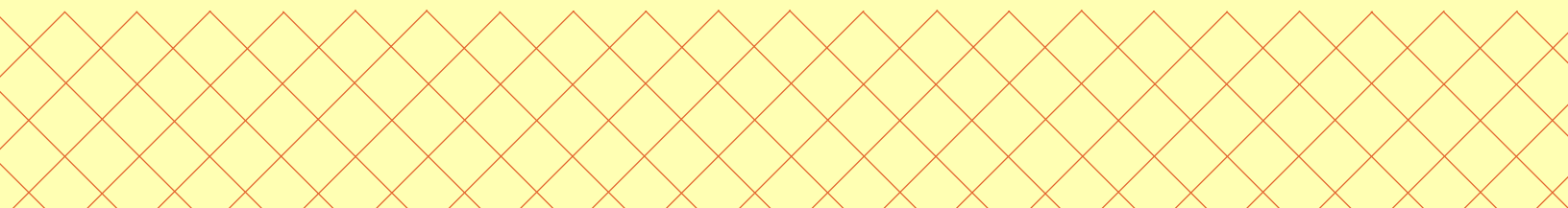


WESTERN HEMISPHERE PAYMENTS AND SECURITIES CLEARANCE
AND SETTLEMENT INITIATIVE
CENTRE FOR LATIN AMERICAN MONETARY STUDIES
WORLD BANK

**PAYMENTS AND SECURITIES
CLEARANCE AND
SETTLEMENT SYSTEMS
IN CHILE**

DECEMBER 2000



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Foreword

Following a request from the Western Hemisphere Finance Ministers, the World Bank launched in January 1999 the Western Hemisphere Payments and Securities Clearance and Settlement Initiative. The World Bank in partnership with the Centro de Estudios Monetarios Latinoamericanos (CEMLA) leads this initiative. Its objective is to describe and assess the payments systems of the Western Hemisphere with a view to identifying possible improvement measures in their safety, efficiency and integrity. To carry out this mandate an International Advisory Council (IAC) was established in March 1999 comprised of experts in the field from several institutions. In addition to representatives from the WB and CEMLA this Council includes members from the: Bank for International Settlements, Bank of Italy, Bank of Portugal, Bank of Spain, Council of Securities Regulators of the Americas (COSRA), European Central Bank, Federal Reserve Board, Federal Reserve Bank of New York, Inter-American Development Bank, International Monetary Fund, International Organization of Securities Regulators (IOSCO), Securities Commission of Spain and U.S. Securities Commission (SEC).

To assure quality and effectiveness, the Initiative includes two important components. First, all studies are conducted with the active participation of country officials and the project builds on the existing work being undertaken in the respective countries. Second, the Initiative draws on international and national expertise on the subject, through the IAC, to provide guidance, advice and alternatives to current practices.

The Initiative has undertaken a number of activities in order to respond to the Western Hemisphere Finance Ministers' request. These include: the preparation of public reports containing a systematic in-depth description of each country's payments clearance and settlement systems; the delivery of recommendations reports to country authorities on a confidential basis; the organization of IAC meetings to review country studies and provide input for future work; the organization of workshops focusing on issues of particular interest; the creation of a web-page (www.ipho-whpi.org) to present the outputs of the Initiative and other information of interest in the payments systems area; and the promotion of working groups to ensure a continuation of the project activity.

CEMLA has been acting as Technical Secretariat of the Initiative and is playing a major role in making the process sustainable and capable of extension to all the countries in the Hemisphere. To this end, the Initiative has helped strengthen CEMLA's in-house expertise. Additionally, practitioners in payments and securities clearance and settlement in some countries in the Region have participated in the studies under the Initiative, through CEMLA coordination, and this has contributed to the broadening of knowledge and the transfer of know-how within the Region. The endeavors of the working groups in coordination with CEMLA will maintain the infrastructure created under the Initiative and provide a permanent forum for the countries in the Region to discuss, coordinate, and add a collective impetus to the work in the area of payments and securities clearance and settlement systems.

This Report "Payments and Securities Clearance and Settlement Systems in Chile" is one of the public reports in the series and was prepared with the active support of the *Banco Central de Chile* and the *Superintendencia de Valores y Seguros* of Chile. The Securities Commission of Spain and the Inter-American Development Bank, through the Securities Commission of Finland, participated directly in its preparation.

Sergio Ghigliazza
Director General
CEMLA

David de Ferranti
Vice President, LAC
World Bank

Manuel Conthe
Vice President, Financial Sector
World Bank

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The mission preparing this report visited Chile from November 24 to December 10, 1999 and consisted of two teams that worked on a coordinated basis in the area of payments and securities clearance and settlement. The payments team comprised Sonsoles Gallego, in charge of the coordination of this report, and Andrew Hook, of the World Bank (WB). The securities team included Iñigo De la Lastra, Securities Commission of Spain; Mario Guadamillas, of the World Bank, and Eija Holttinen, Securities Commission of Finland and consultant for the Inter-American Development Bank. The payments team collaborated very closely with the local team composed of Banco Central de Chile officials members of the Gerencia de Análisis Financiero, under the direction of Carlos Budnevich, and of the Departamento de Mercado de Capitales, in which Andrés Muñoz coordinated the technical work. José Miguel Zavala, Luis Antonio Ahumada and Matías Anguita collaborated in various tasks. The securities team worked very closely with the local team composed of Superintendencia de Valores y Seguros (SVS) officials members of the Superintendencia de Valores, under the direction of Hernán López. Vivianne Rodríguez coordinated the local working team consisting of Néstor Contreras, Jaime Peralta, Manuel Reveco and Cristian Villalobos. Claudia Sotelo coordinated the agenda and logistics. Renato Fernández, Catalina Munita, Carlos Pavez and Ana Cristina Sepúlveda collaborated in various tasks. Massimo Cirasino, of the World Bank, Salvador Seda, of the SVS of Chile, and Susana Núñez and Jesús López Pedruelo of the Banco de España made valuable suggestions and commentaries to the report.

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1 ECONOMIC AND FINANCIAL MARKET OVERVIEW

1.1 OVERVIEW OF RECENT REFORMS

In the past 25 years, the Chilean economy has undergone profound changes that have resulted in high levels of economic growth and low inflation rates, unprecedented during the last century.

After decades of trade protectionism during which the State played a key role in economic activity, both in the creation of a large number of enterprises and in the regulation of markets, the economy remained stagnant, with high rates of poverty and inflation. The structural reforms and the macroeconomic stabilization program implemented from 1974-1975 onward liberalized the economy significantly by putting special emphasis on opening-up the economy to foreign trade and the participation and entrepreneurship of the private sector in economic development.

The financial system also underwent transformation. In 1974, the ratio of reserve requirements for demand deposits was 100 per cent and was gradually reduced to 10 per cent in 1980. At present, the requirement is 9 per cent.

In May 1974, the free determination of interest rates was authorized, provided that they did not exceed by more than 50 per cent the "current" interest rates computed by the *Superintendencia de Bancos e Instituciones Financieras* (SBIF), the Chilean Banking Supervisory Agency. Thus, with the exception of what was then defined as the "maximum conventional" interest limit, set at 1.5 times the average interest charged by banks and finance companies, in December 1975 interest rates were totally determined by the markets.

Also, other changes in regulations allowed financial institutions to lend funds and take deposits indexed to inflation (or "re-adjustable"). In July 1976, the minimum term for re-adjustable operations was set at 90 days and in September 1977, the Central Bank authorized financial institutions to carry out re-adjustable operations depending on the variation of the "Unidad de Fomento" (UF, see Box 1).

Although later on other re-adjustability indexes were also authorized, such as the average value index (IVP) and the variation of the U.S. dollar exchange rate, the UF became the most commonly used unit of account.

The reforms gave rise to a market economy open to foreign trade that produced optimism on the growth possibilities of the national product and led market agents to incur high levels of indebtedness. However, this domestic and foreign indebtedness turned out to be abnormally high for the levels traditionally observed in Chile and took place in a context of an inadequate and insufficient regulation and supervision of banks risks. On the other hand, a series of mutually incompatible economic policies eventually generated major distortions in the key prices of the economy, which deepened the consequences of the macroeconomic adjustment that became necessary to be implemented in 1982.

Box 1: The Unidad de Fomento

Within a historical context of indexation mechanisms in the Chilean economy, the Unidad de Fomento was created in 1967 as a means to encourage private savings and investments. Initially, it was agreed that the SBIF would determine its value on a quarterly basis, in accordance with the procedure explained below:

The method to determine the value of the UF in each quarter (n + 1 quarter) was to index the UF value for the current quarter (n quarter) in accordance with the variation of the Consumer Price Index (IPC) from the second month of the preceding quarter (n-1 quarter) and the second month of the current quarter (n quarter). The initial value of the UF fixed for the January-March 1967 quarter was E° 100 (one hundred escudos).

In May 1975, a monthly periodicity was set for the UF value. Thus, the UF value for the month following the current month was determined by indexing the amount of the current UF, in accordance with the variation of the IPC during the preceding month.

In July 1977, the UF mechanism was again modified by establishing daily UF values for the periods running from the tenth day of each month and the ninth day of the following month, in accordance with the variation of the IPC in the calendar month immediately preceding the period for which the Unidad de Fomento is calculated.

Finally, since January 8, 1990, the Central Bank of Chile (BCCh) has been the institution that determines the daily value of the Unidad de Fomento.¹

The formula for calculating the daily UF variation is the following:

$$F = \left(\sqrt[n]{1 + \frac{IPC_m}{100}} - 1 \right) \cdot 100$$

where,

F = Daily UF readjustment factor

IPC_m = Variation in the IPC for the previous month

n = Number of days of the period for which the UF is calculated

¹ Article 35, No. 9, of the Organic Law of the Central Bank of Chile

1.1.1 The 1982-1983 Crisis

The scenario described above explains the origin of the worst economic crisis in Chile since the 30's. Between 1978 and 1981, GDP grew at an average rate of 7.4 per cent while in 1982-1983 economic activity dropped by approximately 15 per cent. The unemployment rate between 1982 and 1985 exceeded 20 per cent and dropped to below 10 per cent only after 1988.

The 1982 crisis is an example of the so called "twin crises", in which a severe crisis in the financial system was exacerbated by a balance of payment problem. From 1981 to 1984, the SBIF intervened in 14 banks and 8 finance companies, out of a total of 26 banks and 17 financial companies in the sector in 1981. Besides the excessive indebtedness of economic agents, mainly in foreign currency, the banking crisis originated from the lack of proper regulations for the lending activity, the concentration of bank loans in companies connected to banks owners, the deficient supervision of credit risk and the perception of an implicit Government deposit guarantee, which increased the risk associated with bank transactions.

1.1.2 The 1986 Reform to the Financial System

The November 1986 bank law reform represented the completion of the modernization process of the regulation and supervision of the banking sector to address the imperfections detected during the financial crisis. The new law and the mechanisms designed specifically for rescuing insolvent banks were efforts made by the government at that time to reinstate a private, competitive and solvent system into the economy over time. In a way, after the 1982 crisis the government established conservative regulations that permitted the development of the banking industry, and then proceeded to liberalize the operation of financial markets. Prior to the crisis, the thrust of such policies had been in the opposite direction, which brought about negative consequences for the economy in general.

The main changes in banking regulation and supervision were: 1) the introduction of a variety of mechanisms to control the solvency and 2) the re-organization of the deposit guarantee. Among the measures that sought a greater control of banking risks, the following are particularly important:

- i. The obligation of SBIF to report, at least three times a year, on asset risks, reserves and/or provisions created and required, and equity.
- ii. A tighter regulation for lending to connected entities. In addition, the concept of collateral was redefined.
- iii. The introduction of the Central Bank guarantee for all demand² obligations and time deposits only for small depositors.
- iv. The establishment of intervention mechanisms when a financial institution is presumed to be insolvent.

² See Chapter 2. Box 4.

- v. The creation of highly liquid technical reserves, which will be used to guarantee the payment of demand deposits.

1.2 MACROECONOMIC BACKGROUND: THE 90'S

The performance of the economy during the 90's was very positive. GDP grew by an annual average rate of 7.3 per cent in real terms up to 1998 and the inflation rate, a chronic problem for many years, fell from 21.5 per cent in 1990 to 4.5 per cent in 1998. This reduction in inflation was achieved in a context of high gross domestic product growth and without sacrificing employment levels, as shown in the following table:

Table 1: Macroeconomic and Financial Indicators

	1995	1996	1997	1998	1999
Current GDP (thousand millions of pesos)	25,875.7	28,268.4	31,567.3	33,513.3	34,326.7
Real GDP (1986 prices, annual growth rate)	10.6	7.4	7.4	3.4	-1.1
Private consumption (annual growth rate)	9.2	8.8	7.9	3.5	-2.4
Gross investment (annual growth rate)	23.5	8.9	11.5	2.2	-17.1
Imports (annual growth rate)	25.0	11.8	12.9	2.1	-14.3
Exports (annual growth rate)	11.0	11.8	9.4	5.9	6.9
Consumer Price Index	8.2	6.6	6.0	4.7	2.3
Unemployment (%)	7.4	6.5	6.1	6.2	9.7
Current Account Balance (as % of GDP)	-2.1	-5.1	-5.0	-5.7	0.1
M1A (thousand millions of pesos)	2,292.0	2,598.0	3,107.9	2,851.4	3,426.5
M3 (thousand millions of US dollars)	46.3	54.1	63.4	63.3	61.2
Public surplus (deficit) (as % of GDP)	2.6	2.3	2.0	0.4	-1.5

SOURCE: BANCO CENTRAL DE CHILE.

Notes:

M1 represents currency + current accounts of the non-financial private sector net of "canje" ("canje" is explained in detail in Chapter 4).

M3 corresponds to the Chilean M7.

The improved performance of the economy originated from the structural reforms adopted at the end of the 70's, such as the opening-up of the economy to foreign trade, which, together with an under-valued exchange rate, led to a rapid growth in exports; the adoption of strict and conservative

banking practices and regulations; sound fiscal and foreign exchange policies; and a monetary policy whose only objective was to reduce inflation gradually and in a sustained manner. A system of pre-announced inflation targets was adopted, as well as the fixing of real interest rates by the Central Bank in order to control the pressures of the aggregate expenditure on GDP. The latter became the main adjustment mechanism for meeting these targets. This, together with increased credibility of the inflation goals, made it possible to reach levels of inflation similar to those of developed countries. Up to 1998, an exchange rate system based on floating bands was maintained, which led to the accumulation of a large volume of reserves. Also, the regulation of capital flows helped to keep both the exchange rate and inflation at sustainable levels and reduce the vulnerability of the Chilean economy.

In more recent years, capital inflows have diminished due to the Asian crisis, which made foreign investors more conservative. This exacerbated the situation, since prior to the crisis the current account deficit had widened and the real exchange rate appreciated.

Economic policy adopted in 1998 caused a drop in GDP in 1999 (-1.1 per cent), with an inflation rate of 2.3 per cent and a current account deficit of around 1.0 per cent of the GDP. However, by the year 2000 a recovery is expected so as to reach a growth rate close to the potential of the country's economy.

1.3 FINANCIAL SECTOR

From 1989 to early 2000, no new banking licenses were granted. The entry of new participants was restricted in order to consolidate the capital adequacy of intervened banks and thus produce a more favorable scenario for the recovery of the subordinated debt with the Central Bank. However, some foreign banks entered the domestic market by acquiring existing licenses. The number of financial institutions was reduced from 40 in 1990 to 29 in early 2000.

Recent reforms in the financial sector have aimed at emphasizing the spirit of the banking law enacted in 1986. In 1997, the General Banking Law was amended to allow greater freedom of action by financial institutions. Implementation was made dependent on the final resolution of the subordinated debt problem that came about as a result of the 1982 crisis and which still impacted the country's main financial institutions.

Physical expansion overseas was authorized through the opening of branches and bank affiliates, and by the purchase of bank shares, the establishment of representative offices, and the possibility to invest overseas in the same businesses that have been authorized in the domestic context. As per the last item, the performance of activities such as acting as securities agents, stockbrokers, mutual or investment fund managers, brokers of non-life insurance, leasing companies, factoring, financial advice and securitization, are authorized, as well as the possibility of making cross-border loans, underwriting shares and carrying out leasing transactions directly through banks. The prohibition to grant sureties abroad was cancelled and the standby letters of credit issued by first class banks started to be computed as collateral.

The banking law amendment also incorporated the principles of capital adequacy proposed by the Basle Committee on Banking Supervision of the Bank for International Settlements.³ Financial institutions are permitted to internationalize their credit operations by adjusting the corresponding reserves in accordance with the country-risk rating of the loan beneficiary. The banking license granting process was clarified and made more objective, and the discretionary powers that the SBIF formerly had were eliminated. Self-regulatory principles for banking were incorporated, particularly with regard to governance issues .

The SBIF was also empowered to authorize leasing, factoring, financial advice, custody or transportation of securities, and credit collection activities. Banks can act as underwriters of primary issues of shares of publicly quoted open business corporations.

Later, the Central Bank, exercising the authority conferred upon it by the law, modified market risk regulations improving the control of risks such as currency, liquidity or interest rate mismatching. The approval of these and other regulations, such as the dematerialized issue of debt documents, the authorization of new derivatives, the stripping and trading of individual coupons of debt securities of the Central Bank, are aimed at increasing the depth and liquidity of the financial market.

1.4 CAPITAL MARKETS

The regulatory framework of the capital market underwent major changes in the early 80's. In December 1980, the Organic Law of the *Superintendencia de Valores y Seguros* (SVS), the Chilean Securities and Insurance Commission, was approved, followed in October 1981, by the amendment of the Business Corporation Law and the promulgation of the Securities Market Law. These laws established requirements of public information and protection to minority shareholders for companies issuing publicly offered securities and open stock corporations. As concerns the legislation on securities clearing and settlement, major new items were incorporated in the late 80's and early 90's. Thus, in 1989, the Securities Depository and Custody Law (*Ley de Depósito y Custodia de Valores*, LDCV) was approved and its regulations were passed in 1991 (See Section 2.1.2). The OPAS Law (auction and code for appropriate corporate governance) was enacted in December 2000. This Law modifies in several aspects the other national securities market laws. One of the rationales of this law was to establish additional safeguards, in addition to the existing ones, to protect the minority shareholders. Among other things, takeovers are regulated and the concept of corporate governance is established within the legislation.

There are three stock exchanges in Chile: the *Bolsa de Comercio de Santiago*, the *Bolsa Electrónica de Chile* and the *Bolsa de Corredores de Valparaíso*.

The *Bolsa Electrónica* was created in 1989 by a group of banking institutions, in order to take advantages of economies of scale and offer securities brokerage services to their clients. Under law, this activity can only be carried out by stockbrokers, who must have one share of some stock exchange. Since the existing exchanges were not issuing new shares, the banks decided to create

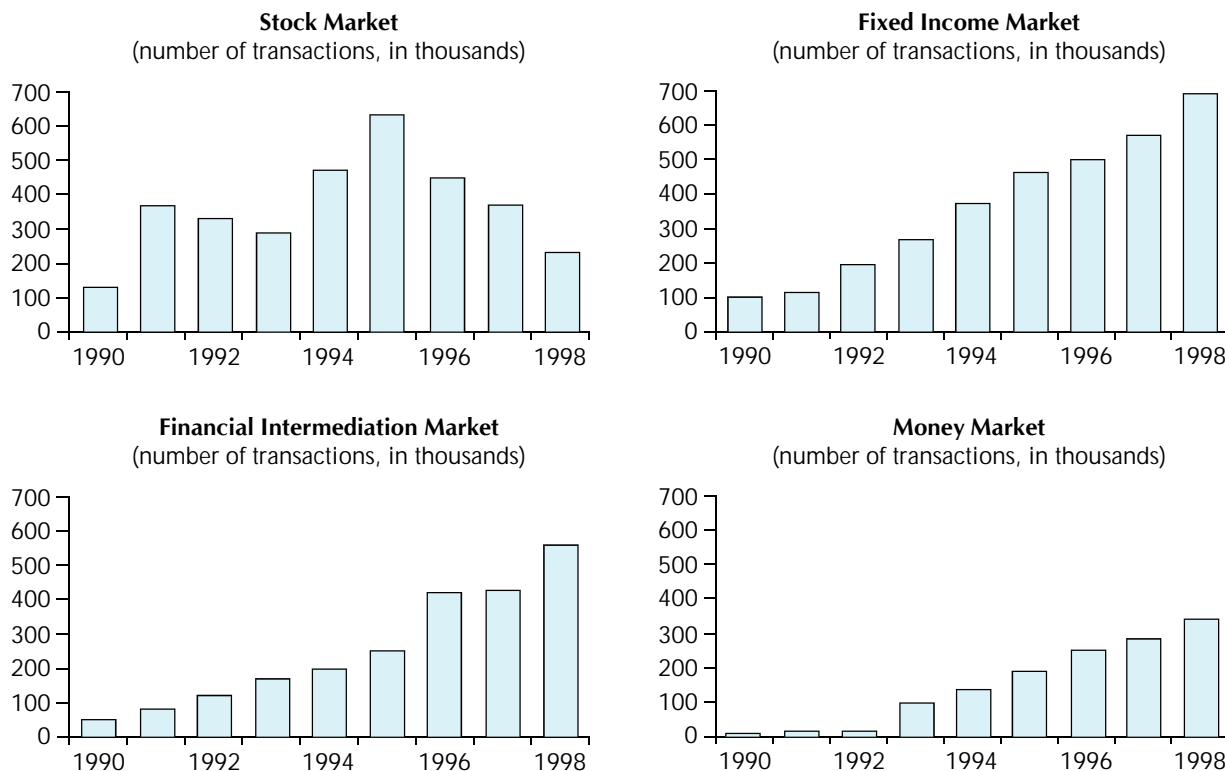
³ The capital stock requirement is almost fully assimilated, and, in principle, obliges banks to have net capital (*patrimonio efectivo*) of no less than 8 per cent of risk-weighted assets.

affiliate companies, which were then constituted as securities agencies. These affiliates formed a group and created their own stock exchange, with an electronic trading system.

This improved competition, since the *Bolsa de Comercio* also started doing business through electronic trading concurrently with the traditional outcry trading. From 1997 to 1999, a major reduction in the number of stockbrokers took place, which could have been due to the reduction of trading activity. This reduction in trading volume also resulted in a major drop in the profit margins of stockbrokers. Another reason for the profitability problem was the cost increases associated with the increased financial requirements imposed by the stock exchanges on intermediaries. An example of the latter is the requirement to have insurance as well as to be incorporated in the Central Securities Depository (DCV).

Since the early 90's, the securities markets have shown a clear tendency to grow, except for the stock market whose trend has been rather erratic, as explained below. The derivative products market is practically non-existent.

Chart 1: Volume of Transactions at the Exchanges, by Type of Market
(1990-1998)



Source: *Bolsa de Comercio de Santiago*.

Government⁴ issues have been very few and have been targeted toward achieving specific economic policy⁵ objectives. The Central Bank has issued its own instruments in order to conduct monetary policy and, in practice, has become the manager of the domestic public debt, since it issues paper with different terms. In this respect, the issues of Discountable Promissory Notes (PDBC) and Re-adjustable Promissory Notes (PRBC) are particularly important. These securities are issued in order to carry out open market operations for monetary policy purposes.

As for the stock market, its liquidity is limited and is concentrated in a few stocks. According to some estimates, around 70 per cent of the equity capital is non tradable control capital of issuing firms and an additional 20 per cent is typically held as long term investments by Pension Funds. Thus, only some 10 per cent is actively available for trading in the domestic markets and on the New York Stock Exchange.

Institutional investors play a fundamental role and account for a high percentage of investments in the securities market. Pension funds are the most important institutional investors and are the most popular vehicle used for domestic savings.

Pension Fund Management Companies (AFP) must trade in exchanges and a very high proportion of their investment is channeled into long-term fixed-income securities and money market instruments. Since pension funds, in the main, are funded by compulsory savings and are subject to a minimum indirect guarantee by the State, their investment policy is regulated by prudential portfolio diversification regulations. Due to the size of the funds, these rules have a large impact on the capital market's capacity to finance investments and offer a wide variety of securities. On the other hand, the static nature of this type of investment puts a brake on the dynamism of the secondary market. Furthermore, some capital controls applied in Chile might have had a negative effect on the participation of foreign investment in certain areas of the country's capital markets.

In this context, with a high level of transactions in fixed-income securities and financial intermediation instruments⁶ and a low level of foreign investment, the securities clearing and settlement system has been characterized by a wide variety of institutions participating in the process, a strong presence of transactions carried out with physical securities and a wide range of securities clearing and settlement procedures.

⁴ The Government carries out its issues through the General Treasury of the Republic.

⁵ Specifically, Readjustable Promissory Notes of the General Treasury (to fund the State's investment projects), CORA Bonds (for agricultural policy purposes) and *Bonos de Reconocimiento* (due to readjustments in the old pension system) were issued in the past. See "*Características de los Instrumentos del Mercado Financiero Nacional*", 1994, Banco Central de Chile.

⁶ Normally, instruments with a lower degree of standardization than shares, especially in the case of short-term instruments (financial intermediation instruments), due to the special characteristics of their issue.

1.5 MAJOR TRENDS IN PAYMENTS AND SECURITIES CLEARANCE AND SETTLEMENT SYSTEMS

1.5.1 Payments

Cheques, "*vales vista*",⁷ credit and debit cards are the major payment instruments used by the public, although cash remains a major means of payment.

"*Vale de cámara*"⁸ are the main (exclusively) interbank payment instrument. They are issued and settled on the same day through the corresponding clearinghouse and can only be used for interbank payments. There is no dedicated system for real-time large value payments, although the *vale de cámara* does provide same day settlement.

Debit instruments, such as cheques, *vales vista* and *vales de cámara* are processed at the clearinghouses operating in 160 regional locations.

The Central Bank establishes regulations for the operation of the clearinghouses in both local and foreign currency (the latter operates only in the city of Santiago), as well as the clearing procedure for transactions in automated teller machines (ATMs) and the exchange of cheques from other cities. However, in 1982, the Central Bank delegated to the Association of Banks and Financial Institutions (ABIF) the responsibility of operating the cheque clearinghouse.

The National Financial Communications System (*Sinacofi*)⁹ provides an electronic interbank information system which is used to clear cheques, although the exchange of the cheques is still made physically in parallel with the exchange of electronic information.

Credit cards were introduced in the 80's and are widely used. There are about 2.5 million bank cards in circulation. The information gathering devices at points of sale (POS) are around 35,000 and approximately one half of these are in the Santiago metropolitan area. Transbank, a company that provides support services for the banking business and is owned by several banks, provides a national clearing system for credit card transactions.

Another bank service provider, Redbanc, operates the ATMs of 20 banks located throughout the country. The daily clearing and settlement of these transactions are done through the clearinghouse process as part of nationwide consolidated clearance. There are close to 2,400 ATMs in the country, operating through two ATM networks, but so far these are not interconnected.

The SBIF is responsible for the implementation and enforcement of the legal and regulatory framework for banks and other financial entities. If a new payment instrument or procedure

⁷ Used both by natural persons, as well as by enterprises and financial institutions (see 3.2.2).

⁸ Used only by financial institutions (see 3.2.3).

⁹ *Sinacofi*, *Sistema Nacional de Comunicaciones Financieras*, is owned by the Association of Banks and Financial Institutions (see Section 2.2.2).

is introduced, the Central Bank, based on the responsibilities specified in its Organic Law to foster the adequate functioning of internal and external payments, analyses the plans and, if necessary, establishes the corresponding rules. An example of this is the case of the electronic money or electronic purse in which the Central Bank established a rule that only banks are allowed to issue this type of card.

In the early 90's, the Central Bank closed its regional offices and created a money custody system, whose administration was turned over to the commercial banks, through which bills and coins are distributed in the financial system. Thus, with a small number of payment transactions that directly affect the accounts in the Central Bank, the latter does not have in house applications to provide payment services for commercial banks. There is no information, during the day, of the daily final balances in the current accounts held with the Central Bank. This is due to the fact that this process takes place from around 8:00 p.m. to 9:00 p.m., at the end of the banking day; and, therefore, in practice, all interbank payments are considered final on the next day.

1.5.2 Securities

There is a great variety of institutions engaged in the securities clearing and settlement processes. Stock exchanges, securities intermediaries (stockbrokers and securities agents), other financial institutions and the central securities depositories (at present there is only one, the DCV) can participate in them. Likewise, banks and other financial institutions are empowered to participate in the clearing and settlement processes of transactions undertaken outside the exchanges.

Most securities are represented by physical instruments, although there is a trend towards greater immobilization, and, in the case of securities issued by the Central Bank, the trend is towards dematerialization. Although at the moment only the Central Bank has made dematerialized issues, other instruments are moving in the same direction. In mid 1999, shares equivalent to 18.2 per cent of total market capitalization were immobilized at the DCV, as opposed to nil in 1996. The PRBC and PDBC are dematerialized and by mid 1999 they represented some 25 per cent per cent of the outstanding securities issued by the Central Bank. Almost all fixed-income instruments are immobilized at the DCV.

Securities clearing and settlement is carried out through different procedures depending on the transaction settlement conditions and the type of securities. In transactions carried out off-exchanges, which are the most important in terms of amounts traded, the clearing and settlement is made bilaterally, both on the side of the delivery of securities (which may be physical or electronic) as well as the payment leg.

In the case of stock exchange transactions, clearing and settlement can be carried out bilaterally, directly between the contracting parties, or in a centralized manner. In centralized settlements, bilateral netting is made through the physical transfer (at the stock exchange) or electronic transfer (in accounts registered with the DCV). Payments (the cash leg) are always made in the stock exchange clearing system through multilateral netting. Multilateral netting is only used for the settlement of trades that are undertaken on a T + 2 basis and does not represent the general application.

Centralized settlement is the usual practice for equity securities (stocks and investment fund shares) traded at the exchanges. The usual settlement cycle for the securities is T + 2.¹⁰ For fixed-income securities and financial intermediation instruments traded in or off the exchange, bilateral settlement is compulsory, regardless of the settlement conditions of the transaction: for today (PH), for tomorrow (PM), or *contado normal* (CN) in T + 2. For the fixed-income securities and financial intermediation instruments, the most common settlement condition is PH or PM.

The payment of securities is normally made with a *vale vista*. This instrument is a means of payment similar to a cheque confirmed or certified by a bank. In principle, this document cannot be dishonored and in the unlikely event of the insolvency of the issuing party the Central Bank would guarantee payment.¹¹

In conclusion, the clearing and settlement processes for securities are characterized by the prevalence of transactions carried out with physical securities and the existence of multiple procedures. So far, such processes have been able to satisfy domestic market needs.

1.5.3 Future Developments

The Central Bank has recently announced approval of a modernization plan for the country's payment systems designed to satisfy evolving international standards. The communiqué is presented in Box 2 below.

Box 2: Communiqué of The Banco Central de Chile

SEPTEMBER 25, 2000

(Unofficial translation)

The Board of the Central Bank of Chile, in an effort to promote a greater modernization of the country's payment system, has decided to adopt an action plan that will allow, in the shorter possible term, the alignment of our payment systems with the highest international standards in place.

As is well known, in recent years there have been, on the international scene, major changes in the nature and the operation of payment systems. On one hand, the fast growth and integration of markets have multiplied the amount and volume of payments that the economic agents make. On the other hand, the technological revolution in the areas of information systems and communications has fostered higher speed and wider variety of transactions.

Considering these changes, the Central Bank of Chile's Board has agreed the following:

1. To approve a work program designed to encourage a rapid modernization of payment systems. For this, the Central Bank will work in close coordination and will form one or more working groups with the SBIF authorities as well as with other official entities and the Association of Banks and Financial Institutions.

¹⁰ This is the case for transactions with a *Contado Normal* condition for settlement.

¹¹ See Chapter 2, Box 4.

2. To define, with the advice of these working groups, the minimum conditions of safety, transparency, competitiveness, risk management and other characteristics required by the high-value payments mechanisms. In the same way to ensure that these systems will meet the standards of the "Committee on Payment and Settlement Systems" of the Bank for International Settlements (BIS) in Basle.
3. To implement within the Central Bank, beginning in March 2001, an electronic auction system for promissory notes and other open market operations.
4. To introduce, in the short run, changes to the Regulation of the Clearinghouse of cheques and other instruments in national currency to make the process more efficient so that the result of the clearing is announced the same day that the Central Bank makes the final settlement.
5. To make progress, over the short run, in the creation of a current account system for financial entities in the Central Bank, aiming at making it possible to obtain the accounting balances directly within the same banking day.
6. To adopt measures, actions and rules in the future that make feasible an on-line and real-time system of interbank payments, known internationally as RTGS (Real-Time Gross Settlement System) where payments may be settled on a gross basis and in real time in the current accounts at the Central Bank.

With the implementation of this action plan, the Central Bank of Chile considers that it will contribute importantly to increasing market competitiveness and efficiency. Indeed, the modern trend has led to the substitution of the use of schemes based on the processing of papers and information for electronic system, that are faster, more direct and more efficient, thus, with considerably lower transaction costs.

The Central Bank is also aware that payment systems may be the way in which financial problems may be transferred from one participant to another, leading eventually to the appearance of systemic problems of liquidity and credit. The measures announced will also help to reduce these risks.

Finally, the Bank aims at ensuring a smooth transition towards the use of a large-value payment systems with similar characteristics to those existing in fully developed market economies.

2 INSTITUTIONAL ASPECTS

2.1 GENERAL FRAMEWORK

2.1.1 Payments

Several laws regulate the operation of the payments system in Chile.

Article one of Law N° 18.840, dated October 10, 1989, which establishes the responsibilities and powers (Organic Law) of the Central Bank of Chile, makes the Bank responsible “for safeguarding currency stability and the smooth functioning of domestic and foreign payments”. This Law establishes that, in the field of financial system and capital market regulation,¹² the Bank’s duties are to issue the rules by which the companies whose line of business is to issue or operate credit cards or any other similar system must abide by, and which are subject to monitoring by the SBIF. It is also the Bank’s duty to authorize the creation and regulate the operation of cheque and other clearinghouses in which banks and financial companies participate.

Executive Decree (*Decreto con Fuerza de Ley*, DFL) N° 3 of December 10, 1997, which established the text of the General Banking Law (*Ley General de Bancos*, LGB) is a piece of legislation grouping together all essential provisions for the payments system in Chile. On one hand, it establishes the Banking Supervisory Agency of Chile (SBIF) as an autonomous institution with supervision duties over the *Banco del Estado*, banks and financial entities whose control is not entrusted to another institution by Law. On the other it grants the SBIF the capacity to supervise companies whose purpose is to issue or operate credit cards or any other similar system. In addition, this Law includes the rules that regulate the Central Bank’s system to guarantee demand deposits, which is based on the concept of technical reserve and payment preference.¹³ The Decree also regulates the creation of “Auxiliary Banking Institutions”¹⁴ by banks, essential instruments for specific payment system function such as clearinghouses, the establishment of ATM networks or the operation of credit cards. Finally, this Law also regulates the State’s guarantee for time deposits of the public.

DFL N° 707 of October 7, 1982, the Bank Current Accounts and Cheques Law¹⁵ regulates the operation and use of cheques. Under this law, cheques are written orders issued to a bank for it to pay, upon presentation, all or a part of the funds that the drawer has in his current banking account with the same bank. The following are the most important aspects of the law:

- cheques are always payable on demand and any statement otherwise is deemed as not made.

¹² Article 35 of the Law.

¹³ Technical Reserve and the concept of Payment Preference are explained in detail in Chapter 2, Box 4.

¹⁴ See Section 2.2.2 for an explanation of Auxiliary Banking Institutions.

¹⁵ *Ley sobre Cuentas Corrientes Bancarias y Cheques*.

- cheques can be issued to the order, to the bearer or in the name of the beneficiary.
- cheques may be issued to pay obligations or collections (*comisión de cobranza*)
- banks may not charge any commission, of any type, on cheques that their clients deposit in their respective current accounts, although they may collect the expenses incurred in honoring the cheques from other locations and institutions.
- the issuer must have enough available funds or credits in a current account with the drawee bank; anyone who does not comply with this requirement and does not deposit enough funds to cover payment within 3 days from the date on which the deficit is reported to him, is sanctioned with a prison sentence.

Law N° 18.010 of June 27, 1981, the Law on Credit Transactions and other Monetary Liabilities,¹⁶ generally regulates any monetary and credit transaction, either in local or foreign currency, and introduces the concept of "current and maximum conventional interest rate".¹⁷

Law N° 18.092, dated January 14, 1982, on Bills of Exchange and Promissory Notes,¹⁸ regulates the operation and the use of these credit instruments.

The Decree N° 3.475, dated September 4, 1980 (Stamp Tax Law)¹⁹ fixes the duties payable on records and documents of legal acts, contracts and other agreements, such as cheques issued in the country and payment orders, charges or transfers of funds authorized or ordered by the payer from his current account held with banks located in the country or abroad, provided that no cheque is issued for that purpose.

In addition, the Compendium of Central Bank Financial Regulations, which collects among other provisions, those which are related to the payments system such as, for example, liquidity credit lines regulations for banks and finance companies, the required legal reserve and technical reserve regulations, payment cards services, operations with derivatives, Central Bank transactions with financial instruments and the regulations on demand accounts.

Finally, the Updated Digest of Regulations of the SBIF contains a detail of all the rules applicable to banks in several subjects in which the Law, the Central Bank and the Banking Supervisory Agency have jurisdiction.

¹⁶ *Ley de Operaciones de Crédito y Otras Obligaciones de Dinero.*

¹⁷ The law establishes that no interest rate can be contracted which exceeds the regular interest rate in effect at the time of the convention by more than 50 per cent, whether a fixed or a variable rate is agreed upon. This limit is known as the "conventional maximum rate".

¹⁸ *Ley de Letras de Cambio y Pagarés.*

¹⁹ *Ley de Impuesto de Timbres y Estampillas.*

2.1.2 Securities

The basic principles for the operation of the stock market in Chile are collected under the Securities Market Law (*Ley del Mercado de Valores*, LMV). In addition, the Organic Law of the SVS, the laws which cover stock corporations, third party fund management (investment funds, mutual funds, pension funds, housing funds and the like), bank and financial institutions, insurance and reinsurance companies and the depository and custody of securities, complete the basic regulatory framework related to the securities market. The part of the legislation related to the entities supervised by the SVS appears in the following table:

Table 2: Securities Markets Legislation

	<i>Publication date</i>
LAWS	
Law N° 18.045 Securities Market	Oct./22/1981
Law N° 18.046 Corporations (<i>Sociedades Anónimas</i>)	Oct./22/1981
Law N° 18.657 Foreign Capital Investment Funds	Sep./29/1987
Law N° 18.815 Investment Funds	Jul./29/1989
Law N° 18.876 Securities Depository and Custody	Dec./21/1989
Law N° 19.281 Housing Leases with Promise to Buy	Dec./27/1993
Law N° 19.220 Establishment of Agricultural Commodities Exchanges	May/31/1993
EXECUTIVE DECREES	
D.F.L N° 251 Insurance Law	May/22/1931
D.L. N° 1.328 Management of Mutual Funds	Dec./19/1979
D.L. N° 3.538 Superintendence of Securities and Insurance (SVS)	Dec./23/1980
REGULATIONS	
D.S. de Hda. N° 587 Corporate Regulations	Nov./13/1982
D.S. de Hda. N° 249 Mutual Funds Regulations	Jul./29/1982
D.S. de Hda. N° 864 Investment Funds Regulations	Feb./23/1990
D.S. de Hda. N° 734 Securities Depositories Regulations	Nov./30/1991
D.S. de Hda. N° 1.334 Regulation on Housing Leases with Promise to Buy	Jan./25/1996
D.S. de Vivienda N° 120 Regulation on Housing Leases with Promise to Buy	Dec./15/1995

Source: SVS.

The LMV²⁰ establishes that the institution responsible for supervising and controlling compliance with the rules established in it is the SVS, in accordance with the duties conferred upon it by its Organic Law and the LMV itself. In view of its regulatory powers, the SVS issues a set of regulations to complement this legal framework. These comprise general rules in terms of authority determined by the law, circular letters which contain practical applications in the different areas, and official

²⁰ See Title I, Article 2.

circular letters containing precise instructions issued to the supervised institutions. The SVS has also powers of approval (for example, of special companies) and of application of sanctions. The relationship between the SVS and the supervised entities, in answer to consultations and remarks, takes place by means of numbered, dated and filed official letters. Finally, this legal framework is completed with the internal regulations issued by the entities under the supervision of the SVS and which have the authority and the obligation to do so. The SVS approves these internal regulations. See Chapters 5 and 6 for more information on legal aspects related to the financial market.

2.1.3 Derivatives

The LMV²¹ granted the stock exchanges the authority to create clearinghouses to manage, control and settle the transactions and open positions of clients and intermediaries in futures contracts, securities options and other markets of the same kind. However, only the *Bolsa de Comercio de Santiago* has created a clearinghouse, where only some small value transactions are recorded.²²

2.2 THE ROLE OF FINANCIAL INSTITUTIONS: PAYMENTS

2.2.1 The Banking Sector

Banks are the main players in the payments system. There are 29 banks and one finance company with very similar functions insofar as payments. Both types of institutions are regulated by the General Banking Law and are supervised by the SBIF.

According to the Law, the banks are subject to specific opening hours to provide service to the public, which are fixed by the SBIF.²³ They may receive deposits and provide current accounts contracts, issue bonds, make secured or unsecured loans, grant mortgage loans, carry out foreign exchange transactions, issue guarantee vouchers or deposits, receive securities and documents in custody, incorporate affiliates in the country, buy bonds, shares in banks or companies incorporated overseas or issue and operate credit cards, etc.

The main payment services that banks offer to their clients are the provision of cheques in both local currency and dollars,²⁴ the issue of credit and debit cards, the issue of guarantee vouchers, and direct credit and debit transactions. So far, banks still do not offer bank-to-bank electronic transfers. (They do offer transfers via SWIFT, and transfers from bank to bank can be made by cheque or *vale vista*).

²¹ 1 See Title XIX, Article 154, of the LMV.

²² Between April 1991 and March 1994, some dollar futures and Selective Share Price Index (IPSA) futures transactions were carried out, in addition to some options transactions, the total of which was not significant. Later, from 1994 to 1995, some transactions were made in connection with options, whose amount was also not substantial. Since 1996, there has been no activity.

²³ Service to the public is provided throughout the country from Monday to Friday, from 9:00 a.m. to 2:00 p.m.

²⁴ Throughout all this Report, including the annexes and the statistical appendix, "dollar" will be used to make exclusive reference to the currency of the United States of America.

Finance companies can generally perform the same activities as banks, except receiving current account deposits, carrying out foreign currency or foreign trade transactions or acquiring shares in companies engaged in the banking business. The other difference from banks is that the minimum capital required is lower.

The small number of banking institutions currently operating in Chile is the result, first of all, of the banking crisis in the early 1980s and later of the mergers that took place during the last decade. Out of the 29 existing banks, 28 are private and 1 is state owned, the *Banco del Estado*, which manages the account of the General Treasury of the Republic and therefore has a relatively important role in the payment system. Foreign capital is a majority as for the number of banks (17 as compared to 11 in August 1999) and for total assets (60 per cent of total assets). Bank deposits are very concentrated. Four banks account for 70 per cent of total public deposits, and this percentage goes up to 91 per cent if the six main banks are taken into consideration.

In early 2000, there were approximately 1,600 bank branches or offices throughout the country. Most, approximately 700, are concentrated in the Metropolitan Area of Greater Santiago, and there are 180 in region V, 150 in region VIII, 120 in region X, 75 in region VII and close to 375 in the remaining regions.

The aggregate number of current accounts²⁵ is relatively low (about 1.2 million). However, if the demand or sight accounts²⁶ are added up, the percentage of the population using banks rises to 15 per cent. A more realistic measure of the proportion of the population using the banking system can be calculated bearing in mind the economically active population, which is estimated at around 6 million. In this case, the number of persons that have access to a bank account would total 37 per cent.²⁷ The number of current accounts in dollars is around 20,000, with an aggregate balance of 300,000 million pesos (approximately 550 million dollars).

2.2.2 Other Institutions that Provide Payment Services

a) Clearing houses

The Central Bank authorizes the operation of clearinghouses in the country through the following regulations: the "Domestic Currency Cheque and Other Instruments Clearinghouse" (*Cámara de*

²⁵ In Chile, the current account is a contract whereby a bank undertakes to comply with its clients' payment orders up to the amounts of money that they hold deposited with the bank or the credit extended to them. A cheque book is always associated with them.

²⁶ The "demand" or "sight" accounts (*cuenta a la vista*) are relatively new (1996). This financial instrument has enabled a large segment of the low-income population access to a bank account. There are no official figures but the estimates are from 500,000 to one million accounts. They are different from current accounts in that they are handled without a cheque book, no credit account is associated with them and a card is used to withdraw money from ATMs. Sometimes, the cards include the debit function and may also be used in points of sale (POS) devices at retail stores.

²⁷ There are also "Time Savings Accounts" which have no payment instrument associated with them but are rather a traditional savings instrument with or without a savings book. As of May 1999, there were 11.6 million accounts of this type concentrated with the *Banco del Estado de Chile*. Taking these into account, the percentage of population using the banking system would probably amount to more than 75 per cent.

Compensación de Cheques y Otros Valores en Moneda Nacional), the "Foreign Currency Cheque and other Documents Clearinghouse," (*Cámara de Compensación de Cheques y Otros Documentos en Moneda Extranjera*) which operates only in Santiago, and the "Automated Teller Machine Transactions Clearinghouse" (*Compensación de Operaciones efectuadas a través de Cajeros Automáticos*). The first regulation was published in the early eighties, but was amended and updated later.

b) *Sinacofi*

In 1985, the Association of Banks and Financial Institutions created *Sinacofi*, whose main purpose is to manage, operate and develop interbank communication services.

Later on, it was made responsible for the design and construction of a system for the electronic transfer of information to support the activities and operations of the financial sector.

Sinacofi is neither an affiliated company nor an auxiliary banking institution (since it is not owned by any particular bank, but rather by the Association of Banks and Financial Institutions). Consequently, the SBIF may only ensure that the activities in support of the clearinghouses comply with the Clearinghouse Regulations approved by the Central Bank, but may not supervise its commercial transactions, as this would be the duty of the SVS, just like any other stock corporation in the country.

Among the other services provided by *Sinacofi*, it must be mentioned its support to the Santiago clearinghouses, by replacing the template (manual) system with electronic files sent through the network. Through these procedures, clearinghouse cycles have been automated, especially those which do not call for the physical presence of representatives for their operation. These transactions are based on a membership contract signed by each bank with the system operator, so that each participating institution accepts the positions determined by *Sinacofi*.

Sinacofi also offers a system that, through the use of electronic transfers, determines and validates the payment of obligations, by replacing the system of the physical *vale de cámara*, which are exchanged at the fourth meeting of the clearinghouse. However, these electronic *vales de cámara* have played a very minor role as interbank payment means.

From the beginning, all banks and financial companies plus the regulatory and supervisory bodies of the sector, were included in *Sinacofi*, which therefore represented the first interbank network with wide coverage.

c) *Affiliate Companies and Auxiliary Banking Institutions*

The General Banking Law (LGB) establishes that banks and finance companies may form "affiliated companies" in the country to carry out specific transactions or operations specifically mentioned in the law such as acting as securities agents, stockbrokers, mutual, investment or foreign capital funds managers, securitization, insurance brokers, etc., pursuant to the conditions established by the SBIF

through general rules, most important among which is the requirement to hold an equity position separate from that of a bank. These "affiliated companies" are regulated by the laws which are applicable to banking and are supervised by the SVS. They may also form companies to carry out transactions that complement the banking business, such as leasing and factoring transactions.

Likewise, with the prior authorization of the SBIF, financial institutions may become shareholders or have an interest in some "auxiliary banking institutions," namely, any company whose sole purpose is to provide services designed to facilitate the fulfillment of the purposes of the financial entities, or through which the financial institutions may carry out specific banking transactions with the public, other than receiving deposits.

In this respect, the following auxiliary banking institutions that are directly related to the payment system operation should be mentioned:

Redbanc

Redbanc began operations in September 1987 as an auxiliary banking institution for the operation of a shared ATM network. It is owned by 16 banks, seven of which are the founding members and majority shareholders: *Banco Santander Chile* (18.2 per cent of shares), *Banco Santiago* (15.2 per cent), *Banco de Crédito e Inversiones*, *Banco de Chile*, *Citibank*, *Sudamericano* and *Edwards* (12.7 per cent each), *CorpBanca* (2.5 per cent), *Internacional* (0.5 per cent) and the rest (less than 0.1 per cent). Its purpose is to provide its participants with interconnected electronic networks and the services related to them, in order to facilitate electronic funds and information transfers among the participants and between them and their clients.

Globalnet

Globalnet started operations in 1992, also as an auxiliary banking institution, to operate a shared network of electronic services comprising basically three areas: ATMs, remote customer services and the corporate service network for connection with the financial institutions that make it up. Its main shareholders are the following: *Banco del Estado de Chile* (63.2 per cent), *Bank of America* (5.3 per cent) and 12 foreign banks (2.6 per cent. each).

Transbank

Transbank was incorporated in November 1993 as an auxiliary banking institution. Its purpose is to operate credit and debit cards. Its main shareholders are: *Banco Santander Chile* (18.3 per cent), *Banco Santiago* (14.3 per cent), *Banco del Estado de Chile* (8.7 per cent), *Banco de Chile* (8.7 per cent), *Banco de Crédito e Inversiones* (8.7 per cent), *Edwards* (8.7 per cent), *Sudamericano* (8.7 per cent), *CorpBanca* (8.7 per cent), *Citibank* (8.7 per cent), *Banco BHIF* (6.2 per cent) and other ten banks which jointly do not account for over 0.3 per cent of its ownership.

This company operates Visa, MasterCard, Diners and *Magna* (domestic coverage) credit cards, some cards issued in Argentina (*Argencard*, *Credencial* and *Cabal*), Electron and Maestro debit cards and brands owned by domestic banks. The number of establishments affiliated to the system

is close to 35,000 and the percentage of transactions that are captured electronically amounts to 93 per cent.

Centro de Compensación Automatizado

The *Centro de Compensación Automatizado* (CCA) was incorporated in 1996, as an auxiliary banking institution, in order to set up a clearing system for electronic payments, expanding the scope of the banking business and offering alternative systems for the development of electronic payment media.

The addition of electronic transfers to bank services has allowed participating banks to offer their companies and clients' payments and collection services with a greater value added. Currently, eleven banks use it, although it is owned by only three: *Banco de Chile*, *Banco de Crédito e Inversiones* and *Banco Santiago*.

2.3 THE ROLE OF FINANCIAL INSTITUTIONS: SECURITIES

2.3.1 Securities Markets Participants

The main participants in the securities market of Chile (public and private issuers, intermediaries and institutional investors)²⁸ are described below:

2.3.1.1 Issuers

The Government of Chile²⁹ acts as issuer of publicly offered securities through entities such as the Central Bank of Chile, the General Treasury of the Republic, the *Instituto de Normalización Previsional* (INP), etc. Private issuers are stock corporations and other types of companies, the mutual funds, investment funds, banks and finance companies³⁰ and securitization companies. Table 3 shows the number of issuers, other than the Government, existing as of June 30th, 1999, as well as the value of their assets and equity on the same date.

Stock corporations may issue shares and fixed-income securities (short and long-term). The SVS supervises open stock corporations, which are those that publicly offer their shares and, pursuant to the LMV, have 500 or more stockholders or at least 10 per cent of their paid-in capital is owned by at least 100 stockholders. The closed corporations are those that are not included in the preceding classes, regardless of the fact that they can voluntarily register with the Securities Registry and consequently become subject to the rules that govern open stock corporations.

²⁸ Obviously, besides these there are other relevant participants in the capital market but which are outside the sphere of interest of this study (e.g., risk rating institutions).

²⁹ The LMV provisions do not apply to securities issued or guaranteed by the Government, by centralized or decentralized public institutions or by the Central Bank of Chile. However, Circular Letter 575 of December 30, 1995, obliges State-owned companies to be registered as securities issuers.

³⁰ There is only one finance company, the *Sociedad Financiera Conosur*.

Mutual funds are comprised by the equity made-up by contributions of natural and legal persons for investment in publicly offered securities, managed by a company on behalf of and at the risk of the participants. According to current rules, there are three types of mutual funds: short-term fixed-income, medium and long-term fixed-income, and variable-income (share) funds. Contributions are securitized in units representing a proportion of the fund capital, all with the same value and characteristics, which for all legal purposes are recorded as readily marketable securities, as the quotas are at all times redeemable. The management of mutual funds is entrusted to special companies, incorporated with this sole purpose, with a minimum capital,³¹ and that must be authorized by the SVS. In late September 1999, there were 14 mutual fund managers.

Other types of issuers are investment funds, which are made-up of equity formed by contributions from natural and legal persons for investment in the securities and goods permitted by law, and a stock corporation on behalf of and at the risk of the participants manages them.

The contributions are securitized in units representing a proportion of the fund capital which cannot be redeemed before the liquidation of the fund, but which may be sold in the secondary market, even though their liquidity has historically been low. The law provides for five types of investment funds in accordance with their investment objective: non real estate, real estate, company development, securitized loans and international investment funds. The management of investment

Table 3: Issuers in the Securities Markets

(Millions of Dollars, as of June 30, 1999)

	<i>Number</i>	<i>Assets</i>	<i>Capital</i>
Stock Corporations	402	93,683	55,742
Mutual Funds	106	4,030	3,389
Fixed-income, short-term	42	2,857	2,250
Fixed-income, mid and long-term	27	897	868
Variable-income	37	277	271
Investment Funds	28	1,281	1,198
FIDE	11	233	204
Real estate	9	645	610
Non real estate	6	293	291
International	2	111	94
Banks and financial institutions	30	117,868	5,183
Securitization firms	5	9	3
TOTAL	571	216,873	65,517

Source: SVS.

³¹ 18,000 UF (around 540,000 dollars at the exchange rate in effect at the end of 1999). However, managing firms must at all times have a capital position of at least 1 per cent of the sum of the average daily capital positions of the funds being administered, corresponding to the calendar semester prior to the date of its determination, if it were higher. See D.S. de Hacienda N° 249 of 1982, Mutual Funds Regulations, Title I, Article 3.

funds is entrusted to special corporations, incorporated with this sole purpose, with minimum capital,³² whose existence must be authorized by the SVS. Currently, there is a draft law in Congress, which will provide for the existence of a single type of fund that will define its line of business in its internal regulations.³³ In late September 1999, there were 23 investment fund managers.

On the other hand, banks and financial institutions participate in the market through the issue of, *inter alia*, deposits, credit bills and bank bonds. Bank issues are generally governed by the General Banking Law, the regulations of the SBIF, and the deposit-taking and intermediation regulations issued by the Central Bank.³⁴

2.3.1.2 Securities Dealers/Brokers

The LMV³⁵ establishes that securities intermediaries are the natural or legal persons that engage in securities brokerage transactions. The intermediaries that act as members of an exchange are known as stockbrokers and those that operate off the exchange are known as securities agents. In late September 1999, there were 51 stockbrokers (the licenses of 8 of them were in the process of being cancelled) and 9 securities agents.

The securities intermediaries can also carry out complementary activities authorized by the SVS such as securities custody, third party portfolio management, advisory and specific commission services for the purchase and sale of securities in foreign markets, and the provision of advisory services, among others.³⁶

The securities intermediaries must be registered at the SVS.³⁷ However, the banks and finance companies are not obliged to register in the Stockbrokers and Securities Agents Registry to perform the intermediation services in accordance with the authority granted to them by the General Banking Law. At present, no bank carries out such activity directly. However, some banks actually own brokerage houses. In this case, the brokerage houses must be registered and therefore are under the supervision of the SVS.

³² 10,000 UF (around 300,000 dollars at the exchange rate in effect at the end of 1999). Notwithstanding the foregoing, managing firms must at all times have a capital position of at least 1 per cent of the sum of the average daily capital positions of each of the funds being administered, corresponding to the calendar semester prior to the date of its determination, if it were higher. See D.S. de Hacienda N° 864 of 1990, Investment Funds Regulations, Title I, Article 3.

³³ An amendment is underway which eliminates the differences between the various types of funds and which will make them a single one, which may invest in the securities that it considers appropriate.

³⁴ A bank is any special business corporation which, authorized as provided by the General Banking Law and subject to the provisions of it, usually engages in taking or receiving money or funds from the public in order to grant loans, discount documents, make investments, carry out financial intermediation activities, make such funds produce profits and generally carry out any other transaction permitted by law.

³⁵ See Title VI, Article 24, of the LMV.

³⁶ See Title VI, Article 27, of the LMV.

³⁷ See Title VI, Article 24, of the LMV.

In order to be registered, the securities intermediaries, whether stockbrokers or securities agents, must have and keep a minimum capital of 6,000 UF.³⁸ However, in order to buy or sell securities on their own account with a view to transferring the corresponding rights, they must have a minimum capital of 14,000 UF.³⁹ In addition, they must set up an administrative guarantee, similar to a performance bond, the details of which are included below in the Box on protection schemes for securities investors.

Box 3: Protection Schemes for Securities Investors

In connection with the responsibility generated by stockbrokers and securities dealers as a result of their activity in the stock market, the following system of administrative guarantees has been devised:

- Stockbrokers and securities agents⁴⁰ must, prior to the initiation of their activities, constitute a guarantee to ensure the correct and complete fulfillment of all of their duties as intermediaries. The LMV sets a minimum of 4,000 UF,⁴¹ although it empowers the SVS to require greater guarantees due to the volume and nature of the intermediary's transactions. The guarantee may be posted in cash,⁴² bank voucher,⁴³ insurance policy or a pledge of stocks of open corporations (in this case, only for up to 25 per cent of the total) or other publicly offered securities⁴⁴ and will be readjusted in the same proportion than the change in the UF. The guarantee must be maintained for up to six months following forfeiture of the status of securities agents or stockbrokers. Stockbrokers or securities agents must designate a stock exchange or a bank, respectively, as representative of the beneficiaries of the guarantee.⁴⁵
- In addition, the stock exchanges have established in their trading regulations⁴⁶ that the stockbrokers must create a pledge, with the exchange as beneficiary, on the share of the exchange

³⁸ Around 180,000 dollars at the exchange rate in effect at the end of 1999.

³⁹ See Title VI, Article 26 d), of the LMV.

⁴⁰ See Title VI, Article 30, of the LMV.

⁴¹ Both the *Bolsa de Comercio de Santiago* and the *Bolsa Electrónica de Chile* raised this guarantee to 20,000 UF. Later, the *Bolsa de Comercio de Santiago* eliminated the requirement, although this was not the case of the *Bolsa Electrónica de Chile*. The 4,000 UF amounted to around US\$130,000 at the exchange rate in effect by the end of 1999.

⁴² At the moment, there are no cash guarantees.

⁴³ Namely, a cash deposit that the depositor or borrower (securities intermediary) makes with a bank, in favour of a beneficiary (stock exchange) to guarantee fulfillment of an obligation assumed by the depositor. It is an irrevocable document that cannot be endorsed by the beneficiary.

⁴⁴ Since the shares have a variable value, the exchange, upon being selected representative of the beneficiary creditors, issues a listing every day in which it includes the various guarantees that the broker carries and notifies whether they are duly valued at the prevailing market rates.

⁴⁵ For further details, see Title VI, Article 31, of the LMV.

⁴⁶ See Title II, Chapter V, Article 78, of the Operations Manual of the *Bolsa Electrónica de Chile* and Chapter 5 of the Operations Manual of the *Bolsa de Comercio de Santiago*.

owned by each broker, in order to guarantee their performance and fulfillment of the transactions that they effect. The *Bolsa de Comercio de Santiago* has also set up a special guarantee (to assure payment of exchange fees and other commitments) and a guarantee for term transactions and short sales (to ensure fulfillment of this type of transaction carried out by the broker).⁴⁷

- Since February 1998, the exchanges have obliged their brokers with custody of securities,⁴⁸ to take out comprehensive insurance covering officer fidelity,⁴⁹ physical losses,⁵⁰ falsification⁵¹ or alteration, and counterfeited currency.⁵²

2.3.1.3 Institutional Investors

Institutional investors in Chile are mutual funds (AFMs), pension funds (AFPs), investment funds (AFIs), foreign capital investment funds (FICEs), housing funds (AFVs), insurance and reinsurance companies and banks and finance companies. As of June 30, 1999, these institutional investors handled third party and proprietary funds for a total of 169,513 million dollars.

Pension funds are the main institutional investors in terms of investment amounts. The present individual capitalization system is regulated by Executive Decree N° 3,500 of 1980. They are managed by special sole-purpose corporations that must have a minimum capital: 5,000 UF⁵³, if the number of members is less than five thousand; 10,000 UF⁵⁴ if the number of members exceeds five thousand, 15,000 UF⁵⁵ if the number of members exceeds seven thousand five hundred, and, 20,000 UF⁵⁶ if the number of members exceeds ten thousand. The Pension Funds Managers Supervisory Agency (SAFP) supervises this type of fund. By late 1999, there were 8 AFPs.

⁴⁷ These guarantees can be created by means of cash, a sight bank voucher, shares of corporations listed in an exchange, fixed-income securities listed in the exchange and commercial papers and other securities accepted by the Board of Directors of the stock exchange, depending on what is being guaranteed.

⁴⁸ Except the *Bolsa de Valparaíso*.

⁴⁹ Loss to the brokerage house due to dishonest or fraudulent acts of an employee, alone or jointly with others.

⁵⁰ Material and physical losses of financial instruments due to theft, larceny, robbery, unexplained disappearance, damage, destruction, both at stockbrokers' offices and while in transit.

⁵¹ Loss resulting from counterfeiting or alteration of any financial instrument, negotiable instrument or any other securities subject to usual trading. Loss due to the transfer or payment of funds based on a document bearing a forged signature (cheques in U.S. dollars or Chilean pesos). Losses to the stockbroker as a result of the purchase, sale, delivery, granting of credit or assumption of liability, on its own account or on behalf of third parties, based on any original document or financial instrument bearing a forged signature or which is altered or which was lost or stolen.

⁵² Losses sustained for receiving counterfeit coins or banknotes.

⁵³ Approximately 150,000 dollars at the exchange rate in effect in 1999.

⁵⁴ Approximately 300,000 dollars at the exchange rate in effect in 1999.

⁵⁵ Approximately 450,000 dollars at the exchange rate in effect in 1999.

⁵⁶ Approximately 600,000 dollars at the exchange rate in effect in 1999.

Table 4: Total Assets of Pension Funds
(Millions of Dollars)

	1994	1995	1996	1997	1998
Stocks	7,161	7,642	7,156	7,223	4,641
Term deposits	1,069	1,353	1,156	3,351	4,249
Mortgage-backed bills	3,050	4,016	4,917	5,235	5,169
Corporate bonds	1,407	1,334	1,719	1,547	1,626
Government securities	8,863	10,024	11,587	12,218	12,759
Foreign securities	200	52	148	352	1,754
Others	581	1,013	839	937	947
TOTAL	22,332	25,433	27,523	30,863	31,145

Source: SAFP.

Insurance companies rank second as far as investment amounts. Risk insurance and reinsurance in Chile can only be carried out by Chilean insurance and reinsurance companies whose exclusive purpose is to pursue this line of business and activities which are similar or complementary to it. The minimum capital required is 90,000 UF.⁵⁷ The insurance companies are divided into general and life insurance companies. By late 1999, there were 59 of these.

Table 5: Total Assets of Insurance Firms
(Millions of Dollars)

	1994	1995	1996	1997	1998
Stocks	675	737	612	576	357
Term deposits	222	200	280	181	252
Mortgage-backed bills	934	1,288	1,758	2,241	2,502
Corporate bonds	872	874	1,030	1,139	1,245
Government securities	2,283	2,796	3,263	3,769	3,866
Cash in banks	21	33	33	35	42
Foreign securities	6	8	27	73	104
Other investments ^(a)	855	1,165	1,491	1,846	2,116
TOTAL	5,868	7,101	8,494	9,860	10,484

Source: SVS.

^(a) Includes foreign investments, real estate, mutual funds, investment funds and others.

⁵⁷ Approximately 2,700,000 dollars at the exchange rate in effect in 1999.

Next are mutual funds, followed by investment funds, foreign capital investment funds (FICE) and foreign risk capital investment funds (FICER)⁵⁸.

Table 6: Total Assets of Mutual Funds
(Millions of Dollars)

	1994	1995	1996	1997	1998
Stocks	492	452	198	251	116
Term deposits	902	1,313	1,720	2,245	2,025
Mortgage-backed bills	108	200	212	390	127
Corporate bonds	58	62	65	91	119
Government securities	530	503	604	1,238	337
Cash in banks	9	19	4	8	11
Others ^(a)	—	—	7	17	3
TOTAL	2,099	2,549	2,810	4,241	2,739

Source: SVS.

^(a) Includes commercial paper, monetary assets and other assets.

Table 7: Total Assets of Investment Funds
(Millions of Dollars)

	1994	1995	1996	1997	1998
Investment Funds	304	901	1,073	1,272	1,253
Company development	115	213	215	220	232
Real estate	133	431	581	675	687
Non real estate	56	257	277	318	242
International	—	—	—	59	92
FICE/FICER	2,097	1,949	1,408	1,386	852

Source: SVS.

The FICEs correspond to the equity comprised by contributions made outside Chilean territory by natural or legal persons or corporate entities in general for investment in publicly offered securities, whose management in the country is entrusted to a company incorporated in Chile on behalf and at the risk of contributors.

FICERs are different from FICEs in that they may only invest in issues not registered with the SVS. Foreign capital investment funds are managed by special sole-purpose companies⁵⁹ whose

⁵⁸ In both the case of FICEs and FICERs, the fund must deposit a minimum capital of one million dollars, according to Article 3 c) of Law N° 18,657.

⁵⁹ However, investment fund management companies can also administer FICEs or FICERs.

minimum capital is 6,000 UF⁶⁰ for each fund they manage and whose existence must be authorized by the SVS.

Finally, although less significant quantitatively, it is important to mention housing funds, which correspond to the resources deposited in savings accounts for the rental of housing with a promise to buy, as provided for in Law N° 19.281, namely, the Law on the Rental of Housing with Promise to Buy. The management of housing funds is entrusted to special sole-purpose companies with a minimum capital of 6,000 UF⁶¹ and whose existence must be authorized by the SVS. By late September 1999 there were 5 companies belonging to this category.

2.3.2 Exchanges

Stock exchanges are organizations whose purpose is to provide their members, that is, stockbrokers, with the necessary facilities to efficiently carry out, in a designated location, securities transactions through continual public auction mechanisms and all other securities related activities authorized to them by the Law.⁶² Stock exchanges must regulate their activity and the activities of stockbrokers, by overseeing their strict fulfillment in order to ensure the existence of a fair, competitive, orderly and transparent market. To create a stock exchange, it is necessary to obtain the authorization of the SVS, to have a minimum capital stock of 30,000 UF and at least ten shareholders.⁶³ Each stockholder may own only one share.⁶⁴

At present, there are three stock exchanges in the Chilean market: *the Bolsa de Comercio de Santiago*, *the Bolsa Electrónica de Chile* and *the Bolsa de Corredores de Valparaíso*. Shares, short and long-term fixed-income securities, investment fund shares and monetary securities are traded at these. In addition, despite the fact that practically no transactions have been carried out, some exchanges have systems for operating with futures, options⁶⁵ and short sales.

2.3.3 Securities Clearance and Settlement Institutions

In Chile, the institutions that clear and settle securities market transactions are the following:

- The stock exchanges: they participate through their transfer units or departments engaged in the centralized and cleared settlement of transactions, in the cases when these are established and permitted in their operating regulations or manuals. Although stock

⁶⁰ Approximately 180,000 dollars at the exchange rate in effect at the end of 1999.

⁶¹ However, the managing companies must at all times maintain a capital position of at least 1 per cent of the sum of the average daily equities of each of the administered funds, corresponding to the calendar semester prior to the date of its determination, if the latter were higher.

⁶² See Title VII, Article 38, of the LMV.

⁶³ See Title VII, Article 40.4), of the LMV.

⁶⁴ See Title VII, Article 40.5), of the LMV.

⁶⁵ The systems for trading options and futures have been established only at the *Bolsa de Comercio de Santiago*.

exchanges participate actively in the process, under no circumstances are they responsible for the payment of the price of the securities or the delivery of them if the intermediaries do not provide in full and on time the funds and the securities, which are the subject of the transaction.

- The Central Securities Depository (*Depósito Central de Valores*, DCV): its exclusive purpose is to receive publicly offered securities in deposit for specific participants in the market (the depositors) and facilitate transfer of ownership transactions with such securities.
- Securities brokers and other market agents: entities for which stock exchanges and the DCV carry out clearing and settlement processes. Additionally, these agents directly carry out the bilateral settlement of some of their transactions.
- The Securities Clearinghouse: this is an institution entrusted with administering, controlling and settling the transactions and open positions of clients and brokers in the futures and options market. However, the futures and options market has been established only by the *Bolsa de Comercio de Santiago* and has handled very few transactions. The settlement of derivatives defined for this market is cleared and centralized in the only body that acts as settlement agent and counterpart of all the transactions, which is the clearinghouse itself.

Consequently, in spot markets there is no institution dedicated exclusively to securities clearance and settlement. The exchanges themselves, the intermediaries (stock brokers and securities agents), other financial institutions and the securities central depositories may participate in the spot markets. The LMV permits exchanges to create or participate in a clearinghouse, in order to act as counterpart of all operations related to the purchase or sale of futures contracts, of securities options contracts or others of a similar nature.⁶⁶ Up to this moment a clearinghouse for derivative products has been established only at the *Bolsa de Comercio de Santiago*, although it has not been active since 1996.

In the LMV some references can be found that allow the exchanges to participate in the clearing and settlement processes. On the one hand, this is an activity not explicitly prohibited by the statute of these institutions.⁶⁷ On the other, the rule explicitly calls on the exchanges to establish cash and securities delivery systems.⁶⁸ Within each exchange there is a specific department in charge of the centralized clearing of securities called "Clearing System". The operator of this system is the "Clearinghouse Operator" (*operador de cámara*).

Securities intermediaries may participate in the clearing and settlement institutions as members of the exchange (only for stockbrokers) or as depositors in the DCV, where they can open accounts.⁶⁹ The rule also allows stockbrokers and securities agents to settle their transactions directly.

⁶⁶ See Law No. 18,045 articles 154 to 160.

⁶⁷ See Law No. 18,045 articles 38 and 43.

⁶⁸ See Law No. 18,045; article 44 bis, second paragraph.

⁶⁹ From September 1999, stockbrokers were required to hold accounts with the DCV.

2.3.4 Securities Depository Institutions

Law No. 18,876 governs the constitution and operation of private organizations for securities deposit and custody. It also establishes that these entities must have as their exclusive corporate purpose to receive in deposit publicly offered securities and to facilitate their transfer operations. These entities have to be constituted as special incorporated companies. The D.S. No. 734 approved the rules of procedure for securities depository.

Current rules do not provide for the separation of depository functions from the specific ones for clearing and settlement.

The SVS authorized the creation of the central securities depository company known as *Depósito Central de Valores, S.A.* (DCV) and approved its statutes, internal regulations and the deposit contract to be used.⁷⁰ Currently, the DCV is the only central securities depository, although the law allows the existence of others. To pursue its corporate purpose, the DCV has to have facilities and systems for the custody, administration, settlement and transfer of securities. It is also allowed to establish a clearinghouse to clear and settle the transfers made by its depositors,⁷¹ although it has not been created yet.

At the DCV, accounts may be opened by securities intermediaries (stockbrokers and securities agents), by other institutions participating in the financial system (AFP, AFV, AFM, banks, exchanges, life insurance companies, general insurance companies, re-insurance companies, investment funds, foreign capital investment funds), non-financial companies and all others authorized by the DCV. At present, the DCV holds accounts for 9 AFPs, 1 AFM, 23 banks, 2 exchanges, 24 life insurance companies, 4 general insurance companies, 41 stockbrokers, 1 foreign capital investment fund, 11 mutual fund management companies and 3 non-financial firms.

Ownership of the DCV is shared among the *Sociedad Interbancaria de Depósito de Valores*, owned by banks and financial societies (30 per cent), *Inversiones DCV, S.A.*, owned by AFPs (30 per cent), the *Bolsa de Comercio de Santiago* (23 per cent), *DCV Vida, S.A.* (10 per cent), *Inversiones Bursátiles S.A.*, owned by *Bolsa Electrónica de Chile* (6 per cent), and the *Bolsa de Corredores de Valparaíso* (1 per cent).

In addition to the DCV, there are other institutions involved in deposit tasks as part of their activities (see Section 5.8 about legal aspects concerning the custody of securities).⁷²

2.4 MARKET STRUCTURE AND REGULATION

The bodies that regulate the Chilean financial system are the Central Bank of Chile, the SVS, the SAIF and the SBIF, as described below:

⁷⁰ The DCV was constituted through a public act on March 15, 1993.

⁷¹ See DS 734, article 6.

⁷² See Circular letter 1177 of Custody Registries.

- The Central Bank of Chile: this is the institution responsible for issuing rules on the monetary, credit, financial and international exchange fields and their monitoring.
- The Superintendence of Securities and Insurance (*Superintendencia de Valores y Seguros*, SVS): this is the entity charged with regulating and supervising the securities and insurance markets.
- The Superintendence of Fund Pension Managers (*Superintendencia de Administradoras de Fondos de Pensiones*, SAFP): this is the entity in charge of regulating and supervising the pension fund market and their management companies.
- The Superintendence of Banks and Financial Institutions (*Superintendencia de Bancos e Instituciones Financieras*, SBIF): this is the organization charged with regulating and supervising the banking system.

The following chart illustrates the distribution of the regulatory and supervisory responsibilities among Chilean authorities.

2.5 THE ROLE OF THE CENTRAL BANK⁷³

The Law establishes that the Central Bank is independent, and by the same token⁷⁴ that it is an autonomous body, created pursuant to the constitution, of a technical nature and with its own legal capacity and equity. The principle purposes of the Bank are set out in Article three of the Law, which establishes that the Central Bank must oversee the stability of the currency and the smooth functioning of domestic and foreign payments.

The Central Bank has the authority to: regulate the conditions to which the banks and financial companies will be subject in taking deposits from the public; authorize banks to pay interest on current accounts; grant credits in connection with current accounts and accept overdrafts in the same; stipulate the maximum interest that may be paid on demand deposits; issue regulations and restrictions in the field of guarantees and performance bonds in foreign currency and about the relation that should exist between assets and liabilities; promulgate rules regarding the issuance of credit cards; authorize and regulate the operation of cheque clearinghouses, and authorize the mechanisms used by banks in their credit operations.⁷⁵

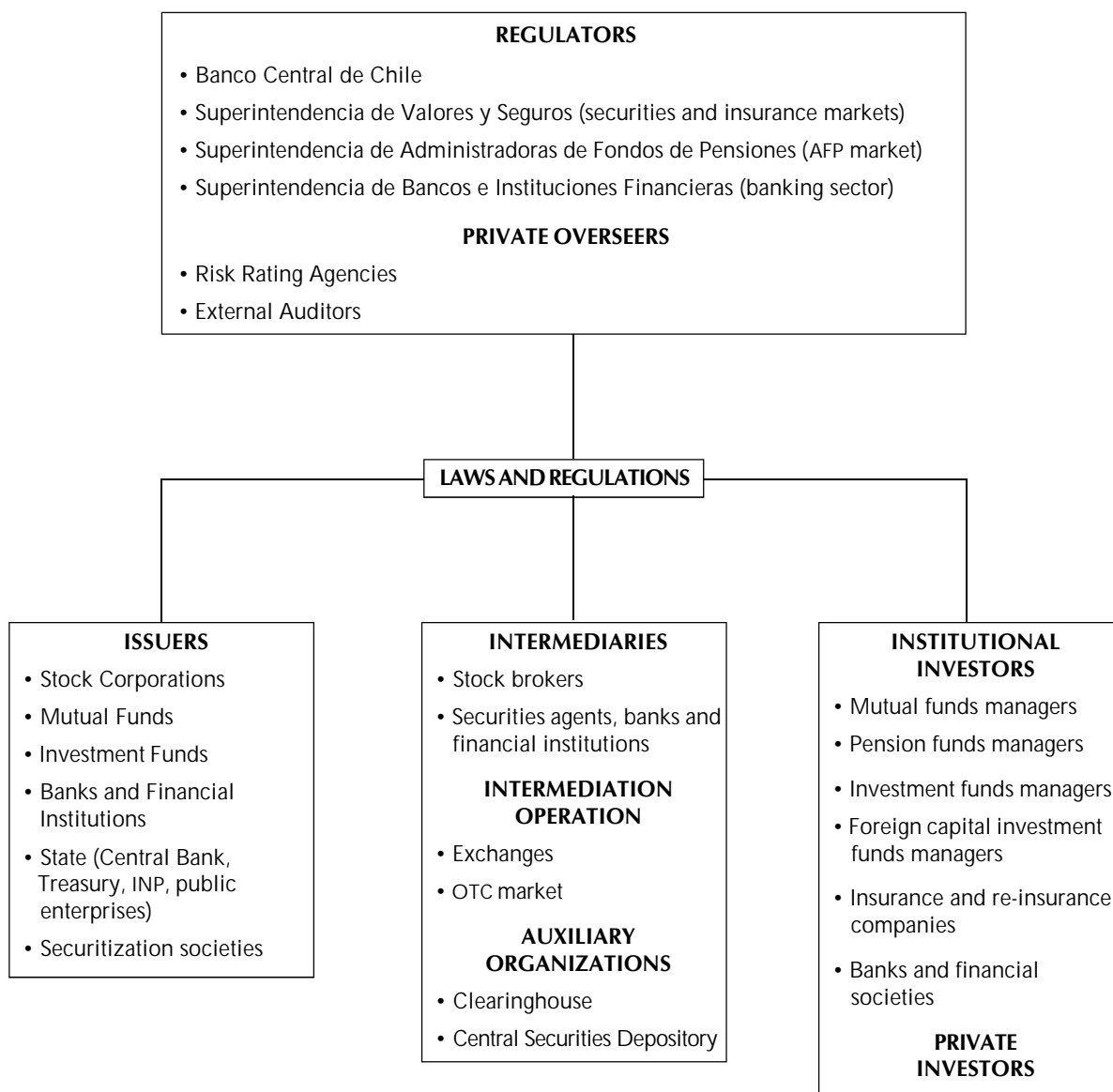
2.5.1 Monetary Policy and other Functions

In order to maintain the stability of the currency, the law authorizes the Central Bank to regulate the amount of money and credit in circulation, the execution of credit and foreign exchange transactions, and the issuance of regulations connected to monetary policy.

⁷³ For further details about the role of the Central Bank in the payments system, see Chapter 7.

⁷⁴ See Article One of Law N° 18,840, Organic Law of the Central Bank of Chile, enacted in October 1989.

⁷⁵ See Article 35 of the Central Bank Law.

Chart 2: Market Structure and Regulation

The law expressly forbids monetary financing of the public deficit. In fact, Article 27 establishes that “the Central Bank may provide credit only to banks and other financial companies, but may not extend its guarantee or acquire documents issued by the Government, its agencies or companies.”⁷⁶

⁷⁶ The prohibition for the Central Bank to finance the deficit by issuing money appears in the 1980 Political Constitution.

The Central Bank may act as the government's financial agent in the management of both the domestic and foreign credits and the State's direct or indirect foreign debt.

For what concerns foreign exchange transactions, the Bank can demand information on specific transactions, impose restrictions on the free circulation of capital, and play a surveillance role over the formal foreign currency market (formed by banks), which since September 1999 has operated within a floating rate system, and over the evolution of the exchange rate.

2.5.2 Involvement in the Payment System

The Central Bank, besides issuing bills and coins, has the following responsibilities over the payment system:

- 1) To replace damaged bills with new bills, although the private sector is entrusted with the custody and distribution of used bills on behalf of the Central Bank.
- 2) To manage the current accounts that commercial banks and finance companies hold with it, in which the final settlements of interbank payments are made.
- 3) To regulate the operation of clearinghouses. The Central Bank's function in connection with clearing is limited to a regulatory role; clearinghouses are managed and operated entirely by the private sector through *Sinacofi*, which is owned by the Association of Banks and Financial Institutions.

There is no specific clearinghouse for either large or low-value payments, rather, all of the payment means are cleared in the same houses, the only difference being that low-value transactions (associated with cheques) have a clearing cycle longer than large-value transactions (*vales de cámara*).⁷⁷ However, there are also large value-payments with *vales vista* whose clearing cycle is the same as that of cheques. In the clearinghouses, all banks and financial companies participate and every day approximately 160 sessions are held in 8 locations throughout the country.⁷⁸

All local currency clearinghouses following the same daily cycle, plus the ATM networks, clear and consolidate in a single "Statement of Summarized Net Clearinghouse Balances" (*Estado de Saldos Resumidos Netos de Cámara*) which the bank on duty (the bank selected on a revolving basis to play this role for monthly periods) communicates by electronic mail to the Central Bank at the end of the day (5:30 p.m.). The Central Bank processes the information manually (normally between 8:00 and 9:00 p.m.) to credit or debit the accounts held by financial institutions. In practice this means next morning settlement. In the case of the foreign currency clearinghouse, the balances are settled among banks with cheques drawn on institutions located in New York City.

⁷⁷ The clearinghouse cycle is described in detail in Chapter 4.

⁷⁸ In these locations, in addition to the local clearing session, the resulting balances of all other clearing sessions in the other connected sites are collected. Then, the consolidated net balance is sent, via the headquarters, to the Clearing Chief in Santiago, where this result is added to the balances of all other locations.

- 4) Finally, the Law empowers the Central Bank to act as “ender of last resort”, that is, to grant banks and finance companies credits in cases of emergency for no more than 90 days when they face problems due to a transitory lack of liquidity.

In addition, the General Banking Law establishes that in the event of the compulsory liquidation of a financial institution, the current account deposits, other demand deposits that it receives and the demand or sight obligations⁷⁹ will be paid out from cash in hand or deposited at the Central Bank or invested in documents that constitute the technical reserve. If these resources are not sufficient, the Central Bank will provide the liquidator with the necessary funds, either by buying the troubled bank’s assets or granting it loans that will have preference over any other creditor.⁸⁰

Thus, demand or sight deposits are guaranteed and are paid immediately upon the liquidation of a banking institution being declared and also upon an agreement being reached with creditors. Thus, the Central Bank, by providing the funds necessary to meet the sight obligations of institutions in difficulties, guarantees the functioning of the payments system.

Box 4: Guarantee System for Sight Deposits

Background:

Between 1976 and 1986, in Chile there was an attempt to implement a deposit insurance framework. The system began to be studied since 1976, but its lack of practical viability was very soon discovered mainly because, given the relatively small size of the Chilean market, an extremely high premium was necessary in order to cover the cost of a medium size bank failure. Thus, during the 1982-83 crisis the insurance framework did not work and the Central Bank had to grant liquidity credits to the institutions that failed. The Central Bank covered the cost of the banking crisis and ended up by bailing out the most exposed banks.

The present system: the technical reserve and payment preference⁸¹

In 1986, a reassessment of the deposit guarantee system was made and a legal regime introduced whose aim is also to guarantee the continuity of payments related to sight deposits and obligations, in case of a financial institution’s failure. Essentially, the system was based on two key concepts: “payment preference” and the requirement of a “technical reserve” from banks. Experience had demonstrated that in Chile it was very difficult not to pay the sight deposits, because of their direct effect on the payments system, on foreign trade and, in general, on the proper functioning

⁷⁹ Any deposits, whose payment can be legally demanded unconditionally, immediately or within a contractual term of less than 30 days as well as any term deposits as from the tenth day prior to their maturity, are also regarded as demand deposits and obligations.

⁸⁰ See Article 132 of the General Banking Law. The discussed situation not only applies to cases of compulsory liquidation but also when agreement proposals are filed. See Article 36 of the Law and Article 123, paragraph 5, of the General Banking Law.

⁸¹ General Banking Law, Articles 65, 123 and 132.

of the economy. The case of time deposits was different, as was the interbank lending, where it was considered that agents had chosen to incur these risks. In 1986 the country implemented a peculiar system which establishes that, in the case of a bank's failure, the Central Bank will provide the necessary funds to guarantee the normal functioning of the payments system, being able, if it so chooses, to acquire the assets of the failing bank against its available resources, or to obtain a legal guarantee covering all the assets of the entity. In this sense, the law obliges the Central Bank to supply funds to pay all sight deposits and current liabilities in a wide sense,⁸² up to a limit of two and a half times the paid-in capital and reserves, since for every sum exceeding this amount the Banks must have constituted what is called the "technical reserve". From this amount on, the Central Bank subrogates the sight depositors' rights, by operation of law, to request the payment of these sums with legal preference. So, it may be interpreted that the other creditors, who will be affected by the insolvency proceedings, support the failure risk of a bank in principle.

The Technical Reserve requires banks to build up a deposit or to invest 100 per cent of the same amount in Central Bank or Government Bonds with a maturity of under 90 days, only if its current account and sight deposits, in a wide sense, exceed an amount higher than 2.5 times the tier 1 capital or paid-in capital and reserves. The technical reserve funds are intended to pay sight liabilities. If they are not sufficient, the liquidator may sell the other assets and the Central Bank must provide the liquidator with the necessary funds to pay the creditors. For this, the Central Bank may, if it so chooses, acquire the bank assets or grant it loans.

The loans granted by the Central Bank to cover this liability will afterwards receive payment preference over any other creditor.⁸³

2.6 THE ROLE OF THE BANKING SUPERVISION AUTHORITY

The *Superintendencia de Bancos e Instituciones Financieras* (SBIF) is an autonomous institution, with its own legal capacity, created for an indefinite period of time, governed by its own law and which will be related to the Government through the Ministry of Finance. Although it is an institution of public law, it is not considered to be an integral part of the State's Executive Branch.⁸⁴

The SBIF is responsible for supervising the State Bank, all banks and financial institutions whose control is not entrusted to another institution by law. Also, it is responsible for supervising companies

⁸² Among them, current accounts, *cuentas vista*, *vales vista*, *vales cámara*, guarantee vouchers, letters of credit, and others transactions implying any sight obligation. In practice, the law also accepted as sight obligations other obligations which strictly speaking would not fall in this category, for example time deposits with a maturity date of less than 10 days. Any other obligations such as time deposits, bonds, other deposits and interbank loans of any tenor were considered time obligations and, therefore, not covered by the guarantee.

⁸³ The General Banking Law also establishes a government guarantee for time deposits held by individuals which covers up to 90 per cent of the liability, up to a limit of 120 UF (3,700 dollars approximately) for the whole financial system.

⁸⁴ General Banking Law, Title I.

whose business is to issue or operate credit cards or other similar systems, provided that these systems imply that the issuer or operator habitually assumes financial obligations with the public or certain specific sectors or groups of the public.

An interesting aspect is that of the auxiliary banking institutions.⁸⁵ These institutions are under the supervision of the SBIF, and since these companies have low capital and the financial entities themselves or a group of the same participate in them, the SBIF supervision is focused rather on each financial entity individually.

2.7 THE ROLE OF THE SECURITIES REGULATORS

The SVS is an autonomous institution, with legal capacity and its own capital, which is related to the government through the Ministry of Finance.⁸⁶ Its duties are the following:

- a) Supervision of the issuers and intermediaries of publicly offered securities, the exchanges and their transactions, third-party funds and their managing companies (other than those entrusted by law to other supervisory agencies), insurance and reinsurance companies, open stock corporations, and any other entity or legal person entrusted to it by the laws (for example, DCV and AFV). By late 1999, the SVS was monitoring 159 third-party funds and 560 companies, including registered stock corporations, special stock corporations and insurance and reinsurance companies.
- b) Ensuring that the individuals or institutions being supervised, from their incorporation to the completion of their liquidation, comply with the laws, regulations, by-laws and other provisions governing them. For this purpose, it may exercise, *inter alia*, the power to administratively interpret, in matters falling within its competence, these laws, regulations and provisions; establish rules and issue instructions; answer consultations and requests and investigate any report or complaints made by shareholders, investors and other legitimate interested parties; review all the transactions, properties, books and all kind of information of the subjects under supervision. In addition, it is authorized to issue instructions and adopt steps to correct any deficiencies observed, and any that it may deem necessary to protect stockholders, investors, the insured and the public interest.
- c) If the individuals or entities subject to monitoring by the SVS infringe the laws, regulations, by-laws and other rules that govern them, or fail to follow the infractions and orders issued by the SVS, this agency has some sanctioning powers, namely censure, revenue penalty, cancellation of the registration, or revocation of the authorization for the company to exist or the authorization or appointment, in the case of persons that are subject to this requirement.
- d) Finally, the SVS is the body responsible for requiring that the parties it supervises provide true, full and timely information about their transactions.

⁸⁵ See Section 2.2.2.

⁸⁶ See Title I, Article 1, of the Organic Law of the SVS.

3 PAYMENT MEDIA USED BY NON-FINANCIAL ENTITIES

3.1 CASH

In Chile, cash is not a means of payment as important as in other countries of the region, although it is frequently used by a large part of the population to pay low-value transactions. According to figures at the end of 1998, the total volume of bills and coins in circulation totaled 852.9 thousand million pesos⁸⁷ or 2.5 per cent of the GDP. In M1 terms, which includes cash and current account deposits of the private sector net of "canje",⁸⁸ the percentage amounted to 34 per cent. In M3⁸⁹ terms, the proportion represented by cash was only 5.2 per cent. These percentages have not shown very significant changes in the last few years and in fact if it is possible to identify any trend it would be the stability of cash in terms of the GDP and in regard to M1, as well as a certain drop in the participation of cash in the wider monetary aggregates. As opposed to other countries of the region, the U.S. dollar is not frequently used as a means of payment.

The Law grants the Central Bank the exclusive authority to issue bills and coins, even though they are printed and stamped by the *Casa de la Moneda*, which is a Government agency independent of the Central Bank, and by other qualified international printing companies. In 1999, the issue of cash was made up of 500, 1,000, 2,000, 5,000, 10,000 and 20,000 peso bills and 1, 5, 10, 50 and 100 peso coins. Currently, 96 per cent of the value of cash in circulation is represented by bills and the remaining 4 per cent by coins.

In 1994, the Central Bank delegated a large part of its cash administration work to the banking system in order to increase distribution efficiency and cut down operating costs. For this purpose, it put into operation a private and decentralized money custody system. The Central Bank is responsible for delivering new bills and coins to the banks and financial societies, directly or through the *Casa de la Moneda*. Financial institutions ask the Central Bank to deliver bills and coins 24 hours in advance through an encrypted e-mail message sent through the *Sinacofi* network. When it is accepted, it automatically generates a debit in the current accounts held by the financial institutions at the Central Bank of Chile.⁹⁰

In order to store bills and coins, both usable and in bad conditions, the money safekeeping facilities of the Central Bank are used, which are administered by the banking system. The physical money safekeeping facilities are vaults (at present there are 58 throughout Chile) in which the banks store exclusively cash owned by the Central Bank.⁹¹ The vaults are located at the offices of the main

⁸⁷ Around 1.9 thousand million dollars at the average exchange rate of 1998 (460 Chilean pesos per dollar).

⁸⁸ The "canje" is explained in detail in Chapter 4.

⁸⁹ M3 is the wide monetary aggregate grouping cash, current accounts, demand or sight accounts, demand savings deposits and time deposits, including housing savings accounts.

⁹⁰ The average daily volume of messages is 60-80, similarly distributed between deposits and withdrawals. Withdrawals and deposits are made up to 2:00 p.m.

⁹¹ The vaults are inspected and approved by the Central Bank of Chile, together with their safety devices and cannot be modified without the Central Bank's consent.

commercial banks in eight cities (Arica, Iquique, Antofagasta, Valparaíso, Santiago, Concepción, Puerto Montt and Punta Arenas)⁹² and thereby the need to transport cash from Santiago to the various other points of the country is minimized.

Upon accepting the cash custody mandate, the banks and finance companies undertake to preferentially make the deposits and withdrawals of bills and coins into and from the vault as a way to materialize their current account cash deposits and withdrawals from the Central Bank.

The withdrawal or deposit of bills and currency and coins must be backed by an electronic order through *Sinacofi*. This specific custody system is convenient for the Central Bank⁹³ because the commercial banks assume the responsibility of classifying the bills in good and bad condition and shipping the latter to the Central Bank. Thus, the Central bank bears only the transportation cost of the bills in bad condition to Santiago.⁹⁴

3.2 PAYMENT MEANS AND INSTRUMENTS OTHER THAN CASH

3.2.1 Cheques

Cheques are regulated by the Current Bank Accounts and Cheques Law of July 1982.

Cheques are the payment means par excellence in Chile. Three hundred million cheques are processed each year, for a total value of 490 billion pesos.⁹⁵ On average, each person issues from 20 to 35 cheques each month. Thus, the average transaction value resulting from this figure is very high, at around 1.5 million pesos per cheque. However, this calculation is very distorted upwards by the wholesale sector. It should also be considered that these figures include *vales vista*,⁹⁶ used both by persons and firms and for some interbank payments, which necessarily give the value of the average transaction an upward bias. Other estimates report the average cheque transaction in the retail segment at some 25,000 pesos.

There are various different reasons for such an intensive use of cheques: economic (cheques provided a certain degree of protection against inflation because of the lag in the delivery of funds, acting as a substitute for cash); social and cultural (in a country where the levels of bank usage are not high, and the requirements for opening a current account are relatively demanding,⁹⁷ cheques are regarded as status symbol), legal (in Chile, cheques are executive instruments and not honoring them implies

⁹² Locations where the Central Bank had regional offices up to the mid 80s.

⁹³ An estimate of the yearly cost of producing bills and coins is from 6,000 to 10,000 million pesos (from 11 to 18 million dollars at the exchange rate in effect at the end of 1999, that is, 540 pesos/dollar as of the date on which this report was drafted).

⁹⁴ The average life of a bill is 10-30 months, depending on the denomination.

⁹⁵ Approximately 900,000 million dollars. In this report the word "billion" is used for figures with 12 zeros.

⁹⁶ For a detailed description of *vales vista*, see 3.2.2.

⁹⁷ There are around 1,250,000 current accounts with cheque books in the country, and the average balance of 1.6 million pesos is relatively high.

a short prison sentence) and even practical (they are used as 30, 60 or 90-day credit securities, since the use of post-dated cheques in trade is common, although the law does not provide explicitly for their validity as credit instruments).

The lack of other means of payment such as electronic interbank transfers also helps to explain the wide use of cheques. Cheques can be denominated in both pesos and dollars, but peso-denominated cheques are predominant. Dollar-denominated cheques are used especially by companies and in connection with foreign trade. Honored cheques are not delivered to current account holders and the bank drawn on must keep them for 10 years.

Cheques are associated with a current account and a current account is usually associated with a credit line.⁹⁸ This feature helps to explain the very low number of cheques returned due to insufficient funds (around 0.5 per cent in 1998). By way of comparison, the same figure in Argentina is 3.5 per cent.⁹⁹

The Association of Banks and Financial Institutions, after a study made by experts in the field, established the standardization of cheques insofar as size, paper quality, content and layout of information, security rules and other relevant features.

The SBIF established the magnetic character code that must be printed on the lower part of the cheques, containing the bank code, branch number, city, account number and cheque number. This part of the cheque includes all the information about the document except for the amount, which is added in the post-marking/proofing stage so that the cheque can be processed through reading and sorting machines.

Another feature is the Stamp Tax Law¹⁰⁰ which taxes at a fixed rate any cheque issued in the country or withdrawal of money from a current banking account.¹⁰¹

3.2.2 Vale a la vista

These are defined in Chapter 2-6 of the Collection of SBIF Regulations. This Chapter establishes that *vales a la vista* (or *vale vista*) issued by financial institutions on behalf of third parties may be generated only with the delivery of cash by the borrower or against available funds kept in a current account or other type of demand deposit. *Vales vista* are issued in two ways: a) in favor of a beneficiary, who is the borrower himself, or b) in favor of a third party. They may be issued as nominative or to the order, and in the latter case they are transferable by endorsement.

⁹⁸ The Central Bank authorizes the banks to extend credit and to allow current account overdrafts. According to the Digest of Financial Standards, those overdrafts cannot exceed 30 UF per current account holder (900 dollars at the exchange rate by the end of 1999), if not previously agreed upon in writing; however, if documented with a promissory note, the credit associated with the current account can exceed that limit.

⁹⁹ See the Report "*Payments and Securities Clearance and Settlement Systems in Argentina*", 2000, Western Hemisphere Payments and Securities Clearance and Settlement Initiative (CEMLA-World Bank).

¹⁰⁰ Executive Decree N° 3,475, Article 1, No. 2.

¹⁰¹ 120 pesos in December 1999, around 0.25 dollars at the exchange rate then in effect.

Vales vista are documents similar to cheques confirmed or certified by a bank,¹⁰² and are widely used in Chile for large-value payments in general (a house, a car) between individuals or individuals and companies. The main advantage of this type of document is that, in principle, it cannot be dishonored due to lack of funds, as the bank issues the same when it receives the amount in cash by the applicant or else whenever it extends the applicant a credit for the specified amount. Moreover, in the event of the issuer's insolvency, since the *vale vista* is regarded as a sight obligation, the Central Bank would guarantee payment of it.¹⁰³

The assurance that *vales vista* could not be rejected due to lack of funds made them suitable instruments for the payment of large-value transactions and currently they are one of the principal means of payment for interbank trading and the payment of securities.

Interbank transactions in which the use of *vales vista* is common are mainly the purchase and sale of dollars in the foreign exchange market, interbank loans for more than one day and, to a lesser extent, dollar/peso forward transactions. Use of them is also very common among institutional investors (pension funds, insurance companies, mutual funds) and among financial intermediaries such as stockbrokers.

The clearing cycle is similar to that for normal cheques, that is, clearing occurs in T and settlement in T + 1. It should also be emphasized that at clearinghouses it is not possible to distinguish between those balances corresponding to cheques (normally associated with retail transactions) and those corresponding to *vales vista* (normally used in wholesale or large-value transactions).

However, the following remarks should be borne in mind in connection with the *vale vista* used as a payment instrument for large-value transactions.

- first, since it is a physical document it must be transported from one place to another (although most of the transactions take place inside Santiago).
- its endorsable character (unless it is nominative) increases the risk (fraud, loss) of the transaction.
- its use by a financial institution for non-interbank payments grants a one-day float for the issuing institution, as the instrument is settled in T + 1.

Institutional investors and stockbrokers have no other choice, as the *vale de cámara*¹⁰⁴ can be used only by institutions having a current account with the Central Bank.

There is no electronic system for transfers of funds among clients of different banks.

¹⁰² However, *vales vista* are not cheques *strictu sensu* and in fact are not governed by the Bank Current Accounts and Cheques Law.

¹⁰³ See Chapter 2, Box 4.

¹⁰⁴ See Section 3.2.3.

3.2.3 *Vale de cámara*

Vales de cámara are documents defined in number 3 of Chapter 5-1: Exchange and Clearinghouse, of the Updated Digest of Regulations of the SBIF, and are used by banks to extinguish obligations in Chilean currency originating from interbank transactions. Although the *vale de cámara* is exclusively an interbank means of payment, it has been included in this chapter for a better understanding of existing instruments.¹⁰⁵ The following are the main characteristics of this instrument:

- It must be issued by financial institutions in favor of another financial institution and may be used only to pay obligations among financial institutions.
- Financial institutions must use *vales de cámara* as means to pay liabilities in Chilean currency in favor of other financial institutions, such liabilities being understood as loans, payment of deposits or dividends, purchase and sale of foreign currency, letters of credit, documents delivered for collection, drafts against the current accounts of the financial institution, transactions among financial institutions, purchase of investment instruments, etc.
- *Vales de cámara* are cleared on the same day of their issuance during the Fourth Session of the Clearinghouse (Session for Transactions among Financial Institutions).
- Under no circumstances is the use of *vale de cámara* allowed for making payments to other than financial institutions, and they cannot be endorsed to other institutions or individuals by the institution in whose favor they are issued. The latter cannot use them for a purpose other than its collection at the corresponding clearinghouse session.

Banks have the option of not issuing this instrument physically through a system developed by *Sinacofi*, which enters the obligation directly into the Fourth Clearinghouse Session. This is known as an "electronic *vale de cámara*".

3.2.4 *Boleta de garantía*

Boletas de Garantía or "guarantee vouchers" are not payment instruments *strictu sensu*, but they can be turned into such if a specific contingency takes place. They represent a deposit of money made by the depositor or payee of the document with a bank in favor of a beneficiary, which is used as a guarantee of the proper fulfillment of an obligation assumed by the beneficiary. When the deposit is made with cash or available funds, it is referred to as a "deposit in guarantee" and when the borrower takes out a credit from the same bank, which is documented through a promissory note, it is known as a "guarantee voucher," without this distinction having any practical effects on the beneficiary.

There are three clearly distinguished parties: the payee of the voucher, who can be the depositor or the party needing to guarantee fulfillment of an obligation, the beneficiary and the bank that issues the guarantee voucher.

¹⁰⁵ Its clearing process is also described in Chapter 4.

According to the provisions of item 10 of Article 83 of the General Banking Law, the guarantee voucher represents a pledge and what it most resembles is the money pledge deposited with a third party. Thus, the guarantee voucher cannot be used for a purpose other than the one for which it was taken out. Therefore, it is an irrevocable document which cannot be endorsed by the beneficiary, but can only be cancelled in the event that it is cashed or to return the same to the payee, so that the latter in turn can return it to the bank and thereby cancel the guarantee. Thus, consistent with the purpose of the voucher, it is issued in registered form and cannot be endorsed. It is issued in Chilean currency, with or without a re-adjustability clause, in foreign currency or stated in foreign currency and payable in Chilean currency. Its use is common in the case of bids for public works, construction contracts, etc.

3.2.5 Direct Credits/Debits

Direct debit or the automatic payment of bills out of a current account is a commonly used mechanism introduced ten years ago, which allows the general public to settle automatically all types of bills that are paid at regular intervals.

Normally, it is used to pay utility bills, such as water, electricity, gas and telephone. The customer simply signs an agreement (*mandato mercantil*) authorizing the bank to debit, on the bill's maturity date, the amount from his current account and credit it to the account of the corresponding utility company. The client receives the bill as usual at his domicile, with a stamp indicating that the payment has been made on the basis of the automatic payment agreement. However, this transaction has a cost for the client, as it is subject to the same stamp tax rate as cheques.¹⁰⁶

Direct credit or automatic credit to a current account has also existed for a number of years.

The beneficiary asks the debtor institution or company to make payments by depositing them in his current (or savings) account, provided that the institution or company has a contract with his bank for this type of transaction. As mentioned above, there is no interbank system for credit transfers.

Payment of wages, pensions, payment of dividends by stock corporations, and tax refunds are executed mostly by this method.

3.2.6 Payment Cards

Credit Cards

The evolution of credit cards has grown steadily since 1978, the year in which the Diners Club Card started to operate in Chile. At present, there are close to 2.2 million cards in the country.

The operation of the credit card system is regulated by Chapter III.J.1 of the Compendium of Central Bank Financial Regulations and is supervised by the SBIF. However, the provisions do not apply to

¹⁰⁶ Executive Decree N° 3475 of 1980.

credit cards issued by stores and businesses to pay for any purchases made by their customers, or to the cards issued by other companies in order to be used solely to pay for purchases at a specific commercial store (so called "fidelity cards").

Debit and ATM Cards

Debit cards were introduced in Chile relatively recently (1996) and at present there are approximately 1.2 million cards in use, which is equal to the number of current accounts opened by banks. However, this instrument is not used extensively because customers perceive some disadvantages in its use. Besides the immediate debit of funds, a system administration fee (of around 60 dollars per year) must be paid, which is similar to the credit card fee, in addition to a tax for each transaction performed.¹⁰⁷ Thus, users do not see any advantage over the use of the credit card, for which payment is made on a deferred basis and the balances can be revolved. Customers do not perceive any operational or financial advantage over the use of cheques.

In December 1999, Redbanc (see Section 2.2.2) was operating about 2,050 ATMs distributed in 114 cities of the country and covering about 9.5 million transactions per month (113 million yearly). These machines are connected to the international networks Cirrus and Plus. The number of transactions made in Chile with cards issued outside the country is around 1 million per year. Transactions made by Chilean citizens in ATMs outside the country, connected to Cirrus and/or Plus, amount to 250,000 per year. Globalnet has a network of 350 ATMs with almost 2 million transactions per month. Finally, in Transbank, which operates credit and debit cards, the total number of yearly transactions is 32 million.

The operation of the debit card system is regulated by Chapter III.J.2 of the Compendium of Central Bank Financial Regulations and is also supervised by the SBIF.

Commercial Payment Cards

There are also credit and fidelity cards issued by different businesses. The lack of official figures does not allow to define the size of the market. However, it is estimated that there are 10 million cards issued to people not having access to bank products due to their lower income levels. In practice, these are cards issued by and usable at different stores and businesses.

There is also a regulation on electronic money or electronic purse. The Central Bank established that only banks are allowed to issue these cards. Up to date there is no scheme of this kind in operation for the use of the general population, and only pilot schemes are being tested.

¹⁰⁷ Stamp Tax, Executive Decree N° 3475 of 1980.

4 PAYMENTS: INTERBANK EXCHANGE AND SETTLEMENT CIRCUITS

4.1 STRUCTURE

There is a single clearing and settlement circuit operated by the banking sector, as a consequence of the decision of the Central Bank in 1982 to delegate to the Association of Banks and Financial Institutions the responsibility for operating the clearinghouse and, consequently, of the decision of this Association to create *Sinacofi*, which provides interbank communication services and supports the operations of clearinghouses. However, the houses operate according to the regulations established by the Central Bank.

Banks, finance companies and the Central Bank may collect through the clearinghouse any documents, payable by other participating financial entities, they have received in deposit or in payment of obligations, and, therefore, they must pay any documents which are presented to them during the same clearinghouse sessions.

The country is divided into approximately 160 banking locations. Where two or more banks (branches) operate, clearinghouse sessions are held to exchange cheques and other documents in Chilean currency, pursuant to the regulation established by the Central Bank. The banks must designate, on a revolving basis, an "Institution on Duty", which appoints the "Clearinghouse Chief" that presides and controls the clearinghouse sessions for one calendar month. The institution on duty is responsible, together with the SBIF, for both the observation of working hours and the enforcement of the Central Bank's regulations. Banks are not under the obligation to resort to clearinghouses, and may carry out bilateral off-sets between themselves.

Clearinghouse sessions are held separately in each site. There is no cheque truncation. Therefore, the physical documents and the electronic information flow on a parallel basis.

4.2 OPERATION OF THE PAYMENTS SYSTEM

Banks are open to the public throughout the country Monday to Friday, from 9:00 a.m. to 2:00 p.m.

The process begins at the financial institution that receives the document with the process of "post-marking" (i.e., the incorporation of the amount in magnetic characters) and then the reader-sorter process follows, whose result is the separation of the cheques into batches for each of the issuer banks.

The first clearinghouse session is held at 5:30 p.m. at the facilities designated by the banks of the site. This is called the "exchange session" since the exchange, the clearing and honoring of cheques and all other documents (*vales vista*, etc) takes place at this time, and the physical transfer of these documents is made among the representatives of participating banks.

The cheques received for collection are taken to the offices of each institution in the site, where a review and post-marking process (for those cheques that do not yet have it) takes place, and, then, a reader-sorter process is carried out, which ends with the cheques being separated by office and by current account and with the production of electronic information to be entered into each bank's current account system. At the same time, if appropriate, remittances are prepared of the cheques that will be sent out to the respective offices through the services of companies specializing in transporting securities.

By 9:00 a.m. of the following banking day, the current accounts entries have been made, and returned items due to closed accounts, refusal of payment¹⁰⁸ or lack of funds are identified.

At the same time, the review of the cheques that may be rejected due to reasons of form (such as wrongly issued documents, mismatching signature, alterations or expiration of the document) takes place. Some banks have centralized this review in their head office, where they have microfilms or microfiches with the signatures of all their current account holders.

At 9:30 a.m., a second clearinghouse session is held for errors. During this session the documents that were not properly collected at the first meeting are corrected.

A third clearinghouse meeting is held at 11:30 a.m. for returned items. In this session the exchange of any documents rejected by issuing institutions takes place.

At 3:00 p.m. a fourth clearinghouse session is held for transactions among financial institutions, at which the *vales de cámara* covering interbank transactions are exchanged and which are valid only on the date they are issued. This session is held only in Santiago, where the head-offices of the banks are located.

The institution on duty at the clearinghouse determines the results of the sessions of the clearinghouse cycle of the cheques of its own site or group of sites and, if appropriate, the result of the sessions of the clearinghouse cycle for documents from other sites not belonging to the same group. The consolidated result is then transmitted to the institution on duty in the corresponding location.

A fifth clearinghouse session (called "jurisdictional") meeting is held at 3:30 p.m. at which the resulting balances of all the clearinghouse sessions held in the sites or group of sites of the same jurisdiction and which correspond to a clearinghouse cycle are cleared. The jurisdiction summary template is transmitted to the institution's office in Santiago. This office enters this information into the clearinghouse session in this location.¹⁰⁹

At the same time, there is a clearing process for transactions carried out through the Redbanc ATM network and which are charged to another financial institution. Operations are closed at 2:00 p.m.

¹⁰⁸ When the drawee revokes a cheque due to falsification, alteration, loss, etc. The drawee must communicate any of these situations to his bank in writing.

¹⁰⁹ In the jurisdiction of Santiago, the fifth clearinghouse session is held at 4:30 p.m.

when banks close to the public, and each participating bank is informed of its balance and position. Once the objections, if any, have been resolved, the ATM network institution on duty sends electronically a list to the Clearinghouse Chief in Santiago with the net (debit or credit) balances of each institution.

At the end of the fifth meeting in Santiago, the Clearinghouse Chief, on the basis of the jurisdictional summary templates and the Redbanc ATMs template, prepares a "statement of summarized net clearinghouse balances" (*estado de saldos resumidos netos de cámara*) which indicates each participant's net credit or net debit position, and this information is transmitted every day to the Central Bank before 5:30 p.m.

Finally, at the end of the day the Central Bank debits or credits the participating institutions' current accounts, and this represents the final settlement of the balances resulting from the meetings of the clearinghouse cycle of the documents of the same banking site or group of sites (which was begun the previous day), of the *vales de cámara* of interbank transactions (of the same day), of the Redbanc ATM clearing (from 2:01 p.m. of the preceding banking day to 2:00 p.m. of the same day) and of the meetings of the clearinghouse cycle of the documents of other sites that do not belong to the same group of sites (which had begun three banking days earlier, in t-3).

However, by the time the Central Bank registers in its books each bank's final balances after 6:00 p.m., the banking day has already ended.

4.2.1 Risk Control Measures

The bank on duty at the clearinghouse, through its general manager and its legal advisor, submits a power of attorney to *Sinacofi* for it to operate the clearinghouse on the bank's behalf. Although *Sinacofi* and its own Clearinghouse Chief run the clearinghouse, the responsibility still lies with the bank on duty, which is accountable with the SBIF and the Central Bank.

Consequently, *Sinacofi* administers and operates the clearinghouses on a mandate issued by financial institutions and has not established controls for financial risks of the participants.

The information from each clearinghouse is available rapidly at the end of each session. Thus, the position of the first session (exchange session) is known at 6:30 p.m. of the day preceding its settlement, and this enables the banks to operate in the interbank market the next day between 10:00 a.m. and 12:00 p.m., in order to cover their debit positions, and these transactions are paid with a *vale de cámara* and are cleared at 3:30 p.m.¹¹⁰

The combination of relatively high liquidity in the banking sector, due in part to high reserve requirements, together with the current account overdrafts allowed by the Central Bank, contributes to the smooth functioning of the system. However, since overdrafts in the reserve accounts held at the Central Bank are severely penalized, banks tend to minimize their use.

¹¹⁰ It must be remembered that final settlement occurs in the books of the Central Bank at the day of the banking day and banks know their settlement positions on the next morning.

It must be pointed out that the net and gross volumes of the first session of cheques and other documents collected the day before, represent two or three times the volume of the clearing of the *vale de cámara* in the fourth session.

4.2.2 Pricing Policy

Each bank pays *Sinacofi* a fixed monthly fee of around 650 dollars, which entitles it to participate in its private communications network, plus a charge of 0.60 dollars for each message sent through the system's network. In addition, there is also a monthly fee of 200, 150 and 100 dollars, depending on whether the bank has a large, medium or small volume of messages.

For messages corresponding to the clearinghouse, when the templates of any session are sent out, double rates are charged due to the forwarding of the reconciliation list by the clearinghouse.

New banks joining the system, on signing the contract of accession, pay an enrolment fee, currently around 1,800 dollars, which would be a proportional part of the existing investments and applications. This amount entitles the new bank to have a network address, a set of user manuals, training sessions, installation of software and communication tests.

With the above scheme, *Sinacofi*, which is a non-profit organization, is able to cover its operating costs and collects a margin for future technological investments.

4.3 LARGE-VALUE PAYMENTS TRANSFER SYSTEMS

There is no institutionalized large-value payment system. Interbank payments are made through *vales de cámara*,¹¹¹ which are collected at the fourth clearinghouse session, or through *vales vista*¹¹² collected at the first.

There is no interbank credit transfer system and practically all payments are executed through debit instruments

The total volume of funds cleared each day through the clearinghouse amounts to around 5,500 million dollars, of which close to 20 per cent is in *vales de cámara*. However, there are no figures on the volumes of *vales vista* in relation to cheques.

Unofficial estimates lead to the assumption that the number of *vales vista* is lower than the number of cheques, although the amount of each is significant, as a result of the large-value transactions carried out by individuals and those stemming from interbank operations and securities trading.

¹¹¹ See Section 3.2.3.

¹¹² See Section 3.2.2.

5 SECURITIES: INSTRUMENTS, MARKET STRUCTURE AND TRADING

INSTRUMENTS

5.1 FORMS OF SECURITIES

Most securities are issued physically, and there is a trend towards their immobilization at the DCV. The issuer is always under the obligation to issue a certificate representing any securities withdrawn from the securities depository.¹¹³ The LDCV¹¹⁴ establishes that the central depository and the issuer may agree, in connection with the securities in deposit or that can be deposited, that the issuer is not obliged to issue securities physically, but to carry in records a system of entries in favor of a securities deposit company. The SVS, through a general rule¹¹⁵, established the minimum requirements to be met by the book-entry system and the minimum rules of standardization that the securities must meet in order to be deposited. The Corporate Law binds these companies to keep a shareholder record, in addition to the registry in a central securities depository.

The Central Bank¹¹⁶ established that Central Bank Readjustable Promissory Notes (PRBC) and the Central Bank Discountable Promissory Notes (PDBC) might be issued wholly or in part in a dematerialized form. In late 1999, the Central Bank's rules authorized it to make dematerialized issues of new instruments.

5.2 TYPES OF SECURITIES

The following categories can be distinguished: shares and other securities representing equity rights, securities representing short-term debt (financial intermediation instruments), and securities representing long-term debt (fixed-income).

In 1989, the *Bolsa de Comercio de Santiago* created the money market where mainly dollars and gold coins are traded. In 1990, futures transactions were launched (IPSA and dollars), while in 1991 investment fund shares (CFI) began to be traded. In 1994, the options market was created. However, since 1996 practically no options and futures transactions have taken place.

In late 1998 the SVS approved the regulations on short sale transactions and securities lending in exchanges, which will help to re-launch the derivatives market.

¹¹³ See Law 18,876, Title I, Article 11.

¹¹⁴ See Law 18,876, Title I, Article 11.

¹¹⁵ See NCG N° 77 of January 20, 1998.

¹¹⁶ See Chapters IV.B.6, IV.B.7 and IV.B.8 of the Digest of Financial Rules.

5.2.1 Shares and Other Securities Representing Equities

5.2.1.1 Shares

Shares represent quotas of the capital stock of corporations or limited partnerships and confer rights over the company's equity on their holders. Shares may be common or preferred; preferred shares give special rights to their holders.

5.2.1.2 Stock Options (Preferential Subscription Rights)

These instruments give the shareholders of a corporation the pre-emptive right to take up new shares issued by the company due to capital increases by means of new capital infusions, in proportion to the number of shares they own. The corresponding certificate may be traded by transferring the right to take up new shares to a third party.

5.2.1.3 Investment Fund Shares

These are equity instruments that represent a proportion of the capital of an investment fund, that is, the buyer or contributor becomes the owner of a part of that fund. This instrument is redeemable only upon the maturity of the fund, or may be cashed-in through transactions in the secondary market.

5.2.1.4 Mutual Fund Shares

These are shares that represent a proportion of the equity of a mutual fund, that is, the buyer or participant becomes the owner of a part of that fund. These securities are redeemable at any time.

5.2.2 Securities Representing Long-Term Debt

The public offering of securities representing debt with a maturity date in excess of one year can only be made by means of bonds, except in the case of banks and finance companies.¹¹⁷ Bonds are fixed-income-securities by which the issuer undertakes to pay the principal amount plus interest within a specific period of time. The following bonds are available:

5.2.2.1 Bonos Bancarios (Banking Bonds)

These are securities issued by banks and finance companies, to the bearer or to the order of, in UF or other readjustable unit of account authorized by the Central Bank, having a maturity of more than one year.

5.2.2.2 Bonos Subordinados (Subordinated Bonds)

These are issued by banks, either to the bearer or to the order, in UF or any other readjustable unit of account authorized by the Central Bank. They must be issued with an average maturity of no less than 10 years and cannot be prepaid.

¹¹⁷ See Title XVI. Article 103, of the LMV.

5.2.2.3 Bonos de Sociedades (*Corporate Bonds*)

These bonds are issued by open stock corporations or any other type of corporation, to the bearer or to the order, in pesos, UF or any other readjustable unit of account authorized by the Central Bank, and have a maturity of more than one year, and are used to fund operations and projects.

5.2.2.4 Bonos Convertibles (*Convertible Bonds*)

These are particular in that they can be converted into shares of the issuing company.

5.2.2.5 Bonos de Leasing (*Leasing Bonds*)

These bonds are issued by leasing companies, to the bearer or to the order, in pesos, UF or any other readjustment unit authorized by the Central Bank and have any maturity period in excess of one year, in order to fund their line of business, and are guaranteed by leasing contracts.

5.2.2.6 Bonos de Securitización (*Securitization Bonds*)

These are issued with the backing of specific assets purchased by the securitization company and allow the conversion of specific assets¹¹⁸ into negotiable securities that can be traded in the market and, in the case of banks, in order to mobilize their credit portfolios.

5.2.2.7 Letras de Crédito (*Letters of Credit*)¹¹⁹

These are issued by banks, finance companies and the Housing and City Planning Administration (SERVIU), to the bearer or registered owner, in UF or average value index (IVP), in pesos or foreign currency, and have a maturity of more than one year, in order to fund the purchase, construction or extension of houses.

5.2.2.8 Mutuos Hipotecarios Endosables (*Endorsable Mortgage Mutuals*)

These are issued by insurance companies of the second group (life), banks and financial companies, managing societies of the same and former savings and loan associations. They are granted by public deed, have maturity from one to thirty years, are UF-denominated and are transferable only as a unit.

¹¹⁸ By means of NCG 57 of 1995, and with the Securitizing Market Expansion Law (*Ley de Ampliación del Mercado Securitizador*) of July 1999, the instruments that can be securitized were extended, since from the approval of this activity in 1994, it was only possible to securitize bills and mutual mortgage bonds.

¹¹⁹ As it may be seen in the explanation below, using "Letters of Credit" as the translation of "*Letras de Crédito*" may be misleading in the sense that this instrument differs from traditional Letters of Credit, which are basically a short-term promise to pay the beneficiary upon default by part of the purchaser of the instrument.

5.2.2.9 Central Bank or Treasury Promissory Notes¹²⁰

These are securities issued by the Central Bank of Chile or by the General Treasury of the Republic in relation to the management of the public domestic debt or to fund Government projects.¹²¹ Generally, these securities are issued in UF or dollars and have fixed or variable interest rates.

5.2.3 Money Market Instruments

These are securities representing debt, with maturity of no more than one year, and are single issues, not in series. They are issued to fund the issuer's short-term business activity, or else, in the case of the Central Bank, to function as a monetary policy instrument.

5.2.3.1 Efectos de Comercio (Commercial Paper)

These are instruments issued mainly by open stock corporations registered with the SVS to obtain funds directly from the public in order to finance the issuer's working capital. Commercial papers are issued to the order, in pesos, UF or any other unit of account authorized by the Central Bank. Maturity cannot exceed 360 days counted from the moment in which they are registered in the securities register, or less than 30 days counted from their placement. They are fundamentally bills of exchanges and promissory notes.

5.2.3.2 Term Deposits

These are issued by banks and finance companies (the latter can only issue them in Chilean currency), to the order or registered, in Chilean or foreign currency, and may be for a fixed, renewable or indefinite period of time or a combination.

5.2.3.3 Bank Promissory Notes

Issued by banks and finance companies, to the order, in UF and have variable maturity.

5.2.3.4 Central Bank Readjustable and Discountable Promissory Notes

These are bearer securities issued by the Central Bank, in pesos (PDBC) and UF (PRBC) with maturities ranging from 1 to 364 days (PDBC) or up to five years (PRBC), at discount and for monetary regulation purposes through open market operations (see Chapter 7).

5.3 SECURITIES IDENTIFICATION CODE

The SVS, through Circular Letter 1.085, has standardized the securities identification code for trading and reporting purposes. However, this standardization does not follow the International Securities Identification Number (ISIN) Code.

¹²⁰ In addition, there is a series of securities guaranteed by the State for different reasons such as the CORA Bonds (land reform) and Acknowledgment Bonds (due to the adaptation of the former pension system).

¹²¹ For a detailed analysis of the type and characteristics of the instruments, see *Características de los Instrumentos del Mercado Financiero Chileno*, 1994, Central Bank of Chile.

The code is alphanumeric with 10 elements. For shares, it shows the issuer's name, and the last digit indicates the series number. For fixed-income securities, the first digits identify the issuer and the rest identify the series. Securities issued by the State are recognizable by the first digits and the series at the end of the code.

However, exchanges use different codes for certain fixed-income securities and financial intermediation instruments, because they were used before the Circular Letter¹²² was approved.

5.4 TRANSFER OF OWNERSHIP

5.4.1 Bearer Securities

These are securities whose ownership is conferred by the possession of the corresponding certificate. Bonds are usually issued to the bearer. The seller delivering them to the buyer completes the transfer of ownership of bearer securities. If the securities are registered in the central depository, the transfer of ownership is completed with registration in favor of the buyer in the depository's records.

5.4.2 Registered Securities

These are securities issued in the name of a specific person, their holder. Shares must necessarily be issued in registered form.¹²³ The transfer of the registered securities, in addition to the surrender of the documents, calls for registration in the respective issuer's registry book.¹²⁴ Three situations can be identified:

- When securities are physically transferred, the process starts with the presentation of the transfer (deed of assignment) together with the securities that must be registered (only when they have been issued). The issuer must register the securities within one day, if there are no problems preventing registration. The new certificates, if the shareholder so requests, are issued within a specific period of time and sent to the custodian broker or bank.¹²⁵ The securities may be sold off at any time during the certification process.
- In the case of immobilized or dematerialized securities in the central depository, the transfer of ownership takes place in the depository's records. Thus, the transfers of securities are made by debiting the transferor's account and crediting the transferee's account. In any

¹²² Circular Letter 1085 accepts this situation.

¹²³ See Title III, Article 12, of the *Ley de Sociedades Anónimas*.

¹²⁴ See Title II, Article 17, of the D.S. De Hacienda N° 587 of 1982, Corporate Regulations.

¹²⁵ Or to the investor, if the transfer has not been effected through a custodian broker or bank, although this is uncommon. In those cases where the investor does not wish to leave the securities in safekeeping and wants to possess the security, he will receive it even though he has made operations through brokers. If the investor leaves the securities in custody, it is most probable that the securities are not issued and if, hypothetically, they are issued, they will be in the name of the custodian.

event, the central depository appears as owner in the issuer's records. However, in the case of shares, the central depository must inform the respective corporation on a daily basis about the transactions its depositors have made with shares. Corporations must prepare and keep a list of depositors with shares registered in their name with the depository companies, with an indication of the amounts they have in deposit.

- If the security is immobilized or dematerialized in the central depository and a reversion to physical security is desired, once the transfer in the central depository has been effected, the steps explained in the first case above are followed, filing the transfer and the physical deed (in the event that there is such because it was immobilized earlier in the central depository).

5.4.3 Securities to the Order (*Valores a la Orden*)

These securities represent an obligation assumed to the order of a person. Some fixed-income securities and financial intermediation instruments are issued to the order. The transfer of ownership of securities to the order is completed through an endorsement. If the securities are immobilized at the central depository, their transfer is carried out through account entries.

5.4.4 Nominee and Beneficiary

There is no reference to nominees in Chilean legislation. However, there is a legal action called third-party claim to ownership, which enables the owner of the securities who has entrusted their management to another person, to establish that he or she is the owner and to request restitution of them.

The LMV¹²⁶ establishes that securities dealers, stockbrokers, exchanges, banks or any other legally authorized entity that keeps securities on behalf of third parties but in their own name, must record them in a special register and enter these securities separately in their accounting records, with full information on the person or persons on behalf of whom they keep them.

This register will keep evidence against these persons, and the interested parties may at any time claim their rights, resorting to any legal means of evidence.¹²⁷

In the relation between the custodian and the depositor, the latter is the owner of the securities deposited in his name. Before the issuer of the securities and third parties, besides the exceptions covered in the LDCV, the depository is regarded as the owner of the securities held in deposit.¹²⁸

¹²⁶ See Title XXIII, Article 179, of the LMV.

¹²⁷ With reference to third-party ownership claims, if the manager himself is the one who refuses to restore the security or securities, restitution can be obtained by implementing the action involved in the deposit management contract. If the securities is lost or stolen, it must be clear that the third *bona fide* holder becomes the owner of the securities, which cannot be repossessed.

¹²⁸ See Law 18,876, Title I, Article 5.

5.5 PLEDGE OF SECURITIES AS COLLATERAL

Pledging securities as collateral for the transactions of brokers among themselves, with exchanges or with their clients, is regulated in title XXII of the LMV. If the collateral is represented by registered securities (shares and CFI), the pledge will be made in favor of the exchange by executing a private instrument, signed by the parties before a stockbroker who is not a party to the obligations guaranteed or before the manager of the exchange. If they are bearer securities, the pledge is created by executing a private deed to a third party mutually appointed by the parties. If the collateral is represented by credit securities or shares and bonds issued with the "to the order" clause or ones that can be transferred by endorsement, the pledge will be created by endorsing the deed as securities and the physical delivery of the same.

The exchange, if appropriate, will execute the pledge extra-judicially, acting as master and owner, but rendering accounts as fiduciary of the maker of the guarantee.

If the pledge is executed, it will not be necessary to inform the debtor, who will be released from all liability if he pays whoever establishes his status as creditor under the guarantee.

Pledges will serve as guarantees of the specific and determined liabilities indicated, unless it is expressly stated that they have been created to guarantee repayment of all the direct obligations that the owner of the pledge has or may have in favor of the secured creditor.

The property deposited as a pledge plus any interest, readjustments, proceeds and increases of any kind, will vouch for full repayment of the guaranteed credits, any readjustments, interest and collection expenses. No other guarantee or preference of any kind or nature attempted to be created later on the same property will be recognized, and if any such guarantee or preference is created, it will be rendered without legal effect.

At the same time, all of the property included in the pledges referred to may only be attached in proceedings initiated by the secured creditors, as soon as they undertake any actions allowed under the guarantee.

In the event of bankruptcy of a collateralized debtor, the pledged property will be set aside from the estate of the party and the pledges guaranteed will be paid without having to await for the results of bankruptcy proceedings, and without it being necessary to make any of the provisions required by law N° 18,175.

Once any of the guaranteed obligations become payable, the pledger will make the pledged property available to an exchange to be sold-off at a public auction on the second business day following the date on which it was delivered, at the latest.

The proceeds of the auction must be handed over to the creditor one business day after the sale of the pledge, which will immediately pay off the secured credit, and must obtain from the corresponding exchange a certification to agree with the sale. Afterwards, the securities obtained

will be applied without further formalities to the repayment of the liability, and the balance, if any, will be handed over to the debtor.

If before the guaranteed obligations become payable, the assets that guarantee their fulfillment mature, the pledger or depositor of the pledge, as the case may be, may proceed to collect the same and whatever is received in payment will legally be deemed to be a part of the pledge.

5.5.1 Pledge on Securities in the Central Depository

Any securities subject to real rights or subject to seizure or a precautionary measure will be entered under separate items in the depositor's account under a status known as "blocked", and they will not be regarded homogeneous to the other securities of the same type, kind, class, series and issuer. Seizures and precautionary measures may be decreed on all or part of the securities that a specific depositor has in deposit. Securities subject to seizure, precautionary measures, pledge or real rights, will neither be transferred nor restored without the written authorization of the person in whose favor such measures were created or of the judge having jurisdiction.¹²⁹

Depositors may create pledges and real rights on any securities they have in deposit, just as they could do if they were not deposited. For this purpose, on the depositor's request, the depository company will extend a certificate that establishes the amount of securities deposited. At the depositor's request, the certificate may be issued for only part of the securities that he has in deposit. If the depositor declares that he made the deposit in his own name, but on behalf of a third party, the deposit company will issue the certificate in the name of whomever the depositor indicates, under the depositor's sole responsibility.

For the purposes of the formalities necessary to create the pledge or any other real right, the certificate will substitute for the deed representing the securities involved. Irrespective of the type of pledge or real right, it cannot be opposed against the deposit company or third parties, if the pledge or real right has not been notified to the company by a notary, without prejudice to the other formalities that may be in order by law.¹³⁰

5.6 TREATMENT OF LOST, STOLEN OR DESTROYED SECURITIES

In the event of the misplacement or theft of a registered certificate or a certificate to the order, its owner must report the fact to the issuer, publish it and have recourse to judicial procedure for the judge to order the issuer to extend a duplicate of the securities or pay them, if appropriate.

Corporate Regulations¹³¹ establish that the owner of lost or misplaced shares must publish a notice in a daily newspaper with wide circulation in the country to inform the public that such

¹²⁹ See Law 18,876, Title I, Articles 4, 5 and 6.

¹³⁰ See Law 18,876, Title I, Article 14.

¹³¹ Title II, Article 21, of the D.S. De Hacienda N° 587 of 1982, Corporate Regulations

shares are without effect, and send a copy of the notice to the exchanges. If requested, the company must issue new certificates five days following publication.

In the case of bearer certificates, the issuing contract or agreement itself establishes the provisions for obtaining a duplicate or payment, generally demanding a guarantee equal to the par value of the document as of the date of the event (lost or theft), which will remain in effect for a five-year period following the expiration of the last coupon or payment, as the statute of limitations becomes effective after this time.

5.7 LEGAL MATTERS CONCERNING CUSTODY

Intermediary agents,¹³² third-party fund management companies,¹³³ exchanges, banks and finance companies, and issuers are authorized to keep securities in custody.

It is also established that custodian services is part of the corporate purpose of securities deposit companies.¹³⁴

5.7.1 Fungibility

Securities of the same type, series, kind, class and issuer deposited with the DCV are deemed fungible, so that whoever appears as owner of the securities in the accounting entry will own a specific amount of the same without having to identify these securities individually.¹³⁵ Any securities subject to real rights, seizure or precautionary measures will be entered under separate items in the respective depositor's account and will not be deemed homogeneous.¹³⁶ These securities shall have the limitations set forth in the preceding Section as concerns transfer.

The central depository may, in the case of homogeneous securities, ask the issuer to merge in one or more certificates the securities that it has in deposit. The issuer is under the obligation, when the nature of the certificate permits, to agree to the request and also to exchange the merged certificate or certificates as many times as required to do so.¹³⁷

5.7.2 Suppression of Physical Delivery

The transfer of securities in Chile, both inside and outside the exchanges, may be carried out by means of entries in accounts, through the central depository, or with physical certificates. It is not

¹³² See Title VI, Article 27, of the LMV. Circular Letter 549 of October 15, 1985 establishes the instructions to engage in the securities custody activity, and deems the same as inherent to intermediation.

¹³³ The managing companies of third-party funds are authorized to custody the securities of the funds that they handle.

¹³⁴ See Law 18,876, Title I, Article 1.

¹³⁵ See Law 18,876, Title I, Article 4.

¹³⁶ *Ibid.*

¹³⁷ See Law 18,876, Title I, Article 10.

obligatory to immobilize or dematerialize the securities in order for them to be traded in the exchanges and, in any event, the investor may demand conversion to physical certificates of the portion representing his investment. However, the trend is towards dematerialized issues and the immobilization of securities with the central depository, especially in the case of shares. In the special case of pension funds, by law they must deposit certificates with the central depository.¹³⁸

MARKET STRUCTURE AND TRADING SYSTEMS

5.8 PRIMARY MARKET: PUBLIC OFFERING OF SECURITIES

Public offering of securities is understood to be an offering made to the general public or to certain specific sectors or groups of the public. Securities may be publicly offered only when they and their issuer have been registered with the Securities Registry of the SVS.¹³⁹ This register is open to the general public and the following must be registered there:

- Issuers of publicly offered securities.
- Securities that are the subject of public offering.
- The shares of stock corporations and limited partnerships,¹⁴⁰ at least 10 per cent of whose paid-in capital is owned by at least 100 stockholders, or which have 500 shareholders or more.
- The shares issued by companies that voluntarily request their registration.

Voluntary registration implies that the registered company submits itself to all of the LMV provisions and its complementary regulations.

The public offering of debt securities having a maturity of over one year may only be made through the issue of bonds.¹⁴¹ The issue of certificates whose maturity is less than one year may be carried out by extending promissory notes or other credit or investment securities.

¹³⁸ Article 44 of the Executive Decree N° 3,500 made it compulsory to deposit the securities of pension funds with the Central Bank. Later, with the creation of the Central Securities Depository in 1992, the Central Bank resigned this custody (1997).

¹³⁹ See Articles 4 and 6 of the LMV. However, according to Article 3 of the LMV, the provisions of the LMV do not apply to securities issued or guaranteed by the Government, by centralized or decentralized public institutions and by the Central Bank of Chile.

¹⁴⁰ According to Article 470 of the Trade Code, a limited partnership is a company formed by one or more persons who undertake to make a certain contribution to the corporate capital and one or more persons undertake to administer exclusively the company either directly or through their delegates.

¹⁴¹ See Title XVI, Article 103, of the LMV. This rule does not apply to securities issued by the Central Bank of Chile or to those issued by the banking system.

Registration must be made in the Securities Registry, once the issuer has provided the necessary information regarding its legal, economic and financial situation. This information is required by general rules, which vary depending on the characteristics of the issuer, the securities and the offering, if any.

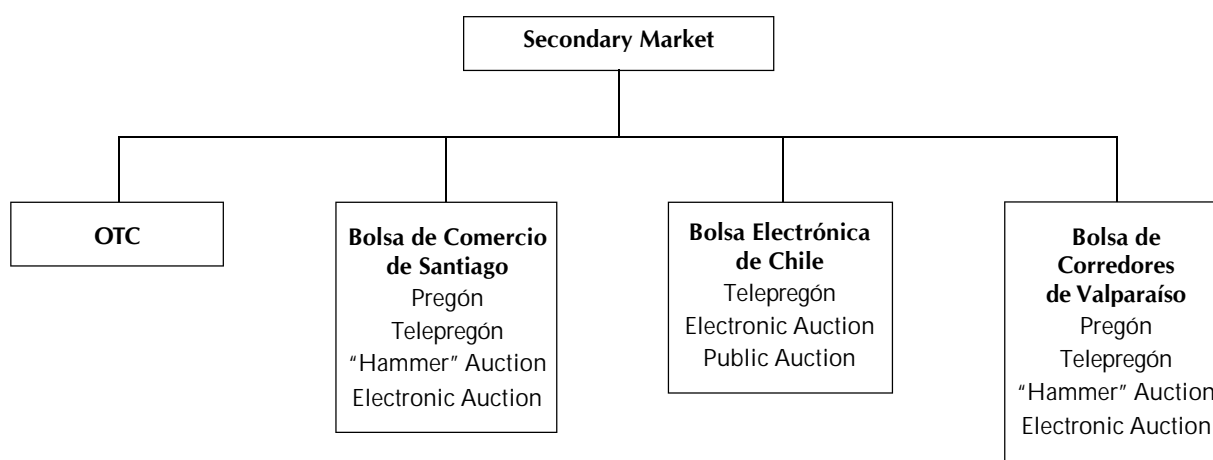
The registration of publicly offered securities calls for the issuer to file, in the case of fixed-income, together with the registration application, two risk ratings of the certificates to be registered, made in accordance with the provisions of the LMV.¹⁴² In the case of shares and other equities, the risk rating is absolutely voluntarily, so it is not a requirement for registration.

Registration in the Securities Registry binds the issuer to disclose in an accurate, sufficient and timely manner, all the essential information regarding itself, the securities offered and the offering.

5.9 SECONDARY MARKET

The secondary market is the market in which issued securities are transferred. The following chart shows the structure of Chile's secondary market.

Chart 3: Secondary Market



Any shares, which under the LMV must be registered in the Securities Registry, must also be registered with an exchange, which cannot refuse the registration. In order to be registered in an exchange, it is sufficient to submit a formal submission, together with the certificate of registration with the Securities Registry and a certificate indicating the legal status. The shares of companies that are not registered with the Securities Registry may not be listed or traded in exchanges. Shares registered in the Securities Registry may only be traded by stockbrokers. These transactions must be carried out in the session of the exchange of which the brokers are members.¹⁴³

¹⁴² See Article 8 Bis and Title XIV of the LMV.

¹⁴³ See Article 23, Sections a), b) and c), of the LMV.

No over-the-counter trading of shares is permitted in Chilean securities markets.¹⁴⁴

Securities other than shares,¹⁴⁵ which are registered in the Securities Registry, may be traded by any stockbroker or securities agent registered with the SVS, or by banks and finance companies, in exercise of their legal powers. The trading of these securities may be carried out inside the exchanges only when they have been accepted for quotation by the exchange involved¹⁴⁶ However, they may also be traded over the counter.

Most transactions involving fixed-income securities and financial intermediation instruments are made in the over-the-counter market. In addition to securities, gold and silver coin and foreign currency (dollars) may be traded in Chilean exchanges.

5.10 STOCK EXCHANGE TRADING

The securities are traded through various systems in the exchanges.

Pregón

This physical desk-trading system is used in the *Bolsa de Comercio de Santiago* and the *Bolsa de Corredores de Valparaíso* to trade shares,¹⁴⁷ their corresponding preferred subscription rights,¹⁴⁸ and investment fund shares. Under this system, the broker shouts his offer to buy or sell certificates out loud, and once a seller or buyer is found, the transaction is closed under the same conditions.

In the *Bolsa de Comercio de Santiago*, *Pregón* is used in two sessions, from 12:00 p.m. to 1:20 p.m. (first session), and from 5:00 p.m. to 5:30 p.m. (second session).

Telepregón

This electronic trading system is used in all exchanges to trade shares, investment fund shares, dollars, gold and silver,¹⁴⁹ and also to deal in futures and options.

¹⁴⁴ Except in special cases related to the public offering of securities. See Article 23, Section c), of the LMV.

¹⁴⁵ According to Article 3 of the LMV, securities are any transferable instruments, including shares, stock options, bonds, debentures, mutual fund shares, savings plans, commercial paper and, generally, any type of credit or investment instrument.

¹⁴⁶ According to the Operations Manual of the *Bolsa de Comercio de Santiago*, the official registration of fixed-income instrument must be applied for to the Stock Exchange's Board of Directors and the background information on the respective series must be filed with the Research Department. If the issuers are banks, finance companies, or government agencies, no such application need be submitted to the Board of Directors. However, the required background information must be submitted for official registration. The registration of financial intermediation instruments will be made by means of their simple registration, with the prior knowledge of the Board of Directors of the Institution.

¹⁴⁷ Other than low profile shares (for the definition of this term, see *Telepregón*).

¹⁴⁸ Whenever reference is made hereafter to shares, this shall also include their preferred subscription rights.

¹⁴⁹ According to the Operations Manual of the *Bolsa de Comercio de Santiago*, all trading involving fixed-income securities and money market instruments must be made through the auction system or off the desk. At the *Bolsa Electrónica de Chile*, fixed-income instruments may be traded also through the *Telepregón* system. Deals involving financial instruments must always be made by means of auctions or off the desk.

The broker logs the buy or sell orders in the computer system, which automatically verifies their compatibility. If compatible, it proceeds to matching them, otherwise it stores them and the offer remains standing¹⁵⁰ in order to be matched at any time afterward with new offers logged into the system.

At the *Bolsa de Comercio de Santiago*, it is possible to trade through *Telepregón* at the following hours:

High profile shares:¹⁵¹

From 9:30 a.m. to 11:50 a.m.

From 1:30 p.m. to 4:50 p.m.

Low profile shares:¹⁵²

From 9:30 a.m. to 5:30 p.m.

The automated trading system functions continuously from 9:30 a.m. to 5:30 p.m. in the *Bolsa Electrónica de Chile*.

***Remate martillero* (“Hammer Auction”)**

There are hours for “*remate martillero*” of registered shares in the *Bolsa de Comercio de Santiago* and the *Bolsa de Corredores de Valparaíso*, which generally represent substantial volumes of traded value. In this system, offers are previously recorded and the auction is made through an auctioneer, who shouts out the bids and awards the transaction to the highest bidder.

In addition, on the second and fourth Thursday of each month, shares which are not registered in the exchange,¹⁵³ or whose listing has been suspended, are auctioned off. This auction is designed to give these papers the possibility of obtaining a real market price. On Thursdays it is also possible to hold “weekly auctions,” at which only purchase offers are made for registered shares.

¹⁵⁰ A standing offer consists of offering or demanding a paper at a certain price, and logging the data into the computer, or reporting the offer data by means of a special voucher with indications of batch and payment terms, if appropriate standing offer subjects the remaining trading to the following condition: if a purchase offer is involved, no one can trade that paper for a price that is lower than the offer price, until such offer has been accepted. On the other hand, if it is a put offer, the paper cannot be traded at prices in excess of the offer.

¹⁵¹ High profile shares are deemed to be those which in the previous twelve months recorded significant liquidity and a high volume of trading, pursuant to the provisions of the Stock Exchange Board of Directors, and which are not in a special situation (in the process of liquidation, bankruptcy, suspension of payments, etc.).

¹⁵² Low profile shares are deemed to be any that in the previous twelve months, in the opinion of the Stock Exchange Board of Directors, had a lower liquidity and trading volume.

¹⁵³ According to Article 23, Section c), of the LMV, a special session must be held for the auction of non-listed shares twice a month, on the dates established in the internal regulations of the particular stock exchange.

At the *Bolsa de Comercio de Santiago*, there are four schedules for auctioning registered shares, beginning at 9:15 a.m., 11:20 a.m., 1:20 p.m. and 4:30 p.m.

“Hammer auctions” can also be held for fixed-income securities and financial intermediation instruments.¹⁵⁴ However, this system is not currently used.

Remate electrónico (Electronic Auction)

This is an electronic trading system for shares and fixed-income securities and financial intermediation instruments operating in all Chilean exchanges. Under this system, sell orders are logged in a specially determined period and the auction is carried out during another period when calls are made against the existing offers. At the end of the auction, the system awards the securities to the highest bidder.

At the *Bolsa de Comercio de Santiago*, electronic auctions of shares last 10 minutes and begin at 10:20 a.m., 12:20 p.m. and 3:20 p.m. The electronic auctions of fixed-income and financial intermediation instruments take place at the following hours:

From 10:30 a.m. to 10:40 a.m.

From 11:15 a.m. to 11:25 a.m.

From 12:00 p.m. to 12:10 p.m.

From 12.45 p.m. to 12:55 p.m.

From 4:15 p.m. to 4:25 p.m.

There are two types of electronic auction at the *Bolsa Electrónica de Chile*: concurrent and individual. The first is the simultaneous execution, during a specific period, of each and every one of the offers registered in the system. The second means the execution, one by one, of all the offers so registered. At the *Bolsa Electrónica de Chile*, the shares and investment fund quotas can be traded in both subsystems, together with fixed-income and financial intermediation instruments. In practice, while at individual auctions shares and investment fund quotas are traded, at concurrent auctions fixed-income and financial intermediation instruments are traded. The concurrent auctions last five minutes.

Licitación (Public Auction)

This is a trading mode in which, during a previously defined period of time, bids can be made for the offers announced, without knowledge of the bids made by other traders, and, when the period expires, the system awards the offer to the highest bid. In the bidding system of the *Bolsa de Comercio de Santiago* and the *Bolsa de Corredores de Valparaíso*, registered shares could be traded based on sell offers. However, so far this has not been done.¹⁵⁵ On the other hand, at the *Bolsa Electrónica de*

¹⁵⁴ See Section 2.1 of the Operations Manual of the *Bolsa de Comercio de Santiago*.

¹⁵⁵ See Section 2.4.1 of the Operations Manual of the *Bolsa de Comercio de Santiago*.

Chile only share placements are made, even though it would be also possible to trade other securities through this system.¹⁵⁶

5.10.1 Direct Operators

With prior authorization from the *Bolsa de Comercio de Santiago*, corporate legal entities¹⁵⁷ that sign an agreement for this purpose with the broker may participate in electronic bidding and electronic auction as operators of a specific broker. These operators will have their own code, both private and secret, to access the system. However, in order for them to trade in the system, it is necessary for the broker with which they made an agreement to authorize them to do so from its terminal. Any trading thus made will be registered under the code of the respective broker, even though the system differentiates them so that the broker can demand from the operator the corresponding obligations.

There is also the possibility of acting as direct (corporate) operator in the *Bolsa Electrónica de Chile*.¹⁵⁸

5.10.2 Types of Transactions

At the exchanges, most shares are traded on the "*contado normal*" (regular cash) (CN) settlement terms (T + 2). In the case of fixed-income securities, the most common settlement term is the business day following the conclusion of the transaction (payable tomorrow, PM). Financial intermediation instruments are normally settled under the condition of payable today (PH).

In addition, the following transactions can be carried out:

Forward Transactions

This is a transaction carried out in an exchange session, where both parties agree to defer the settlement for a specific term, which can range from 3 to 180 days. Term transactions must be guaranteed by the broker with the exchange, according to the procedures determined in the internal rules of the exchanges.

Simultaneous Transactions

This is a forward purchase (or sale), jointly and indissolubly with a spot sale (or purchase) for the same amount of shares. At the *Bolsa de Comercio de Santiago*, simultaneous transactions can be carried out with the *Pregón*, *Telepregón* and Serialized Electronic Auction systems.¹⁵⁹ The treatment

¹⁵⁶ See Article 75 of the Operations Manual of the *Bolsa Electrónica de Chile*.

¹⁵⁷ Banks, financial institutions, dealers, pension fund and mutual fund administrators and insurance companies.

¹⁵⁸ See 2.3 of the Operations Manual of the *Bolsa Electrónica de Chile*. In this exchange, investment fund managers also act as direct operators (traders).

¹⁵⁹ This is a special system for the simultaneous trading of shares and investment fund quotas.

of the guarantees that back up term transactions associated with simultaneous transactions is governed by the same procedures as regular term transactions.

Repurchase Agreement (Repo)

This is a transaction whereby a party sells fixed-income securities or financial intermediation instruments and undertakes to repurchase the same within a specific period of time. These transactions are carried out over the counter.

Short Sale

In this transaction, an investor (lender) owning specific shares, is willing to lend them in exchange for a payment (premium). The lender retains the right to receive the benefits and capital variations produced by the shares on loan, but forfeits the right to vote and to withdraw during the period of the loan.

In exchange for the payment of the premium,¹⁶⁰ the borrower or short seller receives the shares to be sold, which he will later repurchase to return them to the lender. There is the obligation to create a guarantee in favor of the lender, which ensures the return of the securities on the agreed date.

Any short sale (*Pregón o Telepregón*) made in an exchange must be identified as such. Short sales can be carried out only with shares expressly authorized by the Board of Directors of the Exchange. To date, there are 23 authorized shares.

In order to make a short sale, the broker, following the client's instructions, must previously request the loan of the shares in an *ex pit* transaction. The loan cannot extend beyond 360 days.

5.11 OVER THE COUNTER MARKET (OTC)

According to the LMV, all share trading must be carried out in a stock exchange session and through a broker. Consequently, the over-the-counter market is made up of securities other than shares.

At the *Bolsa de Comercio de Santiago*, brokers must deliver the details about all of the transactions carried out *ex pit* on the business day following the transactions.¹⁶¹

¹⁶⁰ The amount paid by the borrower to effect this transaction is called premium. The premium is the net amount received by the lender after reducing the rates paid to the intermediary brokers by the two counterparts to the transaction.

¹⁶¹ See 3.1.2 of the Operations Manual of the *Bolsa de Comercio de Santiago*.

5.12 MARKET SIZE

5.12.1 Primary Market

In 1998, the total value of share¹⁶² issues dropped from 1,939 million dollars in 1997 to 933 million dollars. The issues of fixed-income securities and financial intermediation market instruments dropped from 6,965 million dollars to 3,864 million in 1998.¹⁶³

5.12.2 Secondary Market

Market capitalization¹⁶⁴ in the stock market reached 68,227.5 million dollars in 1999. Table 8 shows figures up to 1998, when capitalization decreased 27.9 per cent, to 51,960.6 million dollars, as compared to 72,080.7 million at the end of 1997.¹⁶⁵

Table 8: Market Capitalization by Sectors in the Bolsa de Comercio de Santiago
(Millions of Dollars)

	1994	1995	1996	1997	1998
Agriculture and mining	1,824	2,518	2,332	1,989	1,418
Industrial	17,240	19,508	15,318	14,075	10,410
Banks, finance companies and exchanges	3,465	5,316	6,027	8,608	6,339
Diverse services	45,463	45,377	42,538	47,410	33,793
Total Capitalization	67,992	72,717	66,215	72,081	51,961

Source: Bolsa de Comercio de Santiago.

According to the ranking of shares on the basis of market capitalization in the *Bolsa de Comercio de Santiago*, the first place is held by Series A of CTC (4,458.9 million dollars), followed by *Enersis* (3,429.6 million), *Endesa* (2,977.6 million) and *Copec* (2,806.7 million).¹⁶⁶ These four companies account for 26.3 per cent of the total capitalization of the stock market.

In 1998, it appears that out of the 315 companies registered¹⁶⁷ in the *Bolsa de Comercio de Santiago*, only 254 of them were traded, which represents a 5.6 per cent decrease compared to 1997. In the

¹⁶² This value only includes cash shares, not fully paid shares.

¹⁶³ See page 74 of Issue N° 124 of the Securities Magazine of the SVS.

¹⁶⁴ Hereinafter, in order to present the market capitalization, the capitalization at the *Bolsa de Comercio de Santiago*, in which most of the public offering securities are registered in Chile, is used.

¹⁶⁵ See page 82 of Issue N° 124 of the Securities Magazine of the SVS.

¹⁶⁶ See page 62 of the Annual Report of the *Bolsa de Comercio de Santiago*.

¹⁶⁷ Corresponding to the number of series of shares of recorded business corporations.

same year, shares of 195 of the 323 companies registered with the *Bolsa Electrónica de Chile* were traded.

Table 9: Number of Registered Firms and Shares Traded in the Stock Exchanges of Chile

	1994	1995	1996	1997	1998
Registered Firms					
Bolsa de Comercio de Santiago	335	323	326	330	315
Bolsa Electrónica de Chile	288	302	314	320	323
Traded Shares^(a)					
Bolsa de Comercio de Santiago	224	267	269	269	254
Bolsa Electrónica de Chile	225	240	233	240	195

Sources: SVS, *Bolsa de Comercio de Santiago*, *Bolsa Electrónica de Chile*.

^(a) Includes stock subscription options, shares placed in the primary market and all series of a same issuer that are actually traded in the market.

In 1998, the total volume traded in the secondary market increased 28.1 per cent, to 364.8 thousand million dollars. However, the volume traded in the stock market dropped 43.6 per cent. In the same year, 89.4 per cent of the total volume traded in the Chilean secondary market took place in the over-the-counter market.

The volumes traded in stock exchange sessions dropped 17.2 per cent in the *Bolsa de Comercio de Santiago*, 22.6 per cent in the *Bolsa Electrónica de Chile* and 40.5 per cent in the *Bolsa de Corredores de Valparaíso*, respectively. The *Bolsa de Comercio de Santiago* was the most important exchange, accounting for 93.3 per cent of the total traded volume and 78.0 per cent of the volume traded in the stock market.

5.13 RECENT TRENDS

5.13.1 Off-Shore Exchange

In January 1999, the amendment to the LMV (new Title XXIV) became effective, which allows the public offering of foreign securities in Chile and is related to the project of creating an off-shore exchange in Chile. The new rules allow that foreign securities or certificates of deposit of securities (CDS) representing such securities be the subject of public offerings. The certificates of deposit representing Chilean securities issued overseas (American Depository Receipts, ADRs)¹⁶⁸ are also understood as included under the heading of foreign securities. Transactions in these securities are also to be understood as off-shore, which will make foreign investors operating in this market

¹⁶⁸ See Article 183 of the LMV.

Table 10: Value Traded in the Secondary Market
(Millions of Dollars)

	1994	1995	1996	1997	1998
Bolsa de Comercio de Santiago	93,615 ^(a)	158,723	207,019	249,012	331,635
In exchange session	N.A.	31,882	34,230	43,507	36,014
Shares and CFI	5,555	11,054	8,329	7,194	4,317
Financial intermediation	N.A.	13,009	17,913	26,761	24,252
Fixed-income	N.A.	7,810	7,985	9,547	7,434
Gold and dollars	N.A.	10	3	6	11
Futures and options	1	0	0	0	0
Over-the-counter	N.A.	126,840	172,789	205,505	295,622
Financial intermediation	N.A.	45,341	91,170	109,601	165,607
Fixed-income	N.A.	70,772	69,424	75,637	81,249
Gold and dollars	N.A.	10,727	12,195	20,267	48,766
Bolsa Electrónica de Chile	N.A.	N.A.	32,585	35,342	32,936
In exchange session	2,510	3,169	3,893	3,158	2,445
Shares and CFI	1,502	2,266	3,071	2,362	1,061
Financial intermediation	634	838	712	716	1,327
Fixed-income	372	65	111	60	56
Gold and dollars	2	0	0	21	1
Over-the-counter	N.A.	N.A.	28,692	32,184	30,491
Financial intermediation	N.A.	N.A.	18,501	21,224	18,503
Fixed-income	N.A.	N.A.	5,568	5,570	6,612
Gold and dollars	N.A.	N.A.	4,623	5,390	5,375
Bolsa de Corredores de Valparaíso	857	893	1,016	511	258
In exchange session	214	318	223	267	159
Shares	214	318	223	267	159
Financial intermediation	0	0	0	0	0
Fixed-income	0	0	0	0	0
Gold and dollars	0	0	0	0	0
Over-the counter	643	575	793	244	99
Shares	5	0	0	0	0
Financial intermediation	548	459	622	62	21
Fixed-income	51	12	43	72	60
Gold and dollars	39	104	128	110	18
Secondary Market Total	N. A.	N. A.	240,620	284,865	364,830

Sources: *Bolsa de Comercio de Santiago, Bolsa Electrónica de Chile and Bolsa de Corredores de Valparaíso.*

^(a) There are no disaggregated figures for 1994 in the Bolsa de Comercio. Traded totals at this exchange (in and out exchange sessions) for financial intermediation, fixed-income and dollars were 34,318, 48,478 and 5,123 million dollars, respectively.

exempt from capital gains tax and income tax (currently 15 per cent). The required foreign currency reserve¹⁶⁹ and the requirement that this capital remain in the country for at least one year do not apply to them.

Foreign securities and CDSs must be registered in a Foreign Securities Registry kept by the SVS. Registration of foreign securities must be applied for by the issuer and, in the case of CDSs, the issuer or a foreign securities depository may apply for the registration. The applicant has the obligation to provide the SVS and the exchanges in which he is enlisted with information on the issuer and the securities. The SVS, in accordance with Central Bank rules, may authorize over-the-counter trading of foreign securities or CDSs.

The Central Bank has determined that transactions in this new market must be made in dollars and/or euros and in formal exchanges. Over-the-counter placing and redemption of shares of foreign investment funds, whether open or closed, had already been authorized, provided that a stockbroker participated in the transactions.

¹⁶⁹ In 1998, the required foreign currency reserve was reduced to 0 per cent, but the item was not eliminated as such from the Digest of International Foreign Exchange Rules of the Central Bank.

6 CLEARANCE AND SETTLEMENT CIRCUITS FOR SECURITIES

6.1 ORGANIZATIONS AND INSTITUTIONS

The *Bolsa de Comercio de Santiago* (BCS) and the *Bolsa Electrónica de Chile* (BECH) are located in Santiago; the *Bolsa de Corredores de Valparaíso* (BCV) is based in Valparaíso.

Securities can be traded in any of the exchanges in which they are registered and also in the over-the-counter (OTC) market, except for shares, which may only be traded in exchanges. Buy or sell orders must be channeled through a stockbroker, although there is the capacity of Direct Operator or Direct Trader, who can send orders directly, but always linked to the code of a broker with whom he has a contract for this purpose.

Although nothing prevents issues from being dematerialized, physical certificates represent most securities. Dematerialization is limited basically to some securities issued by the Central Bank. Shares can be represented by physical certificates, or else remain in the issuer's register until a request for the certificate is made by shareholders (see Chapter 5).¹⁷⁰

A large portion of fixed-income securities and financial intermediation instruments and, to a lesser extent, shares and investments fund quotas, are immobilized and entered in accounts at the DCV.

Settlement of stock exchange transactions can be made either bilaterally, that is directly between the parties, or in a centralized manner, as in the DCV or the clearing system of an exchange. Centralized settlement is valid only for transactions with a regular cash (*contado normal*, CN) settlement condition (settled in T + 2).

In centralized settlement, the securities are delivered, separately, by means of bilateral netting between the parties. The clearing can be made by physical transfer (in an exchange) or electronic transfer (in accounts held at the DCV). Payments (cash settlement) are always made in the clearing system of the respective exchange by means of multilateral netting. However, final settlement occurs through the interbank payment system.

Centralized settlement is the usual practice for shares and investment fund quotas traded in exchanges. Most are settled electronically in the DCV¹⁷¹ and the rest by physical transfers in the clearing systems of the BCS and the BECH.

However, simultaneous transactions,¹⁷² forward transactions, transactions to be settled PH (for today) and PM (for tomorrow), those above 5,000 UF that the brokers request to withdraw and those

¹⁷⁰ See Circular letter 688.

¹⁷¹ In shares transactions carried out at the BCS and with netted settlement, electronic settlement at the DCV accounts for slightly over 95 per cent of the number of transactions and around 80 per cent of the traded amounts. At the BECH, the percentages are similar.

¹⁷² The incoming transaction is settled on day T (settlement for today) and the outgoing one is always settled at a term in excess of T + 2.

which are withdrawn from the netted settlement due to lack of coverage of the seller's net position are subject to decentralized bilateral physical settlement.

Bilateral settlement is compulsory for transactions with fixed-income securities and in financial intermediation instruments traded in an exchange or over-the-counter, regardless of the settlement conditions: for today (PH, settled in T), for tomorrow (PM, settled in T + 1) or regular cash (*contado normal*) terms (CN, settled in T + 2). As for OTC transactions, the PH condition is the usual one. The bilateral settlement may be physical (in the clearing system of an exchange or at the buying broker's office), or electronic, through the accounts held with the DCV. In the three cases, the financial settlement is executed in a stock exchange, although in the second case it can occur, between the parties, in a direct way.

6.1.1 Clearance and Settlement Institutions

Bilateral Settlement

For fixed-income and financial intermediation instruments, it is possible to effect physical settlement (delivery through physical transfer) of the securities or electronic settlement (delivery through electronic transfer) at the DCV, at the buying broker's office or directly between the parties (always under a bilateral arrangement). In the case of OTC transactions, brokers, banks and other financial entities may participate. Cash settlement, which is always direct and bilateral, can occur in a stock exchange, at the buying broker's office or off the system.

Clearing Systems of Exchanges (equities only)

Current rules establish that stock exchanges may provide clearing and settlement procedures for transactions carried out by their brokers. Consequently, the exchanges have organized some clearing systems in which the bilateral net settlement of the deliveries of securities and the multilateral net cash settlement of payments are effected. Only stockbrokers participate, and the "Clearinghouse Operator" handles operations.

Net Settlement at the DCV (equities only)

In September 1998, the DCV implemented a Net Settlement Service for equity transactions. This service allows depositors to settle transactions of equities that they have in their accounts, provided that they have been previously registered with any of the exchanges' clearing systems. The purpose of the service is to replace physical deliveries of securities made by the brokers in the clearing systems by electronic deliveries through credits and debits in the accounts opened at the DCV. However, cash settlement in the clearing systems of the exchanges, in which the Clearinghouse Operators act as "authenticating officers" and report to the DCV that the payment instruments (*vales vista*) have been delivered, persists. During 1999, settlement through the electronic delivery of securities, centralized at the DCV, has been replacing physical deliveries made in the clearing systems, which now has a residual character. However, all cash settlements of transactions are maintained at the clearing systems.

Box 5: DCV Activities

The DCV started operations in 1995, providing market participants the possibility to deposit in their accounts and to register in its Central Issues Registry some fixed-income instruments (letters of credit and corporate securities).

During 1996, the number of instruments deposited in the DCV including PRBCs and some social security bonds (*Bonos de Reconocimiento de Pensionados*) increased.

According to the D.S. No. 3,500, the Central Bank depository responsibilities have been assumed by the DCV.

In 1997 and 1998, shares, investment fund quotas, PDBC, PRD and other financial corporations' promissory notes have also been deposited.

The Inventory Account was also transformed to allow pension funds' securities previously deposited in the Central Bank to be moved to the DCV, when the Central Bank withdrew from its custody functions. These accounts also support the deposit of the special "Bonds for the Acknowledgment of Active Affiliates" (*Bonos de Reconocimiento de Afiliados Activos, BR*) and the custody of expired securities.

In June 1997, the DCV started providing a service of "Custody and Electronic Transfer of Equities". This service has brought about operational savings for stockbrokers and institutional investors by making unnecessary the issuance and filing of transfer forms for stock corporations.

In June 1998 a Centralization Service for the BR maintained by the AFPs was started. This allowed the immobilization of BR, reducing operational risks. This Service permits to transfer BR among AFPs accounts and facilitates processes before the Social Security Agency (*Instituto de Normalización Previsional*).

A "Service for Dematerialized Issues" was also implemented, and has been used so far for Central Bank securities.

In September 1998, the "Service for Netted Settlement" for share transactions held in exchanges was also created. This service allows depositors to settle transactions of securities they hold in their accounts, registered in any of the clearinghouses and exchanges linked to the DCV. The system assigns transactions through debits and credits in the accounts with the DCV. In addition, the bulk registry of position transfers to facilitate the registry of simultaneous operations and collateral up dating was also permitted. To the aim of facilitating netted settlement, stockbrokers have been encouraged to transfer custody and depository functions to accounts at the DCV. From September 1999, this measure has been made compulsory.

In November 1998 a service that allows custody and registry of transactions in shares representing ADRs was provided to depositors who represent the custody banks and foreign investors. These are channeled through special accounts named "*mandante*" accounts.

The DCV information obligation to issuing societies are defined in article 26 of Law 18,876. The DCV minimum capital must be 30,000 UF.¹⁷³

Among potential services to be developed by the DCV is the possibility that corporations may open "*mandante*" accounts for individuals. Also, the DCV could use their accounts for time deposits (in order to facilitate the registry of operations and the exercise of economic rights), create a new system linking DCV databases to facilitate the issuers' administration of shareholders registries by automating transfer approvals by the issuers and the exercise of economic rights. The DCV is also exploring with the banking sector the introduction of technical improvements for electronic payment of securities transactions and a speed up in the dematerialization process.

6.2 SECURITIES REGISTRATION AND CUSTODY PROCEDURES

Ownership of registered securities is established by enrolment in the registers of the issuing company. This is the case of shares, which by law must be issued in registered form, and investment fund quotas (CFI). Therefore, a share or CFI transfer is not completed until the securities are registered in the issuer's registry, in the name of the buyer.

Securities issued to the order of are transferred by endorsement and in order to register them with a custodian they must be endorsed in favor of such custodian.

6.2.1 Registration and Custody in the DCV

In order to be a depositor in the DCV, a deposit contract must be signed with it.¹⁷⁴ Depositors may open accounts and must have their own securities in an account separate from those of third-party securities. Third-party securities are kept in an aggregate manner in accounts. Depositors may also request the opening of special accounts, known as "*mandante*" accounts,¹⁷⁵ to register third-party securities in a segregated manner (one for each third party). Among other things, this facilitates the activities of institutions that are not permitted by law to have an account with the DCV. The DCV keeps registered the aggregate position (the balance) of all of the *mandante* sub-accounts registered, and an auxiliary register of the details of each account.

Depositors may also have inventory accounts to register securities that are difficult to make fungible, which need individualized registration in the name of the owner, something that cannot be offered through normal accounts. These accounts basically register BR Bonds, CORA bonds, some issues of the General Treasury of the Republic and redeemed securities.

In the registries of the issuing companies, the securities of depositors must be registered in the name of the DCV.¹⁷⁶ This eliminates the problem of having to re-establish the real ownership of securities each day due to transfers.

¹⁷³ See Article 18, item c), of Law 18,876.

¹⁷⁴ There is a generic deposit contract and another that is specific for AFPs.

¹⁷⁵ See Box 5.

¹⁷⁶ See Article 5 of Law N° 18,876.

The DCV informs issuers only of transactions between depositors. With this information, the issuers must prepare and maintain a list of the securities of depositors registered in the name of the DCV.

The above is valid for shares and CFIs, which by law must be registered, and whose transfer of ownership is completed only by registration in the issuing company's books.

If there is no "*mandante*" account, the securities deposited in the account are registered and individualized by instrument code, without the individual separation of the ultimate owners, in which case responsibility for the information rests with depositors. Every day, the DCV reports to depositors the status of the securities in deposit, which may be: freely available, blocked or under transitory retention, corresponding to transactions pending clearing.

The DCV system distinguishes three ways to move securities from the various accounts that can be opened: buy-sale transactions, self-transfers ("*traspasos*") and transfers.¹⁷⁷ In the first case, it is the movement of position between accounts of different depositors, for which the registration of payment means is required; that is, they are assimilated to self-transfers against payment. The other types of movements are assimilated to payment-free self-transfers. Self-transfers are always movements of positions between the accounts of the same depositor and transfers are movements of positions between accounts of different depositors, without requiring the delivery of payment means in exchange. The movements in accounts will be for amounts that are multiples of the minimum negotiable position defined for each instrument.

The registration of securities transfers resulting from the transactions is made by a credit to the position account of the buyer and a debit in the seller's account.¹⁷⁸ The DCV offers to its depositors daily information on positions and movements of securities entered in their accounts. The service includes the facility of electronic consultation at any time.

Although the general operational procedure of securities transfers in the DCV goes through the prior immobilization of the physical certificates in the institution's vault, it is also possible to register dematerialized issues in the DCV, provided that the DCV and the issuer have agreed that the latter will not issue physical certificates, unless some depositor so requests, and will keep in its records a system of entries in favor of the DCV.¹⁷⁹

The DCV manages the collection of economic rights and provides the paying banks with lists of "*mandante*" account holders. Non-banking issuing companies have a designated paying bank, to which the same information is given. In this case, the DCV only issues payment instructions.

The DCV has a custody and registration service for all transactions of shares convertible to ADRs for trading at the New York Stock Exchange, and facilitates the necessary share withdrawals and deposits.

¹⁷⁷ See Article 1 of the DCV internal regulations.

¹⁷⁸ In fact, the securities to be delivered are transferred from the seller's available position account to its retention account with rights, while waiting to be transferred to the buyer's position account.

¹⁷⁹ See Article 1 of the DCV internal regulations.

Each bank that has in custody shares convertible into ADRs¹⁸⁰ has a *mandante* account in the name of the depository bank (the bank that issues ADRs).¹⁸¹

6.2.2 Registration and Deposit of Securities in a Custodian other than the DCV

Investors may choose between keeping the certificates directly with them (which is common in the case of individuals), keeping them in custody with the issuing company (which is frequent in the case of institutions that own control share portfolios of the companies) or keeping them in the custody of stockbrokers and securities agents (which is common in the case of clients with frequent transaction activity in exchanges).

It is also possible to keep an investor's securities in custody with a bank or a financial institution authorized to do so. The option is available to keep securities in the name of the investor himself (by renting a vault or safety deposit box) or to make a transfer to the name of the custodian agency and register it with the issuing company (in the case of equities) or through endorsement, in the case of securities to the order of.

It is worth underlining the case of stockbrokerage houses: these institutions have, on the one hand, a deposit of securities with the DCV. On the other hand, they keep under direct custody securities of their own portfolio and that of their clients. As in the case of the DCV, stockbrokers have their securities deposits registered in their names with the issuing companies, in order to avoid the flow of transfers to the issuing company to register the ownership of securities as a result of market transactions. Natural or legal persons wishing to sell securities that they do not keep deposited with a brokerage company (which, in turn, can deposit them with the DCV in the name of the latter) must previously transfer their securities to the broker, as a prior step to the sell order. The broker registers the transfer with the issuer. This process, if everything goes smoothly, may take up to two days.

There is no institution that carries the accounting record of shares in a total and exclusive manner. In order to avoid the need to make transfers to the issuing institution, the system has been evolving towards a situation in which there are, from the issuer's perspective, three types of shareholders: the DCV, stockbrokers and other individuals or corporations. The securities in the name of the DCV represent basically holdings of corporations. The securities in the name of stockbrokerage firms basically belong to clients who are in the process of selling securities, and the last would basically be the owners of stable portfolios who have decided to keep the securities directly with the issuing company.

6.2.3 Withdrawal of Securities

Investors may decide to withdraw their securities from the agency with which they deposited them by means of a transfer in the investor's name that is later registered with the issuer (equity) or endorsement in favor of the investor (securities to the order).

¹⁸⁰ The banks currently acting as custodians are Citibank, *Banco de Chile*, *Banco de Santiago* and *Banco Santander Central Hispano*. All of them have accounts at the DCV.

¹⁸¹ The DCV can and is likely to soon offer issuer companies to carry their stockholder registration books, and to provide direct assistance service for stockholders.

In the case of shares, investors may choose to leave the registered securities with the issuing company itself, without issuing the corresponding physical certificates.

Dematerialized securities can be reverted to physical certificates. This does not entail the withdrawal of the securities from the system.

6.2.4 Dematerialization of Securities

Since the law does not establish how securities must be represented, it does not prevent them from being dematerialized. However, physical certificates represent most securities.

Securities deposited with the DCV remain immobilized, whether they are physical or originally dematerialized. In the latter case, it is necessary for a prior agreement to exist between the issuer and the DCV which guarantees that the issuer is not under the obligation to issue the certificates physically, but only to keep a system of account entries in its records. In 1998, only certain financial intermediation instruments issued by the Central Bank were dematerialized, which account for close to 10 per cent of all those outstanding. The following table shows the evolution, by instruments, of the importance of dematerialized securities in the total of securities deposited with the DCV.

Table 11: Dematerialized Securities in the DCV
(Total deposits^(a) in the DCV as % of the issued total)

	1995	1996	1997	1998
Equities	0.00	0.00	9.89	11.43
Fixed-income instruments	N.A.	0.00	0.00	0.00
Financial intermediation instruments	0.00	3.80	13.61	12.12

Sources: SVS y DCV.

^(a) In this specific case total deposits is referred to as dematerialized securities.

Immobilization is not a necessary condition for trading securities. However, in the case of shares, in order to have access to the netted settlement, both in the clearing system of exchanges and in the DCV, it is necessary to have previously deposited the securities in the name of a stockbroker, in the first case, or in the stockbroker's account with the DCV, in the second case, with the corresponding entries in the issuer's register. The deadline for this is 6:00 p.m. on the day the sale takes place, though on some occasions longer terms are used.

Table 12 shows the proportion of securities in custody kept by the DCV, which by late June 1999, accounted for close to 46 per cent of the market value of those outstanding in the system.

As far as fixed-income securities, in 1998 the DCV held an amount higher than 94 per cent and, by mid-1999, this figure was slightly above 99 per cent of the total. Financial intermediation instruments deposited in the DCV account for a much more smaller share of the total, as it is shown in Table 13.

Table 12: Market Capitalization and Valuation of Holdings at the DCV

	1995	1996	1997	1998	1999 ^(a)
Market capitalization ^(b)	131,629	127,808	137,631	106,257	98,578
Value of holdings at the DCV ^(b)	1,892	22,008	40,290	40,997	45,200
Holdings in the DCV as % of total market capitalization	1.44	17.22	29.27	38.58	45.85

Sources: SVS and DCV.

^(a) Figures as of end June.

^(b) In millions of dollars.

Table 13: DCV Deposit Share
(Total deposited as % of issued total)

	1995	1996	1997	1998
Equities	0.00	0.00	9.89	11.43
Fixed-income instruments	7.90	77.80	88.91	94.75
Financial intermediation instruments	0.00	3.80	14.39	23.04

Sources: SVS and DCV.

Shares kept in deposit at the DCV in 1998 accounted for 11.4 per cent and by late 1999 some 18 per cent of market capitalization. It must be borne in mind that the controlling portfolios of companies (between 60 per cent and 85 per cent, according to the issuers) are usually kept in custody directly by the issuing company itself, because it is capital that is not meant to be traded in the market. It is also common for individuals who frequently trade in the stock exchange to deposit their securities directly with the stockbroker through whom they usually do business.

6.3 SECURITIES CLEARANCE AND SETTLEMENT PROCESS

6.3.1 Settlement Modalities

There are different securities clearing and settlement procedures, depending on the instrument and the transaction's settlement conditions. As mentioned above, the DCV has gained importance since 1995, and has implemented a centralized electronic securities transfer system.

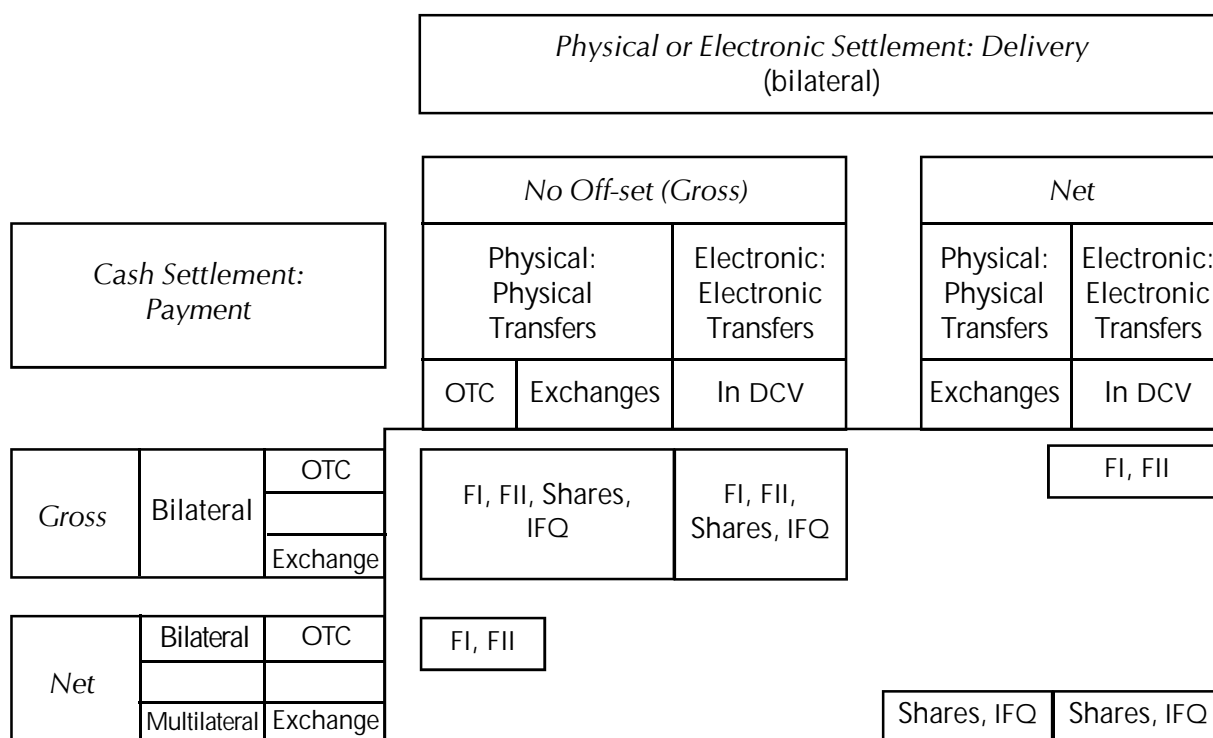
There are the following trading modalities in stock exchanges, which have already been discussed in Chapter 5: *Pregón* (open-outcry), auction (open-outcry or electronic), public auction and special transactions, including commitment transactions known as "simultaneous" (equity) or pacts (fixed-income and financial intermediation instruments).

The transactions are undertaken among stockbrokers, although direct participants can also order transactions using the stockbroker code. Securities may also be traded over the counter. In practice, this activity is the most significant in terms of the amounts traded.

In the context of exchanges, it is worth repeating that securities transactions are executed indicating specific settlement conditions, which may be for today (PH, settlement in T), for tomorrow (PM, settlement in T + 1), regular cash terms (CN, settlement in T + 2), or forward settlement (up to 180 days).

It is also possible to differentiate trading modalities according to the chosen clearing and settlement mechanisms, both of payments and/or securities. The following chart summarizes the alternatives for clearing and settlement. Both for securities delivery (physical or electronic settlements, which are always bilateral), and payment (financial settlement, which can be bilateral or multilateral). In both instances, settlement can occur at a centralized (in the clearing system of a stock exchange or the DCV) or at a decentralized level (i.e. without the participation of a clearing agency).

Chart 4: Mechanisms for Securities Clearance and Settlement in Chile: Securities Delivery and Fund Transfer



FI= Fixed-income instruments; FII= Financial intermediation instruments; IFQ= Investment Fund Quotas.

6.3.2 Settlement Procedures

Centralized Multilateral Cash Settlement, Netted Physically or Electronically, for Variable-Income Instruments (e.g. shares) with a Regular Cash (CN) settlement condition¹⁸²

Cash settlement (payments) is centralized in the clearing system of stock exchanges, and it is carried out on a multilateral net basis. The payment instructions are taken directly and physically to the

¹⁸² CFI's are not traded at the BCS, because they are not registered with it.

clearing system of the corresponding exchange. *Vales vista* (one for each broker with a net debit position for the total of its buy and sell orders that must be settled with all other parties) are used as payment instruments. The clearing system deposits the *vales vista* received in the current account held with a clearing bank,¹⁸³ requesting the issue of the corresponding *vales vistas* in favor of the brokers having a net credit position as a result of all the transactions that they have to settle with all counterparts.¹⁸⁴

The securities are delivered on a bilateral netting basis, separately for each instrument traded, i.e. the broker delivers or receives a single transfer for the difference of all the buy orders and sell orders of each instrument with the same counterpart.

Securities can be transferred physically ("physical settlement") by the brokers having a net debit position with their creditor counterparts, when the settlement is centralized in the clearing system of the exchange, or by means of electronic transfer among the accounts that the brokers hold at the DCV.

Approximately 95 per cent of shares transactions made at the BCS (which account for slightly over 80 per cent of total amounts traded) are settled by means of the electronic clearing procedure through the DCV. These percentages are similar at the BECH.

The processes that take place in the centralized settlement through the clearing system of each stock exchange and the DCV, which are used to clear and settle shares and CFIs, are described below. This procedure is usually known as "cleared settlement by trader" and is described below.¹⁸⁵ A description is given for each separate operator modality. When considered necessary, reference is made to the multi-operator modality, which so far has not been used.

Processes carried out on T

Registration of Transactions in the DCV (from 6:30 p.m.)

At the end of the market session of day t, the Clearinghouse Operator of the exchange, responsible for the clearing system in communications with the DCV, sends the DCV a file with the cleared information of the variable-income (shares and CFIs) transactions that have been carried out that brokers have requested be settled in the DCV on CN terms. Clearing (netting) has been effected bilaterally for each type of securities, so that a broker's net position with respect to each counterpart is the difference between purchases minus any sales made in the that particular instrument.

Processes carried out on T + 1

Remittance of lists by the exchanges to brokers (9:30 a.m.)

At 9:30 a.m. on T + 1, each stock exchange's Custody Department sends to its brokers the listings with the cash balances to be received or delivered, which comprise the transactions to be settled by

¹⁸³ The Bank of Chile, in the case of BECH, and Citibank, in the case of BCS.

¹⁸⁴ See Chapter 4 for a detailed description of cash settlement.

¹⁸⁵ The DCV has a procedure for the joint settlement of both stock exchanges, known as "multi-operator net settlement," which so far has not been used by the stock exchanges. This allows the netting of positions in securities with the opposite sign of the same trader with the two exchanges and in a same instrument.

physical transfer and through the DCV. Also, it delivers listings with net balances of shares with physical transfers to be delivered or received in the clearing system itself and net listings of shares to be transferred electronically in the DCV.

Brokers must revise the listings and, if they detect any discrepancies, report them during T + 1.

For physical deliveries in the exchange's clearing system, the selling broker must deposit with the Custody Department the cleared securities transfers, duly signed and issued in the name of the counterpart broker before 6:00 p.m. on T + 1.

Registration of Transactions (up to 6:30 p.m.)

The Clearinghouse Operator can continue registering transactions in the DCV by sending batch files up to the close of the market session. By means of these, modifications (later corrections) may also be made, when the individual operator settlement procedure is used.

Validation of transactions by the DCV (up to 6:30 p.m.)

The DCV computer system processes the files received, verifies their integrity and consistency and the correct coding of the fields included in each delivery. If there are any errors, the complete file or some of its records are returned, depending on whether the error detected affects the validation of the file or the fields that make up the records. If errors are detected, the DCV prepares a detailed report, which it makes available to the exchange clearing system operator.

The clearing system operator may make the correction on the returned records one by one or grouped by securities or depositor. The deadline for entering corrections is the same as the one as for registering transactions.

Processes carried out on T + 2

Opening of Transactions in the DCV (9:00 a.m.)

The settlement session begins with the opening of transactions. The DCV computer network enables the clearing system operators to opt each day between settling their transactions by netting them with all other clearing system operators (multi-operator option) or settling them by clearing only their own transactions (single operator option).¹⁸⁶ The system allows the clearing system operator to modify the option at any time during the session to work in the single operator mode. The switch to this option is irrevocable throughout the session.

Preliminary Calculation of Net Securities Positions for each Depositor (from 9:30 a.m.)

At the beginning of the day the DCV selects the transactions to be settled and processes them to calculate the net results, which will be used in the following stages. They are computed net by

¹⁸⁶ The absence of registration by the trader implies conformity with the multi-operator settlement mode, which is the one applicable by default.

instrument and Clearinghouse Operator. As a result, for each individual instrument each depositor may file the following results: net buyer (when the sum of purchases minus the sum of sales is positive) or net seller (the result of purchases less sales is negative).¹⁸⁷

Initial Entering of Retentions to be made in Depositors' Accounts (9:30 a.m.)

At the beginning of the day the DCV transfers the securities to be required to depositors with a net seller financial position from the accounts to transitory retention accounts with rights. If there were no balance to cover the amount of the required retention, there would be an amount pending retention.

Initial Consultation of the Results of Retentions (from 9:30 a.m.)

Each Clearinghouse Operator can consult on-line the status of each of the depositors, for each instrument, which may be any of the following: covered (when the retention registered with the DCV is equal to the required retention) or lacking funds¹⁸⁸ (when the retention registered with the DCV is less than the one required).

Depositors may also consult their status for each instrument, respect to each of the required retentions equivalent to what is available to the Clearinghouse Operator.

Delivery of Vales Vista to the Exchange's Clearing System (10:30 a.m.)

Brokers with a net debit balance (net buyers) deliver the *vales vista* in favor of the exchange. The exchange deposits them in its account with its settlement bank, and requests the issue of other *vales vista* in the name of the brokers with a net credit balance (net sellers).

Closing Registration of the Exchange Clearing or Clearinghouse Closing Registration (11:30 a.m.).

Each Clearinghouse Operator will communicate the DCV, by means of an electronic message, the completion of the collection of net cash payments from the depositors who prove to be debtors in the multilateral clearing process carried out by the exchange's clearing system. In the notice of this closing registration, the Clearinghouse Operator acts as authenticating officer, and it is understood that the participants having a net credit position in the multilateral net settlement of cash, have given him, each separately, confirmation of the receipt of the corresponding payments.

¹⁸⁷ Calculation in the multi-operator mode would be analogous for each instrument and depositor, extending to the transactions registered by all Clearinghouse Operators.

¹⁸⁸ In the multi-operator mode, when the registered retention is also less than the net multi-operator seller (*neto multioperador vendedor*) registered for the depositor in that instrument. In this mode, a third situation is possible, that of potentially short (*potencialmente descubierto*), when the retention registered with the DCV is lower than the required retention, but higher than or equal to the net multi-operator seller of the depositor in said instrument. That is, in a house it is short in securities, which is less than the net credit position in securities it has in the other clearinghouse.

In the single operator mode, the closing record of the clearinghouse is a necessary requirement for the DCV to proceed with the final settlement of the transaction. The DCV does not accept the closing record from the Clearinghouse Operator while there are depositors short of funds in respect to the transactions reported by that Clearinghouse Operator.

The DCV confirms receipt of the closing record with the Clearinghouse Operator by telephone.

Repetition of the Retention Process (after 11:30 a.m.).

Each clearing system operator and each depositor may consult the result of the successive and automatic repetition of the position retention process, which will be repeated as long as there is any depositor with a short position.

Final Settlement of the Transactions (after 11:30 a.m.).

After 11:30 a.m., the final settlement stage commences for each operator separately,¹⁸⁹ provided that no depositor has a short position. The following processes occur:

Allocation of positions withheld

The DCV distributes to each depositor the amount of the withheld position up to that moment to cover the required position. Depositors may give instructions to the DCV as to the form and priority in distributing the withheld amounts among Clearinghouse Operators. These instructions are only used when the amount of the withheld position is less than the total of net sellers that each depositor records with the DCV for the transactions reported by all Clearinghouse Operators.

In the absence of instructions, the DCV distributes the withheld positions giving preferential treatment to those who registered a higher required position and provided that the same can be fully covered with the amount of the withheld position.

Withdrawal of transactions from the clearing system

The transactions excluded from the net settlement due to lack of coverage of the required position must be entered directly by the parties in the DCV's computer systems in the shortest possible time.

Settlement at the DCV (1:30 p.m.)

The DCV transfers the traded positions. For this purpose, it enters in each depositor's position account the movements for each transaction reported by each Clearinghouse Operator.

The accounts of available position receive first all of the credits for purchases and then all of the charges (debits) for sales, settling the debit difference, if any, against the retention account with rights.

¹⁸⁹ The process will necessarily be effected in the single-operator mode when there is a depositor with a short position. Where it is necessary to switch to the single-operator mode, the computer system of the DCV will separate the operations to be settled of each Clearinghouse Operator.

Final Cleared Settlement Report

The DCV issues a report that it makes available to the Clearinghouse Operator, detailing the transactions settled.

Settlement in the clearing systems of the exchanges (1:30 p.m.)

The exchange delivers the *vales vista* issued in their favor to the brokers having a net credit balance (net sellers).

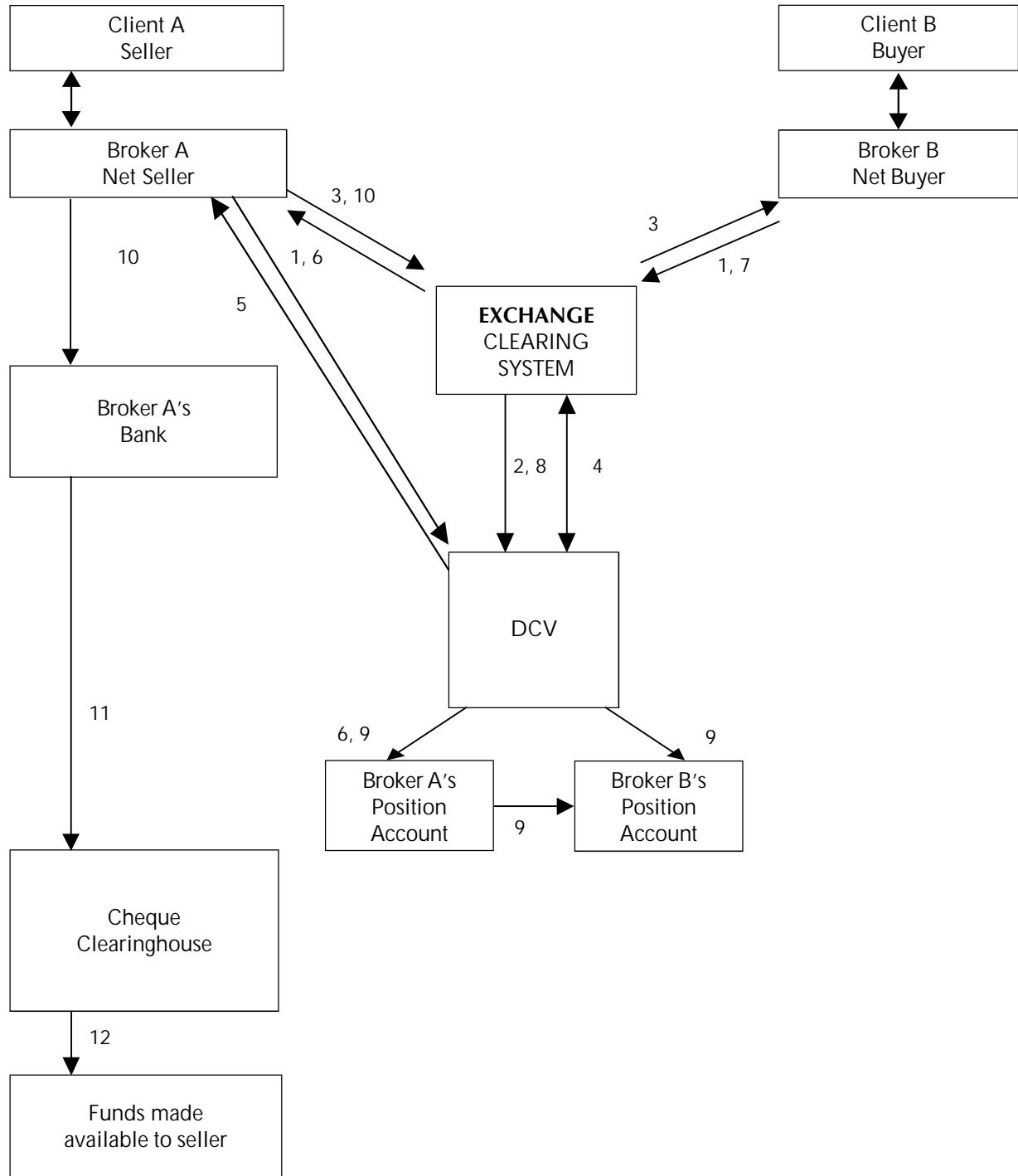
Box 6: Flow Chart of Clearance and Settlement Processes: Centralized Multilateral Net Settlement (cash leg) of Equities under a CN Settlement Condition

The following chart summarizes the clearance and settlement process for equity transactions held in exchanges under a CN settlement condition (T + 2), with deliveries of securities made physically through the clearing system of the exchange or electronically through transfers between the accounts of brokers at the DCV (explained below).

To simplify the chart, a situation has been chosen in which only two brokers are settling among them a single financial instrument. The settlement is the result of a transaction made at an exchange in which they have acted as intermediaries for clients. Therefore, each broker appears with a single (debt or credit) position in the chart.

Chart 5: Settlement of Equities Transactions under a CN Settlement Condition: Modality per Operator

Explanation of the Flow Chart on next page.



1. Brokers execute their clients' orders in the stock exchange at day T market session.
2. The exchange sends the Report of Cleared Transactions to the DCV at 6:30 p.m. on day T.
3. The exchange informs brokers about the net balance of securities (bilateral off-set) and cash (multilateral netting) corresponding to them at 9:30 a.m. on T + 1.
4. Up to 6:30 p.m. of T + 1, the DCV sends a detailed report to the exchange so that it can enter any corrections. The exchange returns the corrections to the DCV.
5. The DCV makes a calculation of the necessary (net) retention of securities, enters it and reports it to the net seller broker at 9:00 a.m. on T + 2.
6. If a seller broker does not have enough securities in his account, he must make a transfer until its position is covered. The DCV repeats the retention process until the position is covered, up to 11:00 a.m. on T + 2. If the selling broker decides to operate through the clearing system of the exchange, he must physically transfer the securities by 11:00 a.m. on T + 2.
7. Brokers with a net debit balance (net buyers) deliver the *vales vista* for the amount corresponding to them to the stock exchange on T + 2 up to 11:00 a.m.
8. The exchange reports to the DCV that it has concluded the collection of net financial sums from the brokers having a net debit balance, at 11:00 a.m. on T + 2.
9. The DCV makes the electronic transfer of positions at 11:00 a.m. on T + 2
10. The exchange deposits the *vales vista* received in its current account with the settlement bank and requests new *vales vista* in favor of the brokers having a net credit balance (net sellers), to which it delivers such *vales vista*. At 1:30 p.m. on T + 2, the brokers deposit the *vales vista* in the accounts they hold with their banks.
11. The banks collect the *vales vista* at the cheque clearinghouse at around 6:00 p.m. on T + 2.
12. The banks receive confirmation of collection the next day (T + 3) at around 11:30 a.m. and make the funds available to the brokers after 1:00 p.m. However, the final settlement of the banks takes place in the Central Bank's books at around 9:00 p.m. on T + 3.

Bilateral Settlement of both the Delivery of Securities (physical or electronic) and Payments

This system is valid for any fixed-income and money market instruments traded in the exchanges, in any contracting modality, regardless of the settlement conditions (PH, PM, CN). Defaulted transactions

of shares with CN settlement terms are also included, plus simultaneous transactions (variable-income commitments) and transactions in shares with PH and PM settlement condition.

Both the delivery of the securities and their payment are made on the date agreed by the parties. The seller delivers the transfer of the securities to the buyer and at the same time the buyer executes the payment in favor of the seller. The payments are almost always made with *vales vista*.

When the delivery of securities is made by physical transfer, the clearing and settlement may take place in the exchange's Custody Department, at the buying broker's office or at another location as agreed upon by the parties.

If delivery of the securities is made at the DCV, by electronic transfer from the seller's account to the buyer's, it is possible to make the payment both at the exchange or at the buying broker's office. In both instances, the delivery of the securities (electronic transfer) is made with the prior authorization of both intermediaries to the DCV and the confirmation that the seller has received the payment instrument. At the same time that the buyer delivers the payment document to the seller, the seller will deliver an "Acknowledgment of Receipt of Payment"¹⁹⁰ form to the buyer, which includes the code that enables the buyer to confirm that the securities have been electronically transferred to his account with the DCV.

The exchanges inform the DCV on a daily basis about all transactions whose delivery is made by electronic position transfer, including those whose cash settlement will be included in the clearing system (they can be under PH, PM or forward settlement terms) as well as those which will be settled bilaterally. The PH transactions are reported at 1:00 p.m.; PM transactions at 1:35 p.m., and forward settlement transactions at 4:30 p.m.

In the case of fixed-income instruments and of securities being delivered through the DCV, settlement may be made one transaction at a time, by accumulating transactions or by netting the transactions to be settled among the parties. In any of these options, each party proceeds to clear and settle all its pending transactions.

Settlement of OTC transactions

In these cases, the delivery of the securities and payment for them is usually made as described in the preceding Section, and the parties need not be stockbrokers. In any OTC transactions effected by brokers, the buyer and/or seller, as appropriate, must report the details of the transaction to the corresponding exchange.

6.3.3 Procedures for Default Resolution

Transactions withdrawn from centralized settlement must be settled between the parties bilaterally. This may be done through the DCV or the exchange itself.

¹⁹⁰ See Appendix N° 41 of the DCV Operations Manual.

Any defaulting broker must rectify the default situation in the shortest possible time, under threat of a severe penalty, which may include cancellation of the right to trade in the exchange. However, the broker affected by the default may ask that the transaction be executed in the market.

If the transaction was withdrawn due to failure to deliver the securities, the buyer affected may request that the securities be repurchased (buy-in) from him in the exchange, which will be done by auction. If the price obtained exceeds the initial purchase price, the difference is covered with the defaulting broker's performance bond.

If the transaction was withdrawn because of failure to pay, the broker affected may request the resale (sell-out) in the market of any securities for which payment has not been received, also by auction. If the selling price is less than the one initially agreed in the defaulted transaction, the difference will be paid through the procedure mentioned above.

There are no arrangements to provide funds or securities to strengthen security in the settlement procedure.

6.3.4 Settlement of Transactions Performed by Non-Resident Investors

There are no special requirements for settling the transactions of non-resident investors, other than those established for resident investors.

To facilitate their participation in the system, non-resident investors usually trade through a domestic custodian bank, which opens a "*mandante*" account for them with the DCV. This is the case of foreign banks depositories of ADRs.

6.3.5 Legal Matters Concerning Clearance and Settlement

a) Centralized Settlement of Equity (CN) Transactions

In the clearance and settlement of transactions involving equities, with the participation of the clearing systems of stock exchanges and the DCV, the interchange of securities and payment instruments takes place at the same time, at the end of the settlement cycle.

In turn, settlement in these systems is made through multilateral netting processes (position off-set) on the side of payments and bilateral on the side of deliveries. Because of the latter the system could be regarded as DVP Model III of the BIS classification.¹⁹¹ The securities purchased are available to the buyer after transfer, and only after the cash settlement. Payments are made with *vales vista*, which are cashed, in the best scenario, on the morning of day T+3, that is, the day following the interchange of securities and payment instruments. This is because in centralized settlement, brokers do not collect the *vales vista* in cash, but deposit them in a current account, following the instructions

¹⁹¹ The precise definition of the models may be consulted in page 16 of the paper entitled "*Delivery versus Payment in Securities Settlement Systems*", published by the Bank for International Settlements in September, 1992.

of the exchange. However, these payments could be regarded as same-day funds since the *vales vista* are a means of payment ultimately guaranteed by the Central Bank.

In the centralized settlement of equity transactions under CN terms, when these are delivered by means of physical transfer to the exchange's clearing system, without the DCV's participation, there is the possibility that the sender could reject the transfer, and therefore the deliveries of securities cannot be regarded as irrevocable in this mode. Although in the case of failure to deliver the stockbroker is liable, in an extreme situation the broker might not be able to assume commitments and file for bankruptcy. In this case, the delivery versus payment mechanism could not be regarded as perfected.

b) Bilateral Settlement

In any of its modalities (gross or net settlement of securities and payments, whether centralized or not), the delivery versus payment mechanism can be considered perfected if the settlement of fixed-income and financial intermediation instruments is involved. Since these securities are issued to bearer or to the order, the deliveries can be regarded as final and the remarks made above for payments made by means of *vales vista* apply.

In the bilateral settlement of equities, it can be considered that there is only a true delivery versus payment when deliveries are made through the DCV, but when the deliveries are made through physical transfer they cannot be regarded as irrevocable.

c) Netting

Some of the different clearing and settlement modalities operate through position netting processes, both of securities and payments. This is the case, already mentioned, in the centralized settlement of equities under CN terms. Netting may occur solely for the securities leg, for the funds leg, or both.

d) Novation and Substitution

The law makes stockbrokers responsible for any default in settling their clients' transactions. Exchanges and the DCV assume no liability for the default of participants in the clearing and settlement processes, and limit their role to simply facilitating the processes. The law does not recognize the concepts of novation and substitution. Consequently, net payment obligations derived from securities clearance (netting) do not become legal obligations for the participants.

e) Bankruptcy and Insolvency Laws

The law does not grant any preferential treatment to obligations resulting from securities clearance and settlement in situations of insolvency (bankruptcy or payment suspension) of the participants.

6.4 SECURITIES LENDING

Although securities lending is not regulated generally, there is a specific set of rules for short sales and for the lending of shares, in the context of which bilateral loans are made.

In short sales and share lending, the borrower receives securities on credit with the purpose of carrying-out a sell transaction. That is, the borrower sells securities previously received on loan.¹⁹² There is no automated securities loan system.

6.5 DERIVATIVES CLEARANCE AND SETTLEMENT

At present the derivative market is not active in the stock exchanges. All activities are carried out OTC, outside the organized markets.

6.6 INTERNATIONAL LINKS AMONG CLEARANCE AND SETTLEMENT INSTITUTIONS

There are no direct links between the DCV and other international central depositories.

6.7 GOVERNMENT SECURITIES

Most of the government securities issued in Chile are Central Bank certificates. The process to issue, clear and settle such certificates is explained in Chapter 7, *The Role of the Central Bank in Clearance and Settlement Systems*, Section 4, "Securities Issuance".

Box 7: Summary of the Interaction between Payments and Securities Clearance and Settlement Systems

Payment mechanisms and instruments used in the cash settlement of securities

In the context of securities markets, cash settlement is the transfer of the payment means by the securities buyers to the securities sellers. The settlement of the transactions made in an exchange can be effected bilaterally, that is, directly between the contracting parties, or else in a centralized manner, through the exchange's clearing system.

The bilateral cash settlement is effected on a transaction-by-transaction basis, gross or else netting pending transactions between the parties. In the centralized settlement of variable-income (shares and CFI) transactions, the payments are made through multilateral netting (netting of contrary sign positions maintained among them by all of the participants). The most common settlement condition is regular cash (*contado normal*), that is, on T + 2.

The transactions involving fixed-income and financial intermediation instruments can also be settled through the centralized mechanism. In these cases, the exchange receives and delivers the payment instruments (*vales vista*), without any netting.

In most cases, the *vales vista* are used as payment means, although, in low-value transactions there is the possibility of using cash or bank cheques. The *vale de cámara* could also be used if the participants are banks or financial companies.

¹⁹² This operation has been described above Chapter 5.

In the bilateral settlement, the buyer issues a *vale vista* in favor of the seller. In the centralized settlement of shares with a T + 2 settlement condition the brokers having a net debit position (net buyers) deliver *vales vista* to the exchange, which, after they have been deposited in its current account, asks its bank to issue the corresponding *vales vista* in favor of the brokers that turned out with a net credit position (net sellers).

In principle, the bank issues a *vale vista* when the funds have been delivered or are available in the account of the taker of the *vales vista*, or else when the bank grants it a loan. However, banks issue the requested *vales vista* against the collateral constituted by the *vales vista* delivered by brokers. That is, the *vales vista* are issued upon a collateral made-up of other *vales vista* already issued and previously deposited.

In stock exchange transactions, brokers are liable for any settlement default. Due to certain restrictions imposed by the rules of pension funds, it is frequent that the brokers credit to these clients the sell transaction in advance. Such is the case with the AFPs, which the law does not allow delivering the securities without receiving the payment. Thus, in order for an AFP to deliver the securities sold (by around 11:00 a.m. on the morning of T + 2), the broker that intermediates the sell delivers it a *vale vista* for the proceeds of the sale. In these instances, the issue of the *vale vista* by the bank represents for the broker the extension of an intraday credit line.

Once the settlement is made (at around 1:30 p.m.), the broker receives from the exchange the corresponding *vales vista* corresponding to the sell, whose funding it has previously advanced.

Each exchange operates with a specific settlement bank for the issue of the *vales vista*.¹⁹³

The collection of the *vales vista* is made through the cheque clearinghouse.¹⁹⁴

Securities payment and settlement coordination

The cheque clearinghouse is managed and operated by the *Sinacofi*. An institution on duty, appointed each month on a rotating basis, chairs and controls the incidents of the various sessions of the daily Clearinghouse cycle. The *vales vista* are incorporated to these processes, together with the rest of the payment documents to be cleared.

The processes carried out at different Clearinghouse cycles (exchanges, adjustments, returns, interbank transactions and jurisdictional) are manually made (transferring of payment documents), while the information is transmitted electronically at the same time in the form of a list.

The result of the consolidated clearing nationwide is known as the closing of the Fifth Clearinghouse Session. The result is reviewed and verified by the participating institutions. With the information of the summary templates of the jurisdictions, the Clearinghouse Chief prepares a Net Clearinghouse Balance Statement, which indicates, for each participant in the clearing process, its positive or negative net balance. The institution on duty reports it to the Central Bank

¹⁹³ The Bank of Chile, in the case of the BECH, and Citibank, in the case of the BCS.

¹⁹⁴ See Chapter 4.

by means of an electronic message at the end of the clearing (on t, at around 5:30 p.m.), so that the Central Bank proceeds with the settlement.

The Central Bank of Chile manually processes this information in order to determine in its books the corresponding final balances of each financial institution. This process is completed between 8:00 p.m. and 10:00 p.m., after the closing of the banking day.

These credits and debits in current account represent the final payment of the net balances resulting from the prior day's clearing process. Should an overdraft take place in some financial institution's current account, the Central Bank would by law grant an automatic credit, with a severe penalty.

Consequently, the *vales vista* are settled in the morning of the day following their filing with the cheque clearinghouse.¹⁹⁵ That is, the funds corresponding to securities transactions are not available until the next day (never before 9:00 a.m.), following the settlement term of the transaction in the market (which, in the case of equities transactions with centralized settlement at the stock exchange, takes place at 1:30 p.m.).

There are no statistics of the volume settled each day with *vales vista*, because the available information in the cheque clearinghouse processes does not allow differentiating between cheque modalities separately.

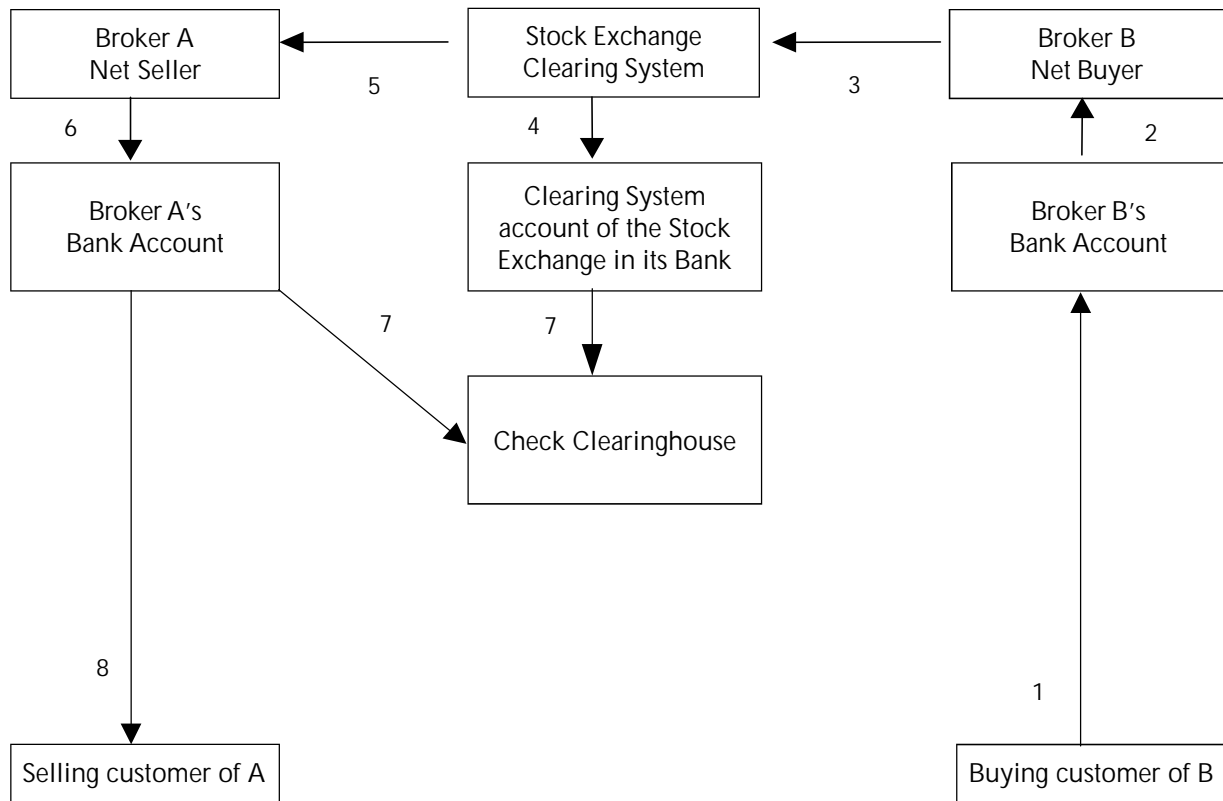
In the clearing processes, there are no control tools for the financial risks participants are introducing into the system (basically, credit and liquidity risks). There is no sufficient information that allows the Clearinghouse Operator to globally manage the risks incurred throughout the cycle. There are no limits either for the exposure of the positions maintained by the financial institutions.

The banks become aware of their net position resulting from the first Clearinghouse session (exchanges) by around 6:30 p.m. on the day prior to the final settlement. This allows them to prepare, first thing in the morning, to make the cash adjustments that are necessary throughout the day, since the final settlement will take place in the Central Bank books at the end of the banking day. The cash deficit may be covered by operating in the interbank market from 10:00 a.m. to 1:00 p.m., through *vale de cámara*, which are cleared at 3:30 p.m.

The existence of a relatively high reserve requirement has the consequence that the liquidity in the system is abundant. This, together with the current account overdraft permitted by the Central Bank, under normal circumstances guarantees the smooth functioning of the payments system. The high penalties charged for overdrafts act as an element of discipline for the entities. The next chart shows the transfer of payment means that are necessary for the financial settlement of the securities transactions. The flows correspond to the case of a transaction carried out in an exchange and that is settled in a centralized manner through the exchange's clearing system.

¹⁹⁵ Actually, this is valid for the *vales vista* belonging to the same group of cities. The clearing cycle of the *vales vista* of other cities not belonging to the group of cities takes three days. This could be the case of the payments by the *Bolsa de Corredores de Valparaíso*.

Chart 6: Payments Flows in the Centralized Bilateral Settlement of Securities Transactions



Explanation of the Flow Chart

1. The client (buyer) pays the broker that will intermediate the transaction.
2. The broker requests the issuance of a *vale vista* in favor of the stock exchange.
3. The buying broker delivers the *vale vista* to the exchange's clearing system.
4. The exchange deposits the *vale vista* in the account it has with its bank and requests the issuance of another *vale vista*.
5. The exchange delivers the new *vales vista* to the selling broker.
6. The selling broker receives the *vale vista* and deposits it in the account with its bank so that the latter can proceed to its collection.
7. Broker A's bank and the exchange's clearing system's bank collect the respective *vales vista* through the cheque clearinghouse.
8. Broker A pays its client through its bank.

7 ROLE OF THE CENTRAL BANK IN CLEARANCE AND SETTLEMENT SYSTEMS

One of the Central Bank's roles in payment systems is the administration of the current accounts that banks and finance companies hold with it and through which the clearinghouse settlement is made, as well as payments related with the Central Bank securities auctions and the Central Bank's open market operations. The Central Bank also acts as lender of last resort, by guaranteeing the demand or sight obligations of banks and providing interbank liquidity. In addition, the Central Bank regulates and governs the functioning of clearinghouses for cheques and other securities used by financial institutions (See Section 2.5).

The law gives the Central Bank power to act as "lender of last resort", that is, to grant credits to banks and finance companies in emergencies, with maturities not exceeding 90 days, if they face problems due to a temporary lack of liquidity.

The General Banking Law also establishes that, if the compulsory liquidation of a financial institution is declared, the current account deposits, the other sight deposits it has received and the demand obligations¹⁹⁶ that it assumed will be paid with resources held in cash, those deposited at the Central Bank or invested in the technical reserves. Should these funds be insufficient, the Central Bank would provide the liquidator with the necessary additional funds either by buying the distressed bank's assets or granting loans with preference over any other creditors, whether preferred or "valistas".¹⁹⁷

Thus, demand deposits are guaranteed and their payment is made immediately once the liquidation of a banking institution is declared. Thus, the Central Bank, in providing the funds necessary to cover the demand or sight liabilities of the institutions with problems, guarantees the smooth functioning of the payments system.¹⁹⁸

7.1 RISK CONTROL POLICY

The Central Bank authorizes and regulates the operation of clearinghouses, establishes the rules to which companies issuing and operating credit cards must abide and coordinates its activities with the banking supervisor (SBIF).

The Central Bank has a unit which handles matters related to payment systems and which updates the Compendium of Financial Regulations in connection with them. In any event, as an additional risk control measure, banks must make a deposit in a technical reserve for all demand obligations which exceed their equity and reserves by 2.5 times.

¹⁹⁶ Any deposits, whose payment can be legally demanded unconditionally, immediately or within a contractual term of less than 30 days, as well as any time deposits and other funding as from the tenth day prior to their maturity, are also considered demand deposits and obligations.

¹⁹⁷ See Article 132 of the General Banking Law (LGB). This also rules when agreement proposals are presented. See LGB Art. 123, item 5°.

¹⁹⁸ See Chapters 2 and 4.

7.2 SETTLEMENT

Financial institutions are the only private companies that can hold a current account with the Central Bank. Through these accounts, banks comply with the reserve requirements and are able to make interbank payments, as all the legal reserve is usable for this purpose. The accounts are governed by the Bank Current Accounts and Cheques Law, although with certain modifications that are set out in a "general conditions" contract, among which: 1) the Central Bank will not pay interest or readjustments on the deposits (except for the remuneration due on reserve requirements), and 2) for legal purposes, all the accounts that a bank can open for any reason in Chilean or foreign currency will be regarded sub-accounts of the same account.

For what concerns the settlement of the cheque clearinghouse, the Central Bank credits or debits financial institutions' accounts every day, after receiving the information of the "Statement of Summarized Net Clearinghouse Balances" that the Clearinghouse Chief sends to it through *Sinacofi*. Since the Central Bank accounting is not on a real-time basis, the current accounts are settled in net terms at the end of the day. The processing of the information is mostly automated, but there are still some manual procedures. This means that the final net balances of financial institutions are not known until 9:00 to 10:00 p.m., that is, in practice, not until next morning. With this procedure, the Central Bank is providing a credit in the event that some current account overdraft should occur. This credit is heavily penalized in terms of interest and may cause the SBIF to step up its supervision. It should be noted that overdrafts happen only sporadically.

7.3 MONETARY POLICY AND PAYMENT SYSTEMS

Liquidity Management

The main operational objective of monetary policy is the overnight interbank rate. This rate represents the interest paid on loans that banks make to one another overnight or over the weekend.¹⁹⁹ Resources moved in the interbank market are largely overnight and their payment is recorded in the current accounts that the banks hold with the Central Bank. This market is the main source of financing for institutions having temporary cash shortages or which fall behind in the fulfillment of reserve requirements.

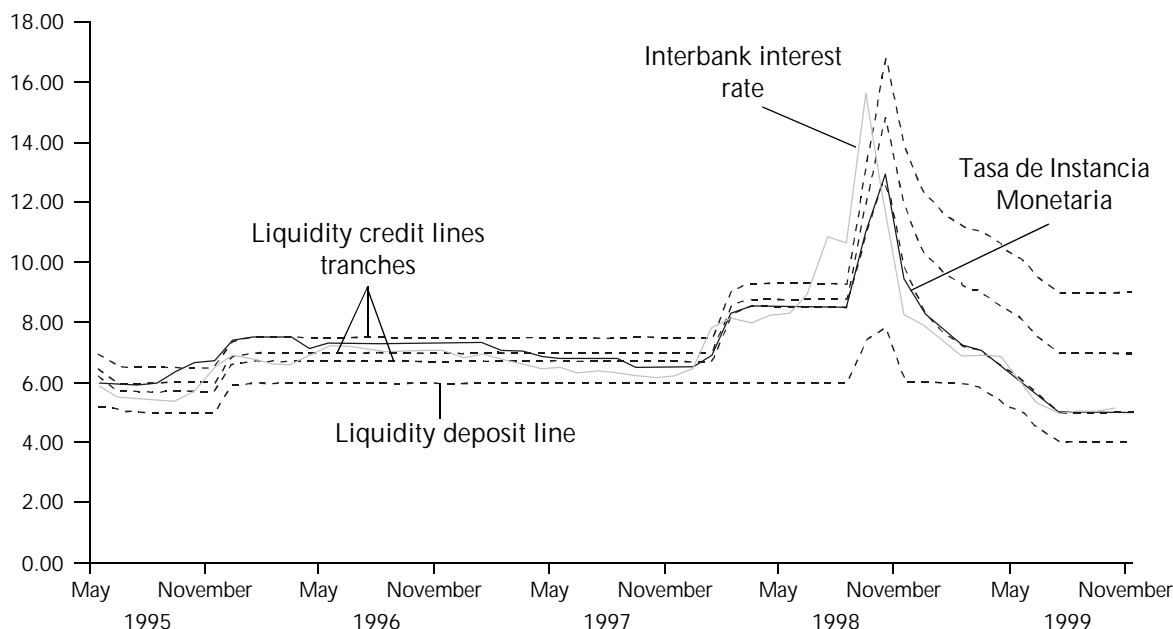
The Central Bank publicly announces the target level for the interbank rate - known as the "*tasa de instancia monetaria*" - which is consistent with the achievement of the annual inflation target.

Through open market operations, the Central Bank provides the market with the necessary liquidity so that the interbank rate nears the *tasa de instancia monetaria*.²⁰⁰ Other instruments used, but less important, are: 1) non-sterilized foreign exchange interventions;²⁰¹ and 2) standing facilities in the form of liquidity credit lines, whose conditions are known beforehand by institutions.

¹⁹⁹ The interbank rate is computed on the value of the loan converted into UF.

²⁰⁰ This has been the case since May 1995, the beginning of the period when the Central Bank has chosen the overnight interbank rate as its main operational objective, until today, except for the critical months of January and June 1998.

²⁰¹ These instruments, however, are not being used.

Chart 7: Official Interest Rates and Interbank Rate in UF

The monetary stance of the Central Bank is based on a monthly target for the monetary base, which is a proxy for the liquidity of the economy, for the measurement period of the reserve requirement, which coincides with the period for calculating the UF.²⁰² The monthly projection of the monetary base is obtained by estimating its demand consistent with the level of the *tasa de instancia monetaria*, taking into account seasonal factors, and verifying its coherence with other broader aggregates (M1A). They also take into consideration the future issue flows due to redeeming amounts, at different maturities, of Central Bank papers, and the expected changes in the balances in the current accounts banks hold at the Central Bank.

The main instrument used by the Central Bank to bring the interbank rate closer to the target rate for monetary policy are open market transactions. These are normally executed through "quotas" or amounts of the Central Bank's new issues of debt securities and repurchase agreements (repo) and reverse repos.²⁰³ In particular, liquidity is roughly accommodated by the issuance of quotas of Central Bank paper,²⁰⁴ and then adjusted more precisely with the repos and reverse repos.²⁰⁵

The schedule of the monthly bids for quotas is reported by the Central Bank the day immediately preceding the new reserve requirement period, which allows financial institutions to anticipate the

²⁰² See Box 1.

²⁰³ Repo transactions are purchases with a resale agreement in which only notes of the Central Bank held by the financial institutions are accepted.

²⁰⁴ Due to their high amount, the maturities of notes have a major influence on the liquidity situation.

²⁰⁵ Which in practice are sales very short-term notes (1-7 days).

liquidity situation in the system. Through these transactions, which the Central Bank can carry out every day from 10:00 a.m. to 12:30 p.m., liquidity can be injected into or drained out of the financial system.

The reserve requirements applied to banks and finance companies are not used as an instrument of monetary policy. In fact, the reserves requirements have been maintained without major modifications since the eighties, and rather play a prudential role in handling liquidity at the level of individual banks.

Banks and finance companies must comply with the reserve requirement in relation to average deposits, other funding and other liabilities in pesos and foreign currencies, on a monthly basis.²⁰⁶

Currently, the reserve requirement for sight liabilities denominated in Chilean currency is 9 per cent and 3.6 per cent for term liabilities. Deposits over one year are not subject to legal reserve requirements. Required reserves can be held in bills and coins of legal tender, which can be maintained in the vaults of financial entities or at the Central Bank. Reserves are remunerated with 50 per cent of the percentage variation of the Consumer Price Index for the month preceding the start of the corresponding maintenance period.

The foreign currency reserve requirement is 19 per cent for sight deposits and liabilities and 13.6 per cent for deposits and other forms of funding of up to one year, with 10 per cent of that remunerated on the basis of international interest rates. The reserve requirement must be held only in dollars, either available in cash or deposited in the current account held with the Central Bank.²⁰⁷

In June 1999, the average reserve requirement amounted to 617,100 million pesos and the standing reserve totaled 621,900 million pesos.²⁰⁸ The liquidity in these accounts seem to be, in the opinion of participants, sufficient to finance the daily net balances stemming from the clearinghouse.

There are two standing facilities for liquidity management: liquidity credit line and liquidity deposit. Through the former, the Central Bank grants loans to banks at rates and for amounts previously known. This credit mechanism is articulated through three marginal tranches of increasing interest rates in order not to encourage excessive borrowing by financial institutions. The maximum daily amount of the liquidity credit line accounts for 60 per cent of the sum of:

- the average required reserve in the immediately preceding month;²⁰⁹

²⁰⁶ The monthly period of the reserve requirement does not coincide exactly with the calendar month and corresponds to the period running from day 9, inclusive, of one month, to day 8, inclusive, of the following month. However, the financial institutions must have an average reserve requirement between days 9 and 23 of each month, of not less than 90 per cent of the legal reserve for the same period.

²⁰⁷ The amount subject to "*canje*" may be deducted from the peso and dollar required reserve.

²⁰⁸ No information is available about the percentage of reserves held in current accounts at the Central Bank and the percentage that held in cash at financial entities.

²⁰⁹ From day 9 of the preceding month to day 8 of the current month, which is the maintenance period for required reserves.

- the average amount resulting from applying the required reserve rates to the liabilities, which are subject to the technical reserve.

There are three tranches of maximum utilization, subject to the following interest rates:

- the first 40 per cent of the liquidity credit line is subject to the *tasa de instancia monetaria*.
- the next 30 per cent is subject to the *tasa de instancia monetaria* plus 200 basis points.
- the last 30 per cent is subject to the *tasa de instancia monetaria* plus 400 basis points.

Independent of the above, the average amount of the liquidity credit line used by each financial institution in each reserve requirement period cannot exceed 30 per cent of the first tranche percentage.

Institutions may resort to this liquidity facility as many times as they wish, provided that they do not resort to it on at least one day within the monthly reserve requirement period involved.²¹⁰ This credit facility is not collateralized.

Liquidity deposit is a facility that allows banks to deposit their daily liquidity surpluses and has a one-day maturity. The liquidity deposit rate is a floor for the interbank rate.

Overdrafts

Overdrafts in current accounts held with the Central Bank are generally due to administrative errors, but if an institution does overdraw its current account, a penalty is applied equal to the higher between the average interbank rate of the financial system, with a 50 per cent surcharge, or the "maximum conventional" interest rate for non-readjustable operations in Chilean currency with maturities of less than 90 days. Utilizing this overdraft facility too frequently leads to disciplinary measures by the SBIF.

7.4 CENTRAL BANK ISSUANCE OF SECURITIES

The Central Bank issues securities ("notes") throughout the whole range of possible maturities, which at present ranges from 3 months to 20 years. The total standing amount accounts for approximately 30 per cent of GDP (666.3 million UF at the end of 1999) and is the largest securities market in Chile, besides being the deepest and one of the most liquid. The Central Bank securities market is an eminently wholesale interbank market in the short-term and of institutional investors on longer terms.

The Central Bank also issues Central Bank Discountable Promissory Notes (PDBC) and the Central Bank Readjustable Promissory Notes (PRBC), which are short-term certificates almost 100 per cent

²¹⁰ The day can be chosen freely by the financial entity.

dematerialized and registered at the DCV. Recently, the Board of Directors of the Central Bank has agreed to dematerialize progressively the rest of its certificates, that is, Coupon-Bearing Readjustable Promissory Notes (PRC), Dollar Readjustable Promissory Notes (PRD) and Floating Rate Readjustable Promissory Notes (PTF). The PDBC and PRBC account for 25 per cent of the whole Central Bank debt. However, the progressive dematerialization of the rest of the securities, especially the PRC that account for close to 70 per cent of the current balance of the Central Bank debt, may result in significant changes in the current market practices.

The issuance procedure consists of auctions held twice a week (on Tuesdays and Thursdays) in the case of short-term securities (PDBC and PRBC) and several times each month for the rest of the securities. Both financial entities and institutional investors (Pension Funds, FP, Insurance Companies, CS, and Mutual Funds, FM)²¹¹ can participate in the bidding. The filing of bids is manual: it is necessary to send a document to the Central Bank listing the requested amount and the bid price. The Central Bank determines the result of the auction, announces the marginal rate and accepts the winning bids (day t).

The payment procedure is different depending on whether a financial institution or a corporate investor is involved. In the first case, the Central Bank debits the financial institutions' current accounts on day T + 1, then sends an electronic message to the depository and the latter surrenders the securities. In the second case, since institutional investors do not hold an account with the Central Bank, payment is made through a *vale vista* that goes to the "canje" and is settled the next day, together with the delivery of the securities in the DCV (T + 1). Therefore, in practice, there is a one-day lag between the time certificates are given to a bank and to a corporate investor (day T + 2).

7.5 ROLE OF THE CENTRAL BANK IN CROSS-BORDER PAYMENTS

Cross Border Payments Through ALADI

Since the mid 1960s, a multilateral cross-border payment clearing and settlement system has been in operation in Latin America to support foreign trade (*Asociación Latinoamericana de Integración*, ALADI).

Twelve countries (their central banks) participate in the ALADI system: Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. Under ALADI, the central banks of these countries agreed to channel payments for trade among members, especially letters of credit in dollars. The central bank of the exporting country where the export begins provides funds to the commercial bank participating in the foreign trade transaction, through the account of the central bank of the importing country.

These transactions result in net (debit or credit) positions among central banks. A formal settlement among central banks takes place every four months in the records of the Operations Center of the

²¹¹ Institutional investors carry in their portfolios from 60 per cent to 70 per cent of the outstanding total value of 8 to 20 year PRCs.

Central Bank of Peru. The central banks can also make advance payments to one another (advance settlement) in order to limit the size of their net debtor positions.

In the 60's almost one third of all intra-regional trade payments for participating countries were cleared and settled through ALADI. In those years, only a few of the member countries were export-oriented economies and ALADI helped to use the international reserves more efficiently in some of these countries. By the end of the 70's, the proportion had increased to three fourths of the total reaching a peak of 90 per cent by the late 80's.

However, in the past ten years, the proportion of international payments channeled through ALADI has dropped significantly, reaching only 16.6 per cent in 1997. The reduction could be partly due to the existence of other more attractive financing methods and also to higher international reserve levels of the central banks in the region. In 1998, Brazil had the greatest payment participation (debits and credits) through ALADI with 37.8 per cent, followed by Argentina (22.6 per cent), Uruguay (11.4 per cent), Chile (9.2 per cent) and Peru (4.9 per cent).

The percentage of Chile's trade with the ALADI countries channeled through the Reciprocal Payment and Credit Convention (*Convenio de Pagos y Créditos Recíprocos*) has steadily dropped in the past years, from 24.0 per cent in 1996 to 16.4 per cent in 1997 and 12.3 per cent in 1998.

An example can clarify the ALADI mechanism, the payment for goods imported by Brazil from Chile. As a result of the trade agreement, the Brazilian importer applies for a letter of credit from its bank in favor of the Chilean bank, which is the Chilean exporter's bank. The latter examines the documents and sends the information to the Central Bank of Chile for inclusion in the System of Information on Future Commitments (*Sistema de Información de Compromisos Asumidos a Futuro*, SICO), which in turn processes it through the ALADI interconnection system, and the information is made available to the Central Bank of Brazil. Meanwhile, the Chilean bank supplies funds to the Chilean exporter, after all the necessary documentation has been provided. The Central Bank of Chile, in turn, transfers funds to the Chilean bank and the latter sends the relevant documents to the Brazilian bank. Through the transactions between the central banks, the account carried with the Central Bank of Brazil is debited. Afterward, the Brazilian bank's account with its Central Bank is debited by the latter to the amount of the letter of credit. Finally, the Brazilian importer's account is debited.

The full process, which begins with forwarding the shipping documents to the exporter's bank takes only a few days, as the communication is made through a computer network, administered by each central bank in coordination with an Operations Center located in the Central Bank of Peru, which computes the daily net balances. As a result of this, the Central Bank of Brazil owes the Central Bank of Chile the dollar amount of the letter of credit. These positions are accumulated for four months, at the end of which the net positions are settled on a multilateral basis. There is the possibility of making prepayments to avoid interest. In addition to the letters of credit, other payment instruments related to trade, such as payment orders, are accepted within the scope of the ALADI Agreement.

Each central bank is free to determine how it controls the banks in its country insofar as risk management.

On the other hand, between each central bank there is a bilateral limit to the net debit amounts considered acceptable (credit lines) and when this is exceeded, the central bank in question must make prepayments to reduce its debt and keep itself within the bilaterally established limit. In recent years, due in part to the favorable development reached by international reserves, certain central banks have opted for prepayments even in cases in which the maximum permitted debtor limits (in net terms) had not been exceeded. In so doing, the central banks have been able to reduce their financing costs, since debit balances are subject to interest.

7.6 PRICING POLICIES

The Central Bank does not charge financial institutions for the payment services it provides. However, heavy fines are imposed on institutions that abuse the system with overdrafts (see Section 7.3).

8 SUPERVISION OF SECURITIES CLEARANCE AND SETTLEMENT SYSTEMS

8.1 SECURITIES REGULATOR SUPERVISORY AND STATUTORY RESPONSIBILITY

The *Superintendencia de Valores y Seguros* (SVS) is responsible for supervising stock exchanges, securities depositories (at present there is only the DCV), stockbrokers and securities agents, mutual funds, investment funds, foreign capital investment funds and housing funds, as well as their managing companies, insurance companies and reinsurance companies based in Chile, issuers of publicly offered securities and other entities that participate in the securities trading, clearance and settlement systems.

The SBIF is responsible for supervising banks and finance companies²¹² and monitors their fulfillment of the provisions of the LMV.²¹³

The SAFF, on the other hand, monitors the activities of pensions funds managers in the securities market.

All the natural and legal persons subject to supervision by the SVS that fail in their duties as set forth in the rules may be subject to one or more of the following sanctions applied by the SVS: censure, revenue penalty, disqualification for up to one year or revocation of authorization or appointment for a serious reason.

The SVS has two supervisory sections: Securities and Insurance. Each of these has three divisions: Research, Financial Control and Intermediary Control. In addition, two fiscal offices are directly dependent on the Superintendence: the Fiscal Office for Securities and the Fiscal Office for Insurance, each headed by an attorney.

8.1.1 Responsibility Over the Stock Exchanges

The prior authorization of the SVS²¹⁴ is required to establish stock exchanges, which are subject to SVS monitoring. Their by-laws, internal regulations and other rules they adopt in connection with their transactions also need the prior approval of the SVS. The SVS can reject, amend or suppress the by-laws, internal regulations and other internal rules of the stock exchanges on good grounds.²¹⁵

8.1.2 Responsibility Over the Central Securities Depository

Securities depositories must issue an informational prospectus, which must be deposited in the offices of the SVS. The SVS certifies the prospectus of the depository once it has been satisfactorily

²¹² At present, only *Financiera Conosur*.

²¹³ See Article 69 of the LMV.

²¹⁴ See Article 41 of the LMV.

²¹⁵ See Article 40, Section 14, and Article 44 of the LMV.

proved that the requirements stipulated in the Securities Depositories Regulations have been met. Securities depository companies cannot begin operations without the SVS previously certifying fulfillment of all of the formalities established for their incorporation by the DCV law, the Regulations and the rules issued by that supervisory authority.²¹⁶ Also, the SVS is empowered to supervise the operations of securities depository companies and to approve their internal regulations, rules and general procedures.²¹⁷ Deposit contracts and any amendments to these must also be previously approved by the SVS.²¹⁸

8.1.3 Responsibility Over Securities Brokers/Dealers and Other Participants in the Securities Clearance and Settlement Process

The current rules do not stipulate any requirements for the entities participating in securities clearance and settlement processes other than those they must comply with for pursuing their activities. The most important legal requirements for entities supervised by the SVS that can participate in this process and operate as depositors with the DCV are described below.

In order to act as stockbrokers or securities agents, they must be on the Stockbrokers and Securities Agents Registry of the SVS. However, this is not obligatory for banks and finance companies, which can act as intermediaries in accordance with the authority given to them by the LGB.²¹⁹ Despite this, any banking institutions that operate directly in the market do so through affiliates incorporated as brokerage firms, which must be recorded in the Registry and are therefore supervised by the SVS.

Stockbrokers and securities agents must meet and keep to the margins of indebtedness, loans and other liquidity and solvency conditions imposed by the SVS, depending on the nature and amount of the transactions, the type of securities traded and the kind of intermediaries to which they must be applied.²²⁰ The LMV compels stockbrokers and securities agents to post a guarantee deposit to ensure fulfillment of their duties. Apart from the minimum amount required by law, the SVS may require higher sums on the basis of specific criteria determined in the LMV.

In addition to securities intermediaries, other institutions supervised by the SVS, among them the managing companies of mutual and investment funds, can be depositors with the DCV.²²¹ In order to secure authorization, mutual fund and investment fund managing companies must prove to the SVS that they meet the minimum capital requirement. They cannot begin operating until the SVS approves the internal regulations of the first fund they are to manage and the text of the contracts they will enter into with participants or contributors.²²²

²¹⁶ See Articles 2, 3 and 5 of the Securities Depositories Regulation.

²¹⁷ See Article 22 of the LDCV.

²¹⁸ See Article 9 of the Securities Depository Regulation.

²¹⁹ See Articles 24 and 25 of the LMV.

²²⁰ See Article 29 of the LMV.

²²¹ See Section 2.3.3 of this Report and Article 2 of the of the LDCV.

²²² See Articles 7 and 8 of the Executive Decree on the Administration of Mutual Funds and Articles 3 and 4 of the Investment Fund Law.

The SVS can revoke the authorization to incorporate a mutual fund management company in the cases specified by the Law.²²³ Once the management company has been dissolved due to the revocation of its authorization to exist or otherwise, the SVS will liquidate it and the fund or funds that it administers.

Foreign capital investment fund managers can also be depositors with the DCV. Prior to starting operations, certain documents, such as the incorporation of the particular Chilean corporation that will administer the investments in the country, and proof of its legal existence, plus the fund's operational regulations, must be filed with the SVS. Both the fund and the company that manages it are subject to SVS supervision as to their transactions and the investment of their resources in the country. The authorization for the management company to operate is given by the SVS.

Insurance and reinsurance companies based in Chile can also be depositors with the DCV. The SVS authorizes them, approves their statutes and any amendments, and approves prolongation of their duration and early dissolution. The Insurance Law gives other powers to the SVS in relation to insurance and reinsurance companies, such as the supervision of their transactions and the verification of the accuracy of their technical reserves.²²⁴

8.2 SELF-REGULATORY ORGANIZATIONS SUPERVISORY AND STATUTORY RESPONSIBILITIES

8.2.1 DCV Supervisory and Statutory Responsibility

The LDCV authorizes depository companies to regulate their activities and that of their depositories in relation to the transactions they carry out with them, for which they must draw up a set of regulations for internal operations. These must include rules and procedures on how depositors can be sanctioned and suspended if they infringe the regulations in force.²²⁵

According to the Securities Depository Regulations, the DCV internal regulations must provide, among other things, the rules and procedures for transfers, clearance and settlement of transactions, the procedural rules and times for receiving certificates and withdrawing them, opening accounts, issuing transfer orders, executing rights and for the other transactions related to the depository and the criteria under which companies not specifically mentioned in Article 2 of the LDCV can be accepted as depositories.²²⁶

The Ordinary Assembly of the DCV must appoint a surveillance committee made-up of five depositor representatives and receive the report on the DCV's business in the preceding year. The surveillance committee is entrusted with the internal monitoring of DCV transactions and any it carries out with depositors. In exercise of its monitoring duties, the committee has all the powers conferred upon it by law.²²⁷

²²³ See Article 3 of the Law on Management of Mutual Funds.

²²⁴ See Article 3 of the Insurance Law.

²²⁵ See Articles 20, Sections b) and g), of the LDCV.

²²⁶ See Article 11 of the Securities Depositories Regulations.

²²⁷ See Articles 32 and 35 of the LDVC.

All the committee's resolutions that record any defaults, differences or irregularities by the DCV are reported to the SVS and must suggest any measures considered pertinent and proper to remedy them or to prevent their recurrence. The committee's resolutions that determine that a participant (depositor, issuer or payer) has contravened rules may propose a sanction and report it to the Board of Directors of the DCV to be enforced. The sanctions may be a written warning, fine, exclusion to operate through the DCV's computer system for up to 15 days, or expulsion. The penalty depends on the gravity of the infringement, the economic harm likely to be caused to the DCV or other participants, and the possibility of the same infringement being repeated.

8.2.2 Stock Exchanges Supervisory and Statutory Responsibilities

Under the LMV, stock exchanges must regulate their own and stockbrokers' stock exchange business. They must oversee strict fulfillment of the highest principles of business ethics and all legal and regulatory provisions by their members that are applicable to them. The rules of the stock exchanges must establish, among other things, the stockbrokers' rights and duties regarding the transactions they carry out.²²⁸

The LMV also specifies the cases in which stock exchanges must penalize their members with exclusion.²²⁹

According to the Operations Manual of the *Bolsa de Comercio de Santiago*, the Board of Directors may apply any of the following measures to a broker: warning, censure in writing, a fine, exclusion from carrying out brokerage activities for up to one year, and forfeiture of his status as broker.²³⁰

8.3 SAFEKEEPING AND SECURITY SYSTEMS OF THE DCV

8.3.1 Physical Safeguards and Integrity of Automated Systems for Information Processing

Under the LDCV, securities depository companies must set up facilities and systems that assure the safekeeping and safety of the securities surrendered to them for custody and transfer.²³¹ For the operation of a securities depository company to be approved, it must have minimum security rules and policies such as the existence of one or more vaults equipped with devices that prevent the destruction of any documents kept there, trained security staff for that purpose, restricted areas, apparatus for microfilming deposited certificates, a backup of the information of any transactions carried out with the certificates and the records of the parties owning the securities in custody, which must be kept in secured facilities separate from where the physical certificates are stored, an internal audit, accounting and computer department and any others that the SVS might require.²³²

²²⁸ See Articles 39, 43, Section c), and 44 of the LMV.

²²⁹ See Article 49 of the LMV.

²³⁰ See Articles 24-31 of the Operations Manual of the *Bolsa de Comercio de Santiago*.

²³¹ See Article 20 of the LDCV.

²³² See Article 4 of the Securities Depositories Regulations.

The DCV has systems for protecting the securities entrusted to it in custody against theft, fire and destruction. In addition, the DCV must have microfilming, recording and other facilities that allow proper reconstitution and back-up of the securities deposited or withdrawn and any movements made. This back-up information must be kept in secure facilities separate from where the securities are physically deposited.²³³ In 1998 the DCV set up an on-line remote back-up site in a second location.

8.3.2 Procedures to Reinstall Operational Capacity and Contingency Plans

Under the internal regulations of the DCV, the depository must implement a computer, operational and communications contingency plan for the uninterrupted continuity of its services, to the extent that this is technically and materially possible. The DCV must be in communication with and provide training to all participants with which it agreed to install the computer program of the various modes of operation of these contingency plans.²³⁴

²³³ See 7.1.3 of the internal regulations of the DCV.

²³⁴ See 5.3 of the internal regulations of the DCV.

APPENDIX: STATISTICS TABLES

The first series of tables (A) are statistics on payments and securities clearance and settlement in the country and were completed following a model prepared in the context of the Western Hemisphere Payments and Securities Clearance and Settlement Initiative in order to allow cross-country comparisons. They slightly differ from the model due to data availability constraints. The second series (B) are more general statistics related to the financial sector in Chile.

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SERIES B

General Financial System Statistics

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Table A1: Basic Statistical Data

	1995	1996	1997	1998	1999
Population (average) (millions of persons)	14.21	14.42	14.62	14.82	15.02
Nominal GDP (millions of pesos)	25,875,727	28,268,364	31,567,287	33,513,301	34,326,727
Exchange Rate (pesos per dollar, year end)	408.98	422.41	438.29	472.39	538.22
Exchange Rate (pesos per dollar, average)	396.77	412.27	419.31	460.29	508.78
UF (pesos per UF, year end)	12,482.81	13,280.43	14,096.93	14,685.39	15,066.96
Consumer Price Index (December 1998 = 100)	87.39	90.97	99.38	100.00	100.97

Source: Banco Central de Chile.

Table A2: Settlement Media Used by Non-banks
(Millions of Pesos)

	At the year end				
	1995	1996	1997	1998	1999
Total notes and coins issued	953,556	1,090,055	1,242,011	1,252,992	1,616,027
of which, held by the public:	782,857	857,262	982,239	973,301	1,184,452
Transferable deposits in domestic currency	1,805,796	2,005,305	2,351,354	2,175,667	2,607,422
Transferable deposits in foreign currency	N.A.	N.A.	N.A.	N.A.	N.A.
Narrow money supply (M1)	2,010,720	2,278,270	2,803,310	2,530,290	2,948,690
Broad money aggregate	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Banco Central de Chile.

Table A3: Settlement Media Used by Credit/Deposit Taking Institutions
(Millions of Pesos)

	At the year end				
	1995	1996	1997	1998	1999
Reserves at the Central Bank:					
Required reserves	372,945	447,955	532,275	597,378	593,534
of which, usable for settlement	372,945	447,955	532,275	597,378	593,534
Excess reserves	5,904	11,737	3,888	3,276	4,623
of which, usable for settlement	5,904	11,737	3,888	3,276	4,623
Transferable deposits at other institutions	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Banco Central de Chile.

Table A4: Institutional Framework

	December 1999			
	Number of institutions	Number of branches	Number of current accounts	Value of current account (millions of pesos)
Central Bank	1	0	30	—
Commercial banks	29	1,280	1,272,474	2,009,907
Non-banking financial institutions	1	55	0	0
<i>Memorandum item:</i>				
Foreign banks	17	447	433,349	715,348

Source: Banco Central de Chile.

Table A5: Bank Notes and Coins
(Millions of Pesos)

	At the year end				
	1995	1996	1997	1998	1999
Total currency issued	953,555.6	1,090,055.4	1,242,011.0	1,252,991.5	1,616,027.1
of which, bank notes worth					
\$20,000	—	—	—	43,989.3	246,510.2
\$10,000	645,762.8	756,864.6	894,615.6	866,065.5	998,795.9
\$5,000	174,919.5	193,269.2	190,077.7	177,280.9	182,458.4
\$2,000	—	—	5,098.1	14,412.1	23,481.9
\$1,000	82,577.5	82,034.8	87,098.0	82,036.4	89,105.0
\$500	15,900.8	18,268.6	20,000.5	20,488.1	23,563.4
others	308.2	299.0	287.6	274.9	266.1
Coins issued	34,086.8	39,319.2	44,833.5	48,444.3	51,846.2
Notes and coins held by banks	170,698.6	232,793.4	259,772.0	279,690.5	431,575.1
Notes and coins circulating outside banks	782,857.0	857,262.0	982,239.0	973,301.0	1,184,452.0

Source: Banco Central de Chile.

Table A6: Cash Dispensers, ATMs, and EFTPOS Terminals

	At the year end				
	1995	1996	1997	1998	1999 ^(a)
Cash dispensers and ATMs					
Number of networks	N.A.	N.A.	N.A.	N.A.	2
Number of terminals	859	1,134	1,572	2,064	2,492
Volume of transactions (thousands) ^(b)	47,894	83,787	101,422	111,191	61,089
Value of transactions (thousands of millions of pesos) ^(b)	1,194	2,212	2,800	3,265	1,844
EFTPOS Terminals	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Superintendencia de Bancos e Instituciones Financieras.

^(a) Figures as of June.

^(b) Includes only transactions made at the Redbanc network.

Table A7: Number of Payment Cards on Circulation

	<i>At the year end</i>				
	1995	1996	1997	1998	1999
Cards with a cash function	1,888,563	2,195,091	3,401,684	3,625,343	3,484,950
Card with a debit / credit function	1,888,563	2,195,091	3,401,684	3,625,343	3,484,950
of which, <i>Debit cards</i>	—	—	1,152,806	1,450,648	1,270,630
<i>Credit cards</i>	1,888,563	2,195,091	2,248,878	2,174,695	2,214,320
<i>Retailer and fidelity cards</i>	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Superintendencia de Bancos e Instituciones Financieras.

**Table A8: Indicators of Use of Various Cashless Payment Instruments
(Volume of Transactions)**

	1995	1996	1997	1998	1999
Cheques issued					
<i>in local currency</i>	278,976,374	294,671,741	303,251,631	324,248,702	307,977,321
<i>in foreign currency</i>	N.A.	N.A.	N.A.	N.A.	N.A.
Payments by cards					
<i>debit</i>	26,334,000	29,652,000	31,872,000	32,784,000	34,060,000
<i>credit</i>	N.A.	N.A.	N.A.	N.A.	N.A.
Paper-based credit transfers	—	—	—	—	—
Paperless credit transfers	—	—	—	—	—
Direct debits	N.A.	N.A.	N.A.	N.A.	N.A.
E-money	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Superintendencia de Bancos e Instituciones Financieras.

**Table A9: Indicators of Use of Various Cashless Payment Instruments
(Value of Transactions, Millions of Pesos)**

	1995	1996	1997	1998	1999
Cheques issued					
<i>in local currency</i>	330,281,330	385,644,914	411,375,934	458,347,067	490,765,792
<i>in foreign currency</i>	N.A.	N.A.	N.A.	N.A.	N.A.
Payments by card					
<i>debit</i>	—	—	—	—	—
<i>credit</i>	506,378	593,994	682,982	726,721	771,037
Paper-based credit transfers	—	—	—	—	—
Paperless credit transfers	—	—	—	—	—
Direct debits	N.A.	N.A.	N.A.	N.A.	N.A.
E-money	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Superintendencia de Bancos e Instituciones Financieras.

Table A10: Payment Instructions Handled by Selected Interbank Transfers Systems
(Volume of Transactions)

As of the date in which this Report was drafted, information was not available in this format.

Table A11: Payment Instructions Handled by Selected Interbank Transfers Systems
(Value of Transactions)

As of the date in which this Report was drafted, information was not available in this format.

Table A12: Securities and Accounts Registered in Central Securities Depositories
(Millions of Dollars (Face Value) Immobilized and Dematerialized Securities)

	1995	1996	1997	1998	June 1999
Variable-income instruments	—	—	7,462	5,285	7,576
Fixed-income instruments	1,892	20,970	27,671	30,155	29,559
Financial intermediation instruments	—	1,038	4,471	6,497	8,064
TOTAL	1,892	22,008	39,604	41,937	45,200

Source: Depositario Central de Valores, S.A.

Table A13: Securities Holdings in Central Securities Depositories
(Millions of Dollars)

	1995	1996	1997	1998	1999
Registered holdings					
Market Capitalization ^(a)	131,629	127,808	137,631	106,257	98,578
Value of holdings at the DCV ^(b)	1,892	22,008	39,604	41,937	45,200
Holdings at the DCV as % of market capitalization value	1.44%	17.22%	28.78%	39.47%	45.85%

Source: Depósito Central de Valores, S.A.

^(a) This is the aggregate figure of securities issued in the domestic financial market (includes variable-income, fixed-income and financial intermediation).

^(b) This is the aggregate figure of securities deposited at the (includes variable-income, fixed-income and financial intermediation).

Table A14: Transfer Instructions Handled by Securities Settlement Systems
(Volume of Transactions)

	Dec. 1995	Dec. 1996	Dec. 1997	Dec. 1998
Number of transactions	N.A.	33,626	91,578	144,100
Off-exchange (OTC)	N.A.	28,744	71,600	115,075
On exchange	N.A.	4,882	19,978	29,025
Number of remittances	N.A.	7,840	16,043	25,798
Number of transfers	N.A.	1,556	5,126	40,159

Source: Depósito Central de Valores, S.A.

Note: The DCV started operations in 1995. However, the custody and electronic transfer of variable-income securities service did not begin until June, 1997. For this reasons the figures up to 1997 are not very relevant.

Table A15: Transfer Instructions Handled by Securities Settlement Systems
(Value of Transactions)

As of the date in which this Report was drafted,
information was not available in this format.

Table A16: Participation in S.W.I.F.T. by Domestic Institutions^(a)

	1994	1995	1996	1997	1998	1999
Total domestic SWIFT users	26	26	26	26	28	29
of which:						
Members	15	15	15	14	14	13
Sub-members	10	11	11	12	13	14
Participants	0	0	0	0	1	2
Memorandum Items:						
Total SWIFT worldwide	4,625	5,251	5,632	6,176	6,557	6,797
of which:						
Members	2,551	2,845	3,014	3,070	3,052	2,230
Sub-members	2,097	2,314	2,500	2,621	2,781	2,825
Participants	218	315	404	681	938	1,936

Source: SWIFT.

^(a) Changes in the number of members and participants are due to the introduction of a new class of participants, non-shareholder banks. Thus, a number of small banks have opted to switch to this new category.

**Table A17: S.W.I.F.T. Message Flows to / From
Domestic Users**

	1994	1995	1996	1997	1998	1999
Total messages sent	706,764	871,206	896,086	936,255	893,012	866,451
of which:						
Category I	199,682	246,233	264,609	288,057	300,231	302,475
Category II	149,442	175,893	168,308	166,407	158,133	157,458
Total messages received	698,102	801,588	831,068	859,567	859,550	855,931
of which:						
Category I	148,741	170,526	178,792	188,799	200,775	206,091
Category II	17,634	20,461	20,648	23,523	20,814	21,351
Memorandum Item:						
Global S.W.I.F.T. traffic (thousands)	518,097	603,575	687,785	812,117	937,039	1,058,836

Source: SWIFT.

Table B1: Number of Financial Entities
(Year-end)

	1996	1997	1998	1999
Financial system total	33	32	32	30
Banks	30	29	29	29
Public banks	1	1	1	1
Private banks	29	28	28	28
Domestic banks	13	12	12	12
Foreign banks	17	17	17	17
Non-banking financial institutions	3	3	3	1

Source: Superintendencia de Bancos e Instituciones Financieras.

Table B2: Number of Checking, Savings and Time Deposit Accounts
(Thousands)

	1996	1997	1998	Nov. 1999
Financial system total	12,202	12,810	13,186	14,026
Banks	12,148	12,754	13,131	14,001
Public banks	9,560	10,060	10,322	11,084
Private banks	2,588	2,694	2,809	2,917
Domestic banks	2,024	2,138	2,236	1,303
Foreign banks	564	556	573	1,614
Non-banking financial institutions	54	57	55	26

Source: Superintendencia de Bancos e Instituciones Financieras.

Table B3: Assets
(Millions of Dollars)

	Year-end			
	1996	1997	1998	1999
Financial system total	36,951	46,271	48,643	59,502
Banks	36,295	45,452	47,766	59,083
Public banks	4,229	5,045	5,386	6,032
Private banks	32,066	40,408	42,379	53,051
Domestic banks	21,032	25,356	25,367	18,839
Foreign banks	11,034	15,051	17,102	34,258
Non-banking financial institutions	656	819	878	419

Source: Superintendencia de Bancos e Instituciones Financieras.

Table B4: Deposits
(Millions of Dollars)

	Year-end			
	1996	1997	1998	1999
Financial system total	15,550	17,007	20,210	21,550
Banks	15,011	16,328	19,497	21,209
Public banks	2,332	2,653	2,797	3,049
Private banks	12,679	13,675	16,701	18,160
Domestic banks	11,318	10,567	11,784	8,375
Foreign banks	1,361	3,108	4,917	9,785
Non-banking financial institutions	539	679	712	342

Source: Superintendencia de Bancos e Instituciones Financieras.

Table B5: Equity
(Millions of Dollars)

	Year-end			
	1996	1997	1998	1999
Financial system total	1,859	2,202	2,531	2,812
Banks	1,816	2,146	2,470	2,777
Public banks	229	251	271	284
Private banks	1,587	1,895	2,199	2,493
Domestic banks	972	1,175	1,325	992
Foreign banks	616	720	874	1,501
Non-banking financial institutions	43	56	61	36

Source: Superintendencia de Bancos e Instituciones Financieras.

Table B6: Loans
(Millions of Dollars)

	Year-end			
	1996	1997	1998	1999
Total	13,054	15,472	16,961	17,049
Public sector	171	385	705	201
Domestic currency	155	319	562	97
Foreign currency	16	66	143	104
Non-financial private sector	11,875	13,820	14,936	15,356
Domestic currency	10,148	12,033	13,117	13,501
Foreign currency	1,727	1,787	1,819	1,855
External sector	197	190	290	474
Domestic currency	14	34	57	4
Foreign currency	183	155	234	470

Source: Superintendencia de Bancos e Instituciones Financieras.

Table B7: Stock Markets- Volume of Transactions

	1994	1995	1996	1997	1998
Bolsa de Comercio	1,162,823	1,532,164	1,601,474	1,629,870	1,809,208
Shares	471,085	632,936	452,160	370,434	233,846
Investment funds shares (CFI)	381	248	125	70	71
Monetary	134,108	189,455	245,744	279,621	343,719
Financial intermediation (IIF)	191,452	246,921	407,160	416,530	545,549
Fixed income (IRF)	365,702	462,593	496,285	563,215	686,112
Futures	4	0	0	0	0
Options	91	11	0	0	0
Bolsa Electrónica	118,184	116,007	92,664	66,352	33,660
Shares	115,544	114,136	91,300	64,416	31,218
CFI	44	0	0	22	0
Monetary	0	0	0	0	0
In session	0	0	0	0	0
Gold	0	0	0	0	0
Dollar	0	0	0	0	0
Off-session	0	0	0	0	0
IIF	2,068.00	1,540.00	1,056.00	1,276.00	2,310.00
In session	N.A.	N.A.	N.A.	N.A.	N.A.
Off-session	N.A.	N.A.	N.A.	N.A.	N.A.
IRF	528	330	308	638	132
In session	N.A.	N.A.	N.A.	N.A.	N.A.
Off-session	N.A.	N.A.	N.A.	N.A.	N.A.
Bolsa Valparaiso	57,482	68,508	71,175	52,260	27,195
Shares	38,832	41,412	30,067	31,647	16,109
CFI	0	0	0	0	0
Monetary	8,610	19,033	31,766	10,740	1,878
In session	8,610	19,033	31,766	10,740	1,878
Gold	65	116	362	235	16
Dollar	8,545	18,917	31,404	10,505	1,862
Off-session	0	0	0	0	0
IIF	8,779	7,543	7,506	4,894	4,396
In session	0	0	0	0	0
Off-session	8,779	7,543	7,506	4,894	4,396
IRF	1,261	520	1,836	4,979	4,812
In session	3	0	6	0	0
Off-session	1,258	520	1,830	4,979	4,812
TOTAL	1,338,489	1,716,679	1,765,313	1,748,482	1,870,063

Source: Bolsa de Comercio de Santiago, Bolsa Electrónica de Valores y Bolsa de Valparaíso.

Tabla B8: Stock Markets- Value of Transactions
(Millions of Dollars)

	1994	1995	1996	1997	1998
Bolsa de Comercio	93,615	158,723	207,019	249,012	331,635
(Only Exchange Sessions)	N.A.	31,882	34,230	43,507	36,014
Shares	5,479.7	10,741.6	8,252.2	7,120.7	4,306.9
CFI	75.0	312.1	77.1	73.3	9.6
Monetary	5,216.5	10,736.7	12,198.2	20,272.4	48,776.7
In session	N.A.	9.7	2.9	5.6	10.9
Off-session	N.A.	10,727.0	12,195.2	20,266.8	48,776.7
IIF	34,338.2	58,350.4	109,083.2	136,361.9	189,859.3
In session	N.A.	13,009.3	17,913.2	26,760.8	24,252.1
Off-session	N.A.	45,341.1	91,170.0	109,601.1	165,607.2
IRF	48,505.8	78,581.8	77,408.6	85,183.5	88,682.9
In session	N.A.	7,809.7	7,984.8	9,546.8	7,434.4
Off-session	N.A.	70,772.1	69,423.7	75,636.7	81,248.5
Futures	0.1	0.0	0.0	0.0	0.0
Options	0.4	0.0	0.0	0.0	0.0
Bolsa Electrónica	N.A.	N.A.	32,585.1	35,342.5	32,936.3
(Only Exchange Sessions)	2,509.7	3,168.6	3,893.2	3,158.2	2,445.2
Shares	1,474.4	2,259.9	3,068.2	2,338.5	1,060.8
CFI	27.6	6.0	2.4	23.6	0.0
Monetary	N.A.	N.A.	4,623.5	5,410.4	5,376.4
In session	1.7	0.0	0.0	20.5	1.0
Gold	0.0	0.0	0.0	0.0	0.0
Dollar	1.7	0.0	0.0	20.5	1.0
Off-session	N.A.	N.A.	4,623.5	5,389.8	5,375.5
IIF	N.A.	N.A.	19,212.6	21,939.8	19,830.3
In session	633.9	838.2	712.0	715.8	1,327.2
Off-session	N.A.	N.A.	18,500.5	21,224.0	18,503.2
IRF	N.A.	N.A.	5,678.4	5,630.2	6,668.7
In session	372.0	64.6	110.5	59.7	56.3
Off-session	N.A.	N.A.	5,567.9	5,570.5	6,612.4
Bolsa Valparaíso	857.5	892.6	1,016.7	510.7	257.3
(Only Exchange Sessions)	214.0	318.5	223.4	266.9	158.7
Shares	219.5	318.5	223.4	266.8	158.7
In session	214.0	318.5	223.3	266.8	158.7
Off-session	5.5	0.0	0.1	0.0	0.0
CFI	0.0	0.0	0.0	0.0	0.0
Monetary	38.7	103.6	128.2	110.3	18.2

In session	0.1	0.1	0.1	0.1	0.0
Gold	0.1	0.1	0.1	0.1	0.0
Dollar	0.0	0.0	0.0	0.0	0.0
Off-session	38.6	103.5	128.1	110.1	18.2
IIF	548.0	458.7	622.2	62.0	20.7
In session	0.0	0.0	0.0	0.0	0.0
Off-session	548.0	458.7	622.2	62.0	20.7
IRF	51.4	11.9	42.9	71.7	59.6
In session	0.0	0.0	0.0	0.0	0.0
Off-session	51.4	11.9	42.9	71.7	59.6

Source: Bolsa de Comercio de Santiago, Bolsa Electrónica de Valores y Bolsa de Valparaíso.

Table B9: Market Capitalization per Instrument Type
(Millions of Dollars)

	1994	1995	1996	1997	1998
Shares (Bolsa de Comercio)	67,992	72,717	66,215	72,081	51,961
Fixed-income instruments (IRF)	N.A.	N.A.	N.A.	N.A.	N.A.
Financial intermediation (IIF)	N.A.	N.A.	N.A.	N.A.	N.A.
TOTAL	67,992	72,717	66,215	72,081	51,961

Source: Bolsa de Comercio de Chile.

Note: These figures are not available for other stock exchanges. However, the figures presented for the Bolsa de Comercio are representative of the market since corporations listed only in the Bolsa Electrónica or only to the Bolsa de Valparaíso are small in size and their exchange activity is almost non-existent.

LIST OF ABBREVIATIONS

ABIF	Association of Banks and Financial Institutions (<i>Asociación de Bancos e Instituciones Financieras</i>)
AFM	Mutual Funds Managers (<i>Administradoras de Fondos Mutuos</i>)
AFP	Pension Funds Managers (<i>Administradoras de Fondos de Pensiones</i>)
ATM	Automated Teller Machine
BECH	Bolsa Electrónica de Chile
CFI	Investment Fund Shares (<i>Cuotas de Fondos de Inversión</i>)
CN	Usual Cash (<i>Contado Normal</i>)
DCV	Central Securities Depository (<i>Depósito Central de Valores</i>)
DFL	Executive Order with Law-equivalent Status (<i>Decreto con Fuerza de Ley</i>)
FICE	Foreign Capital Investment Funds (<i>Fondos de Inversión en Capital Extranjero</i>)
IIF	Financial Intermediation Instruments (<i>Instrumentos de Intermediación Financiera</i>)
INP	Instituto de Normalización Previsional
IPC	Consumer Price Index (<i>Índice de Precios al Consumidor</i>)
IPSA	Selective Shares Price Index (<i>Índice de Precio Selectivo de Acciones</i>)
IRF	Fixed-income Instruments (<i>Instrumentos de Renta Fija</i>)
IVP	Average Value Index (<i>Índice de Valor Promedio</i>)
LDCV	Securities Deposit and Custody Law (<i>Ley de Depósito y Custodia de Valores</i>)
LGB	General Banking Law (<i>Ley General de Bancos</i>)
LMV	Securities Market Law (<i>Ley del Mercado de Valores</i>)
PDBC	Discountable Promissory Notes of the Central Bank (<i>Pagarés Descontables del Banco Central</i>)
PH	For Today (<i>Para Hoy</i>)
PM	For Tomorrow (<i>Para Mañana</i>)
POS	Point of Sale
PRBC	Readjustable Promissory Notes of the Central Bank (<i>Pagarés Reajustables del Banco Central</i>)
RTGS	Real Time Gross Settlement
SAFP	Superintendence of Pension Funds Managers (<i>Superintendencia de Administradoras de Fondos de Pensiones</i>)
SBIF	Superintendence of Banks and Financial Institutions (<i>Superintendencia de Bancos e Instituciones Financieras</i>)
SINACOFI	National Financial Communications System (<i>Sistema Nacional de Comunicaciones Financieras</i>)
SVS	Superintendence of Securities and Insurance (<i>Superintendencia de Valores y Seguros</i>)
UF	Unidad de Fomento

GLOSSARY

The *Committee on Payments and Settlement Systems* (CPSS) of the *Bank for International Settlements* (BIS) is finalizing a combined glossary for payments and securities clearance and settlement terms that will be available in the up-coming months. The Western Hemisphere Payments and Securities Clearance and Settlement Initiative (WHI) decided not to produce an independent list of terms for its reports, in order to avoid unnecessary proliferation of terminology. As soon as the BIS glossary is available, some of the terms included in that document, if appropriate, will be included in up-coming reports. The following are some of the terms used in this report, which are peculiar to Chilean system.

<i>Canje:</i>	Exchange of cheques issued by various financial institutions.
<i>Tasa Máxima Convencional:</i>	in Chile, by law, no interest rate, either fixed or variable, may exceed in more than 50% the interest rate prevailing at the moment of the convention. Such a limit is know as "maximum conventional rate" or " <i>tasa máxima convencional</i> "
<i>Vale a la Vista:</i>	The vale a la vista or "vale vista" is a document similar to a cheque that has been certified or confirmed by a bank. This instrument is widely used in Chile mainly for large-value payments (e.g., to buy a house, a car, etc.) between individuals or between individuals and firms. The main advantage of this document is that it cannot be returned due to lack of funds since the issuer bank has already received from the requester of the vale vista the corresponding funds, or, alternatively, it has granted a loan for that amount to the requester.
<i>Vale de Cámara:</i>	This is a document used by banks to pay obligations in Chilean currency stemming from their interbank transactions.

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