESS**
  - **Fintech Law**: promotes competition and financial inclusion through innovation and technology in providing financial services by regulating and supervising new services. Open Finance is an important initiative that would enhance competition and facilitate access.
  - **Consolidated Debt Register** will allow for:
    - Improvement of the financing conditions due to good payment behavior as credit providers can distinguish it;
    - Allows affordable borrowing, due to complete and integrated information.
  - **Education and financial inclusion activities**: The CMF published a Financial Education Policy for CMF, in line with this policy it develops dissemination, awareness, training and research activities on inclusion and financial education issues.
    - Enhanced Debt Report will be launched during the Financial Education Month this October.

# Considering the early stage of the CMF's Financial Development mandate, which are the most important steps that have been taken?

- In terms of **DEPTH**
  - **Market transparency and responsibility of market agents**: The CMF issued the regulations required by Law No. 21,314, which enhances the anti-market abuse regulatory framework.
    - New whistleblower protection rule establishes the parameters and procedures to qualify as an anonymous whistleblower.
    - Technical requirements for interconnection of securities stock exchanges.
  - **Fintech Law**: will allow for more, faster, broader financial activities by collective financing platforms, alternative transaction systems, credit advice and investment, custody of financial instruments, and routing of orders and intermediation of financial instruments.
  - **Resilience of the financial system and its infrastructure Bill**: Improves the institutional framework and operation of Financial Market Infrastructures. It also allows changes to power up the **REPO market**.

# Considering the early stage of the CMF's Financial Development mandate, which are the most important steps that have been taken?

- In terms of **EFFICIENCY**
  - **Fintech Law**: Proportionality in regulation. Not just Fintech. For example, the number of equity holders for compulsory listing in CMF went up from 500 to 2000. Scale X: market financing for small and medium size companies benefits with this change.
  - **Resilience of the financial system and its infrastructure Bill** which includes access to Central Bank services for low value payment clearing houses and allows centralized securities depository to manage clearing systems.
  - **The Consolidated Debt Bill** through the Consolidated Debt Register will allow for better information for allocating credit and participation of different providers, according to the risk profile of clients.
  - **Risk Based Capital for insurance companies**: Makes more flexible the current investment regime and allows greater flexibility in risk management to face new businesses.



## Further steps...

- Assess where we are in terms of financial development, identifying possible barriers for more access, depth and efficiency in the market, identifying gaps that could exist with respect to trends, best practices or initiatives at a local and international level.
- Publish a Financial Development Policy Paper that would define the scope for the role of CMF to comply with the financial development mandate and identify key indicators that will be monitored.
- Publish a Financial Inclusion Policy document that would disclose our framework to address this challenge within our mandate.
- Workshops and proactive communication with the private sector to keep track of potential innovations and set up a work plan to address identified gaps.
- Establish clear responsibilities for financial development as part of the tasks of the Financial Innovation Center and Research and Statistics Division at CMF.

## Final Remarks

- Market Development is an **important challenge**, and we are working on it! But does not depend only on the regulator, so we need to **work together**.
- It requires building **new communication channels** with the private sector, so we are organizing dialogues and implementing changes in our organizational structure, with the creation of an Innovation Hub.
- Some things have been approached by **different bills** currently being discussed in Congress, but that's a work in progress.
- **Financial education** must be a continuous and growing action to ensure real and sustainable market development.
- We must not forget the importance of adequate supervision and regulation. These two functions must also have a revision for improving and updating to cover markets' needs thus ensuring proper and **solid market development**.
- **CMF will continue balancing it's three mandates: prudential, market conduct and financial development.**



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