I. About Chile: Context

I.1. 50 years of institutional development

Chile has been through a long path of economic and institutional development. 50 years ago, our country was an economy which was mostly closed to international trade and capital flows, had big credit restrictions and had a rather basic financial system (the only source of financial services for corporations and households were banks, in which the state played a big role). During the last decades, the financial system has grown more complex, making room for institutional investors such as Pension Funds, Fund Managers and Insurance Companies and allowing for a more diverse supply of credit for companies and households. Some of the period's most relevant economic and institutional milestones related to the development of the Chilean capital market will be described below.

The following table illustrates that development of a competitive, well-regulated financial system, integrated with the rest of the world, that offers guarantees to its participants and that has a robust infrastructure, has been a permanent topic on the agendas of Chilean authorities:

Period	Milestone	Details
Mid 70's	Banking System Privatization	First phase of the privatization of the banking system in Chile, which had a dramatic reversal in the crisis of the early 1980s, when the state intervened a considerable part of the banking sector. However, the privatization of the banks continued in the years to come.
1975	Law Decree No. 1,078 (DL 1078)	The Central Bank became an autonomous institution of public law, which did not take part in the state's administration, and was endowed with its own capital. The Monetary Board was created, a ministerial-level body in charge of setting monetary, credit, capital market, foreign trade, tariff, international exchange and savings policies, in accordance with the rules established by the Executive Branch. The Central Bank was entitled to give credit to the Treasury by virtue of special laws.
1980	Article 108 of the Chilean Constitution: Autonomy of the Central Bank of Chile	The autonomy of the Central Bank of Chile is now recognized in Chilean Constitution of 1980. The 1980 Constitution did not allow any public expenditure/public loan financing by Central Bank's credits, except for particular cases such as war.
1980	Law Decrees No. 3,500 & 3,501 (DL 3500, 3501):	A new pension system was designed, in which employers had to make contributions (deliver a fixed percentage of their employee's salaries), which would be managed by Pension Fund Administrators ("Administradoras de Fondos de Pensiones"

	Pension Funds Privatization	[AFPs]), which would profit from commissions on each contribution. The AFP companies' sole function was to administer individual accounts made of these contributions and to provide a social security plan for their affiliates.
1981	Law No. 18,045 on the Securities Market (Ley 18045), Law 18,046 on Corporations (Ley 18046)	Both laws are still in effect.
1981-1983	Financial Crisis	The financial system, which was highly deregulated, collapses. In response, there was a major intervention in the banking sector: appointments of temporary directors and executives in banks, emergency loans from the Central Bank to banks, re-privatization of viable banks, liquidation of non-viable banks, debt restructuring, preferential exchange rates and Central Bank's purchase of investment portfolios were some of the actions taken.
1984	Tax Reform	Increase in investment and private savings.
1986	Law No. 18,576 on Banking and Financial Systems (Ley 18576)	Transition towards a more regulated financial system: greater attributions for market regulators, new mechanisms for bank intervention, financial/non-financial business distinction, stricter requirements for banking licenses, classifications for investment portfolios, provisions for risk, transparency standards.
1989	Law No. 18,840 (Organic Constitutional Law of the Central Bank of Chile)	Definition of Central Bank of Chile's main objectives: ensuring local currency stability and the correct functioning of internal and external payments. Independence in technical decision making and definition of a precise functional framework. The first Board of the autonomous Central Bank took office, unaffected from any instructions of any branches of the Government. This milestone is considered to be the start of the Central Bank of Chile's genuine autonomy.
1990	First explicit inflation target set by the Central Bank of Chile	Controlling inflation over time became one of the main objectives of the entity.
1991	Capital Controls: Unremunerated Reserve Requirements (URR) for capital inflows	Coming from a liberalization of its capital account's inflows and outflows during the 70's and late 80's, Chile transitioned towards a more restricted capital account (as a result of the Latin American debt crisis of the 1980s). Unremunerated Reserve Requirements were imposed by the Central Bank of Chile on certain capital inflows from 1991 to 2001, which consisted of holding a certain fraction of capital inflows of selective categories, as a reserve at the Central Bank for up to 1 year.
1997	DFL No. 3 (DFL 3)	Reform on the General Banking Law: incorporation of Basel I norms, such as requirements for banks on minimum levels of capital as percentage of assets and risk-weighted assets.
1998	URR set at 0% of capital inflows	The URR was eventually removed.

1999	Floating exchange rate system, inflation becomes the only explicit target of the Central Bank	A floating exchange rate is adopted by the Central Bank of Chile, replacing its traditional exchange rate band. Thus, inflation became the major focus of the Central Bank's policies.
2000	Law No. 19,705 on Tender Offers and Corporate Governance (Ley 19705)	Aiming to improve fairness, transparency and order in the Chilean Capital Market, this Law introduces regulation on tender offers and their procedures, which led to more transparent tender offers. Additionally, changes were made to the legislation on the securities market, corporations, investments and mutual funds.
2001	Elimination of the URR among other regulations to capital flows.	This was a major measure of liberalization of capital flows.
~2001	Capital Market Reform I	Aiming to increase competition in the supply of private financing, and to increase private savings rates, a major reform was done to the capital market. Among the new regulations were: (1) the Voluntary Pension Saving mechanism (Ahorro Previsional Voluntario [APV]), a mechanism for making voluntary contributions to each affiliate's individual capitalization account which exceed the mandatory contribution, could now be managed by investment fund administrators, mutual fund administrators, housing fund administrators, life insurance companies, banks, brokers (in addition to the formerly authorized AFPs). (2) A multi-fund scheme was created in the pension system, allowing their affiliates to choose between five different pension funds, differentiated by their investment structure and thus, their risk-yield combination. (3) Mutual Fund Managers, Investment Fund Managers, Foreign Capital Investment Funds Managers and Household Fund Managers were integrated into a single entity name: "General Funds Administrators" (Administradoras Generales de Fondos [AGF]). (4) The figure of Institutional Investor is created, along with the creation of a market for private placements. (5) Measures on the insurance and mutual fund industries: now they could invest in equity under certain conditions and mutual funds could now offer different classes of shares. (6) Tax exemptions: on capital gains from stocks of public companies traded on a stock exchange, on capital gains from stocks of emerging economies (as defined by regulations), and on short sales. (7) Other tax measures: elimination of a tax on cross-border intermediations done by national banks.
2006	Law No. 20,128 on Fiscal Responsibility (Ley 20128)	This Law gave an institutional background to the Fiscal Rule, which was first implemented in 2001.
~2007	Capital Market Reform II	Aiming to improve smaller companies' access to financing, to promote the Risk Capital industry and to adapt policies to international standards, a second major reform was done to the capital market. Among the new regulations were: (1) The creation of new business entity types more suitable for small capital

		("Sociedades por Acciones" [SpA]). (2) Risk Capital industry incentive: programs in which the state backed investment funds' debt. (3) New regulations on the use of privileged information and Related-Party Transactions. (4) The creation of the Collective Voluntary Pension Saving mechanism (Ahorro Previsional Voluntario Colectivo [APVC]), in which an employer could, representing its employees, sign a contract in which an authorized entity could manage the employees' additional (voluntary) contributions to their pension plans, creating tax benefits to the employer. (5) Strengthening of supervision, control, sanction and coordination policies: improvement of regulation regarding operations done in the securities market, barriers to entry for new entities in the capital market, intervention procedures for the capital markets regulators, coordinated supervision mechanisms for the relevant regulators involved in the capital market.
2008	Pension System Reform	Flexibilization of pension funds' investment portfolios, increasing the allowed limit for foreign investments. Greater standards for transparency and risk.
~2010	Capital Market Reform III	Aiming to improve the Chilean capital market's innovation and integration, and to increase liquidity in the fixed-income market a third major reform was done to the capital market. Among the new changes were: (1) Denomination of foreign securities in local currency were now permitted (now foreign entities could issue securities in Chilean pesos). (2) Local participation of new foreign entities (such as insurance companies, sovereign funds, endowment funds) were now allowed by Law. (3) Removal of hiring limits for foreign specialized employees in financial corporations. (4) Rate matching of different foreign investments. (5) Measures on avoiding the export of taxes on services: financial services to foreign investors now qualified as exports.
2011	Law No. 20,544 on the Treatment of Derivatives (Ley 20544)	This Law defined types of derivatives, their income source, established anti-abuse and anti-evasion procedures, and addressed related-party transactions involving derivatives.
2011	Creation of the Chilean Financial Stability Board (Consejo de Estabilidad Financiera)	For more details, see Chapter II.
2011	Law No. 20,552 (Ley 20552): Financial system' modernization and promotion of competition	The law allowed insurance companies to invest in real estate, in order to support technical reserves and equity risk. It also allowed pension system's affiliates to open voluntary pension accounts in more than one fund. In addition, changes were made to the pension funds that made their investment possibilities more flexible and brought their operation closer to that of an average fund manager.
2013	Law No. 20,712 on the Administration of Third-Party Funds and Individual	Seeking to encourage Chile's role as a financial services exporter and to simplify legislation, this Law's main implications were: (1) The applicable dispositions to mutual funds, investment funds, foreign capital investment funds, and household funds were consolidated in a single legal body, repealing the applicable laws

	Portfolios (Ley 20712)	to these funds. (2) This Law gives relevant definitions on the Third-Party funds sector and among its various topics it addresses: (i) relevant taxes for funds, funds national contributors and funds foreign contributors, ii) minimum requirements for funds' equity, iii) allowed types of investments.
2016	Law No. 20,956 (Ley 20956): Productivity boosts, financial system deepening and promotion of exports of services	(1) Removal of a series of operational obstacles in order to (i) facilitate the installation of international custodians and (ii) promote the participation of foreign investors in the financial market. (2) New legislation on invoices. (3) Changes in pension funds' authorized instruments for investments, adding: (a) instruments, operations and contracts representing real estate assets, private capital, private debt, infrastructure and other types of assets that may be determined by the Investment Regime; and (b) bonds issued by investment funds regulated by Law No. 20,712 (Ley 20712). In both cases, the Pension Funds Investment Regime will establish the conditions that such instruments must meet. (4) Expansion of the investment possibilities of the Unemployment Fund (Fondo de Cesantía). (5) Expansion of assets that can be deposited through the Central Securities Deposit (Depósito Central de Valores). (6) Expansion of "services exports" definition, improvement of mechanisms for avoiding double taxation.
2017	Law No. 21,000 (Ley 21000): Creation of the Financial Market Commission (Comisión para el Mercado Financiero [CMF])	In replacement of the Superintendency of Securities and Insurance (Superintendencia de Valores y Seguros [SVS], the main capital market's regulator) this Law created the Financial Market Commission (Comisión para el Mercado Financiero [CMF]). This change was mainly motivated by the need of a new regulatory body with improved corporate governance and better control and sanctioning regimes. The CMF kept the SVS's original powers and gained new attributions, mainly on the access to relevant information on banking operations of specific people, access to private properties, attributions on the registration and seizure of objects and documents, on the interception of relevant communications, and on ordering other public agencies to provide background information, even when the information is confidential or classified (all of these measures were subject to control and prior authorization by the courts).
2019	Creation of the Autonomous Fiscal Council, replacing the Fiscal Advisory Council (Consejo Fiscal Autónomo)	For more details, see Chapter II.
2019	Law No. 21,130 (Ley 21130): Modernization of Banking Legislation	(1) Transfer of all powers from the Superintendency of Banks and Financial Institutions (Superintendencia de Bancos e Instituciones Financieras [SBIF]) to the CMF: all institutions previously overseed and regulated by the SBIF will be subject to the supervision of the CMF. (2) New financial solvency standards for banks: following the Basel III recommendations, regulations on capital requirements and risk management are updated, increasing

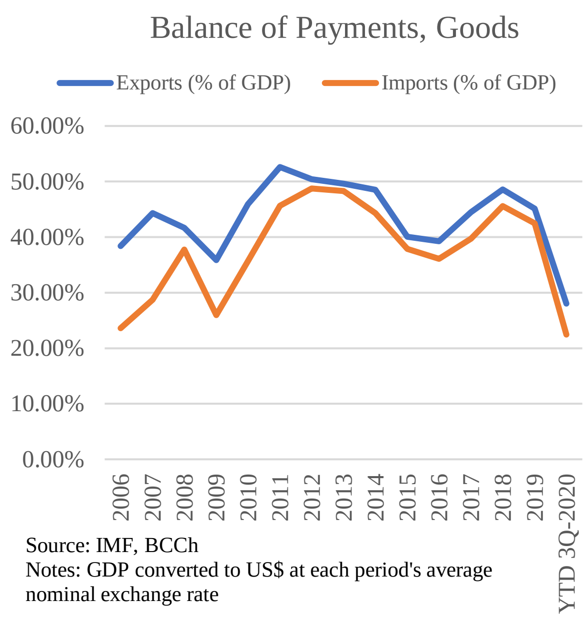
		capital requirements, in accordance with the risks currently associated with banking activity. (3) Aiming to protect depositors and taxpayers, the payment system and financial stability, this Law improves the mechanisms available to face the problems of banks before reaching insolvency situations.
2021	Central Bank and the Modernization of Exchange Regulation: Measures on the Internationalizatio n of the Chilean Peso	The Central Bank modified its Compendium of Foreign Exchange Regulations, which comprehends the general rules applicable to foreign exchange that must be observed by entities that are part of the Formal Exchange Market. In this way, as of March 1, 2021, the following cross-border transactions can be made: (i) Derivatives whose settlements or payments contemplate the physical delivery of pesos can be subscribed in pesos. (ii) The opening and holding of bank checking accounts in pesos by persons not domiciled or resident in Chile. (iii) The granting of credits by persons domiciled or residents in Chile to persons domiciled or resident abroad. In turn, from September 1, 2021, the following operations: deposit or investment operations abroad, by individuals domiciled or resident in Chile. The granting or realization of credits, deposits, investments and contributions of capital in Chile, by persons not domiciled or resident in the country.

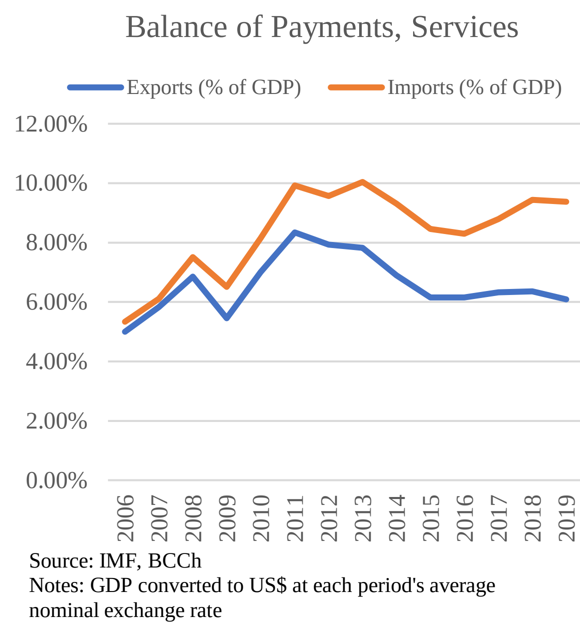
Fiscal Rule evolution

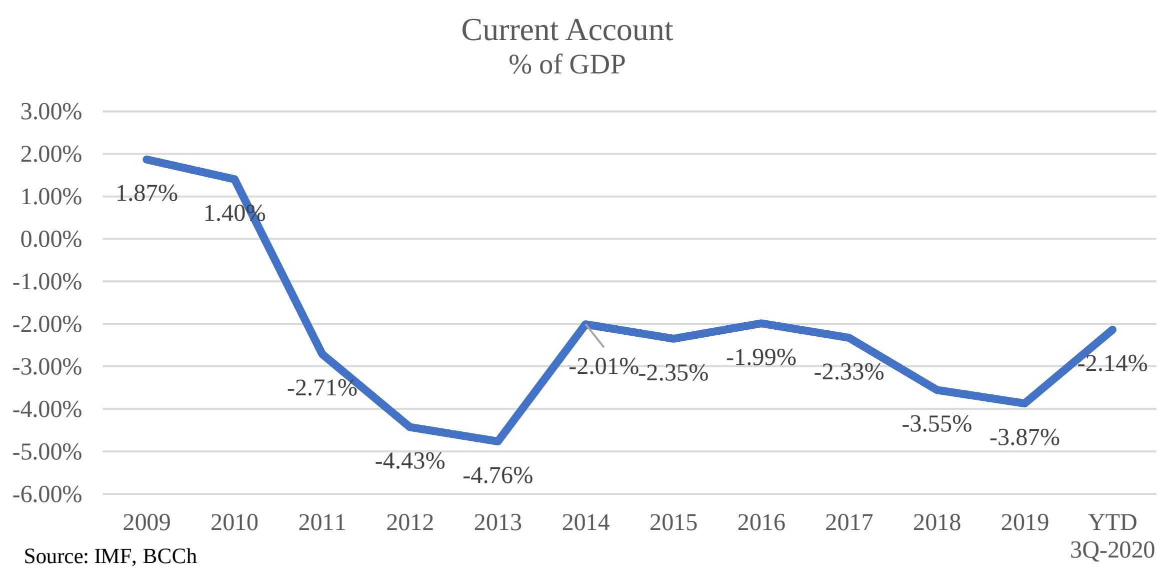
This section summarizes the objectives set for Chile’s fiscal balance of each period.

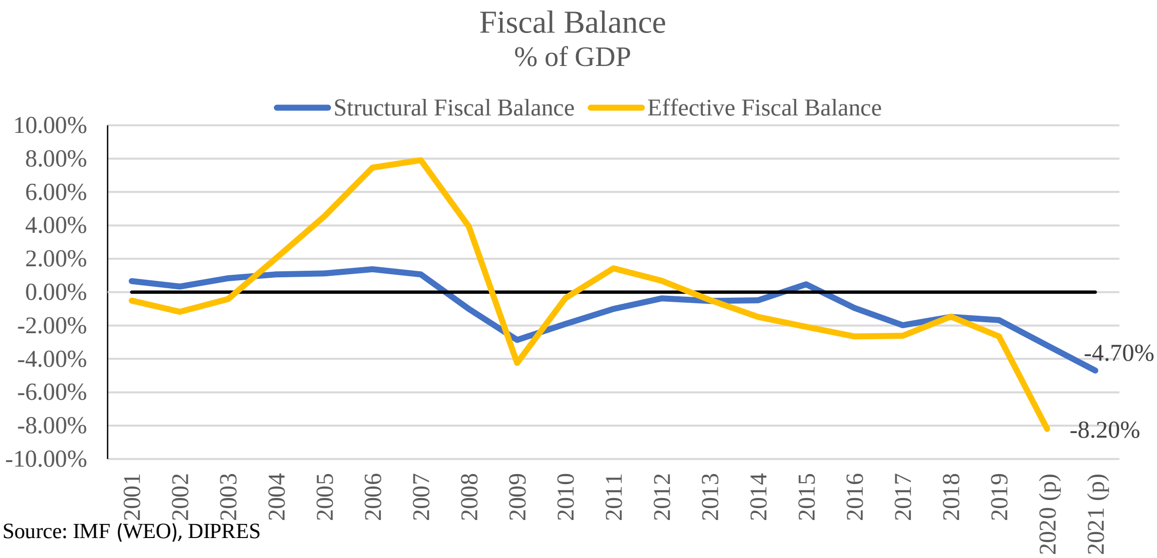
Period	Fiscal Rule
2001-2007	Structural surplus, 1% of GDP.
2008	Structural surplus, 0.5% of GDP.
2009	De facto exception clause.
2010-2014	Structural deficit of 1% by 2014
2015-2018	Reduce the structural deficit by 0.25% of GDP every year.
2020	Structural deficit, 3.2% of GDP.
2021	Structural deficit, 4.7% of GDP.
2022	Structural deficit, 3.9% of GDP.

The last years of Chile in graphics

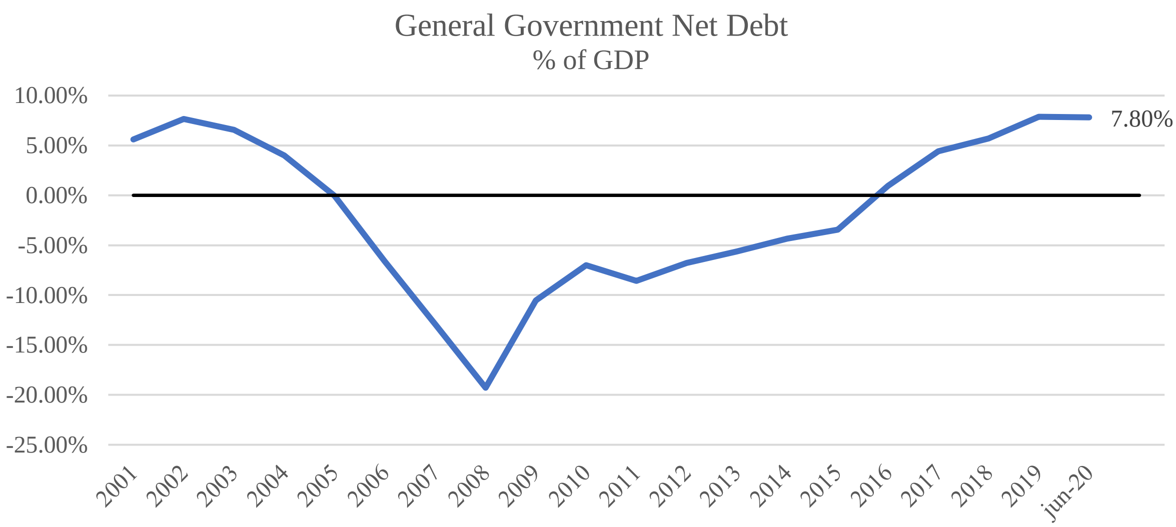




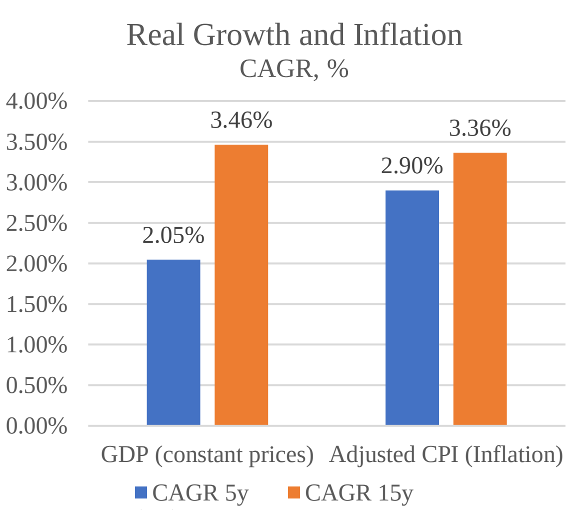




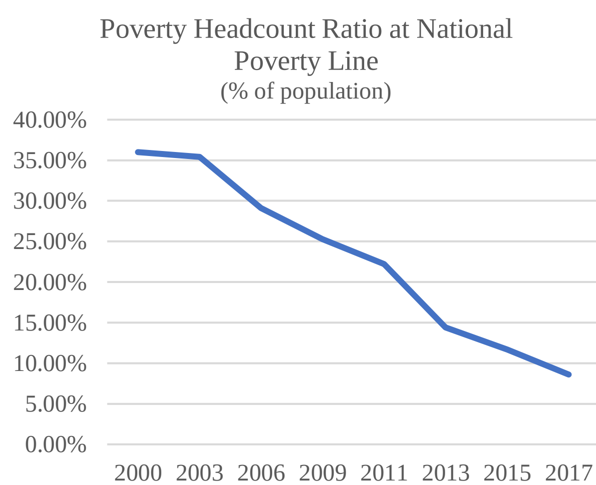
Source: IMF (WEO), DIPRES



Source: IMF (WEO)



Source: IMF (IFS)



Source: World Bank

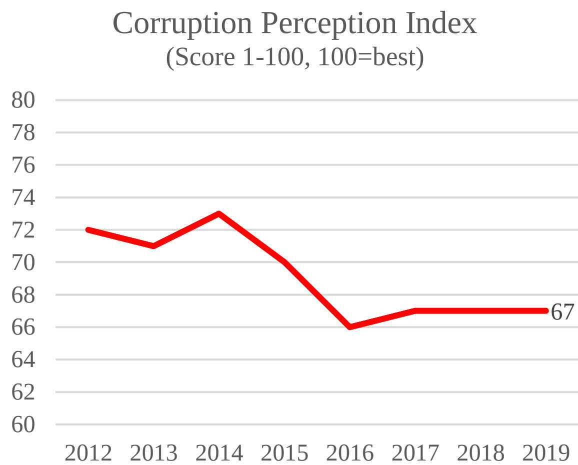
I.2. The Current Chile

Chile's Position in the World

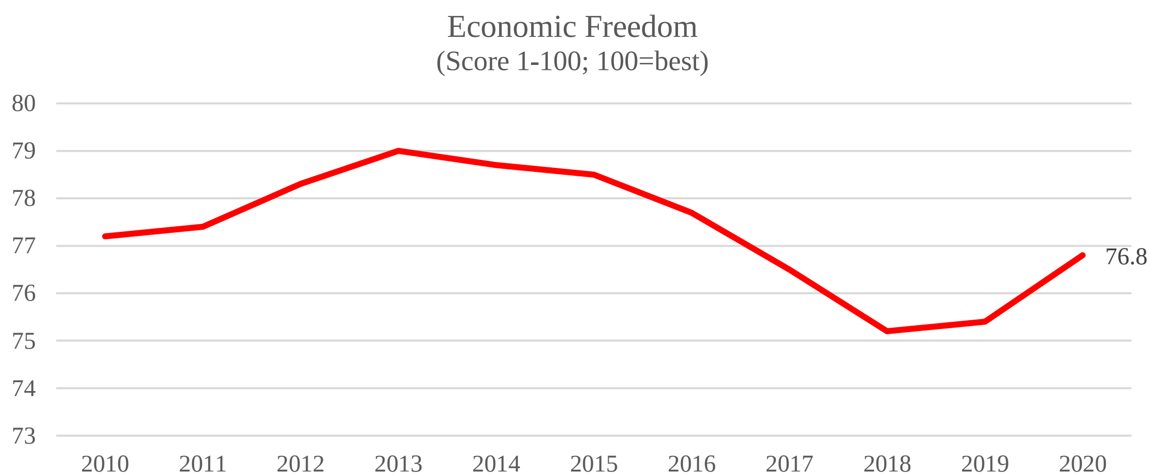
Chile holds a privileged position across Latin American countries regarding diverse indicators about commercial openness, general competitiveness, economic affairs, transparency, sustainability, among others. Looking at different world rankings help us learn about our strengths and weaknesses. This are some of Chile's recent results in worldwide rankings:

- 33rd out of 161 countries in Forbes' Best Countries for Business 2019 (#1 in Latin America).
- 30th out of 141 countries in WEF's Global Competitiveness Index 2019 (#1 in Latin America).
- 53rd out of 141 countries in WEF's Global Competitiveness Labour Market Score 2019 (#2 in Latin America).
- 15th out of 180 countries in Heritage Foundation's Index of Economic Freedom 2020 (#1 in Latin America).
- 25th out of 180 countries in Transparency International's Corruption Perception Index (#2 in Latin America).
- 59th in World Bank's Doing Business Score 2020 (#1 in Latin America and above OECD's high-income average).
- 57th in World Bank's Doing Business "Starting a Business" Score (#1 in Latin America).
- 1st out of 137 countries in BloombergNEF's Climatescope 2020 (most attractive countries for clean energy investment).
- 36th in RobecoSAM's Country ESG scores 2019.
- 43rd out of 75 countries in Future Brand Index 2020.

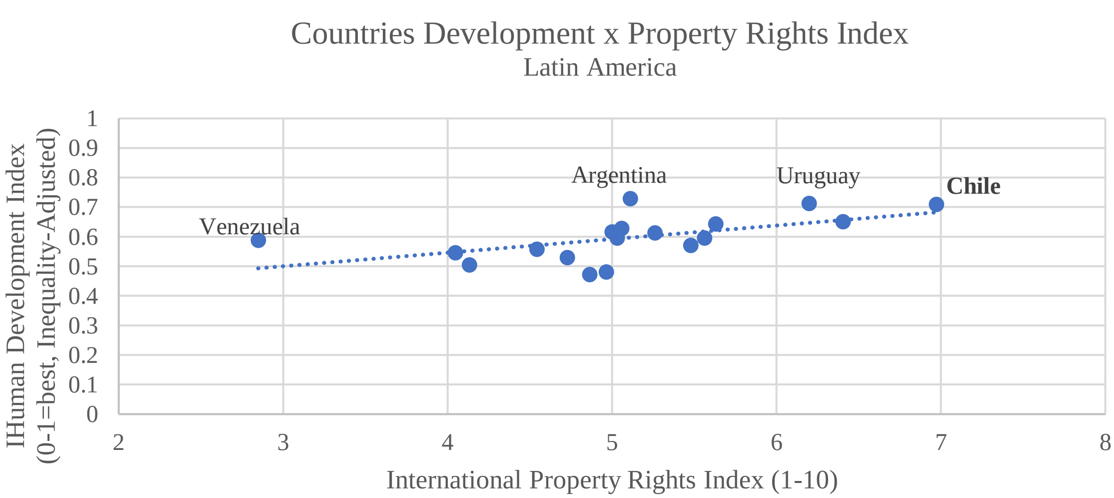
Source: WEF



Source: Transparency International



Source: Heritage Foundation



Source: Property Rights Alliance

Human Capital

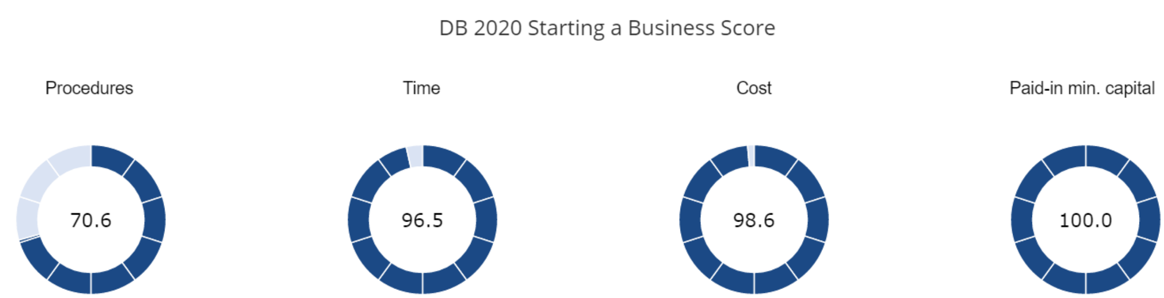
- 7 of the top 20 MBAs in AméricaEconomía's MBA Ranking for Latin America are imparted in Chilean universities.
- The number of Chilean CFA Charterholders rose from 97 in 2017 to 177 in 2020:

	Chile	Argentina	Peru
CFA Charterholders	**177**	188	178
CFA Candidates	**284**	356	621

Source: CFA Institute

Starting a Business in Chile

As stated before, Chile ranked 57th in World Bank's Doing Business "Starting a Business" Score (#1 in Latin America). If we look at the picture of World Bank's breakdown of the result, we can notice that Chile's lowest score involves the procedures related to starting a business in Chile.



Source: World Bank