

Chile

1. In which areas of structural reforms have the most significant progress been made in your economy in the past five years? Please describe in what way you think the progress has been significant? Any structural reform activity can be included here, and does not necessarily need to be restricted to the five LAISR themes.

Capital market reforms have made overarching progress over a number of LAISR themes, including Regulatory Reform, Competition Policy, and Strengthening Economic Legal Infrastructure. A continual process of legislative and administrative reforms has allowed the Chilean capital market to develop and have left the economy in a privileged position to confront the challenges of increasingly complex and dynamic global markets.

2. Describe examples of successful reforms and lessons learned in your economy in implementing structural reforms in the five LAISR areas. Please indicate relevant websites or other reference material, preferably those written in English.

Capital Market Reforms

Since 1994 and through to the recent reforms known as MKII and MKB, Chile has achieved important progress in the management of investments, market discipline, savings incentives for individuals, and competition in the financial system.

In June 2007, the Second Capital Market Reform (MKII) entered into force. This reform was structured based on three main objectives: first, to encourage the development of venture capital industry; second, to strengthen safety standards in the financial market; and third, to promote financial market development.

As for promoting venture capital industry, MKII established, among other measures, a tax exemption on capital gains from the sale of shares of venture capital, thus benefiting all those entrepreneurs, angel and seed investors willing to enter into that kind of firm.

Regarding the objective of providing better safety standards in the financial market, MKII set higher demands on custody of securities, established the need for executives of brokerage to certify sufficient knowledge, and strengthened the auditing power of the Superintendency of Securities and Insurance (SVS) over cases of insolvency or financial weakness of the institutions under its supervision. Similarly, MKII legally established the principle of immunity from seizure for debt securities in custody of the intermediary and established, for the latter, the obligation to keep separate accounts of self-owned securities and of securities held for others.

Finally, in terms of financial market development, the reform empowered the SVS to authorize the issuance of insurance policies in Chilean pesos and extended the range of investments representing technical reserves and risk capital for insurance companies. Perhaps one of the most notable measures of the MKII reforms is the demutualization of stock exchanges, which constitutes the foundation of a strong policy of innovation, integration and stock market development.

Finally, MKII introduced a number of changes to the legal statute that regulates the supply of foreign securities in Chile, commonly known as off-shore. These changes ease the requirements and conditions required for registration and subsequent public offering of such securities, and allow them to be registered not only by their issuers, but now also by brokers, securities dealers or stock exchanges themselves.

MK Bicentenario (MKB), a major Capital Market Reform put forth under the current administration, of President Sebastian Piñera, defines four strategic objectives: The International integration of Chile's financial market; a regulatory framework that fosters innovation and entrepreneurship; the adoption of best international practices on competition, supervision and transparency; and to advance the financial system both in terms of depth and liquidity. To achieve this, the Reform defines seven distinct pillars:

I. Tax Framework: In order to promote the development of new products and markets, and to foster the export of financial services and the participation of external agents, MKB will create a clear, simple and competitive regulatory framework for the fixed-income, derivatives, and financial services markets.

II. Consumer Protection: In order to allow more people to access the financial market and on better terms, the Reform will create a National Financial Consumer Service that will: Extend consumer protection from lending to other financial services; reduce regulatory disputes and focus regulation on the products and services supplied rather than the supplier; and reduce asymmetry in access to information.

III. Financial System Solvency and Risk: In view of the recent international financial crisis, the reform will make improvements to the General Bank Law and the regulation of insurance companies. These will seek to reduce cyclical variations in credit supply (through the use of provisions) and make the system more secure in terms of solvency and liquidity.

IV. Information and Transparency: In order to have a market that is integrated, competitive and provides proper consumer protection, MKB will seek to foster transparency and correct price formation. To this end, the reform proposes to integrate of local stock exchanges with others of the region; to increase price information in the foreign exchange market; to certify financial professionals; and to prevent the use of market-sensitive information.

V. Institutional Development: The market's institutional framework requires modernization in several areas. In particular: Strengthening the governance of the stock market regulator (SVS), moving towards a Securities Commission; increasing the autonomy for the bank regulator (SBIF); and reforming the Bankruptcy Law.

VI: Capital Markets at the Service of the Middle Class and SMEs: The reform seeks to improve the access to a wider range of saving and financing options for individuals and SMEs. To this end, MKB will implement measures to increase bank penetration and encourage families to save; reduce the cost of public offering; and create new incentives for innovation and venture capital, eventually introducing a new Investment Fund Law.

VII: New Markets and Cheaper Financing: The Reform aims to see the development of new markets and products that create cheaper financing alternatives. In particular, MKB will develop the market for high-yield instruments; analyze possible incentives for this industry's incorporation into the stock market; identify ways to improve the access of small businesses to exchange-rate hedging; and study a new legal framework for micro-credit institutions and, eventually, niche banks.

Public Sector Governance

On April 20, 2009, the Law of Transparency came into force. Its purpose is to regulate (1) the principle of transparency in the public sector, (2) the right of access to information of Public offices, (3) the procedures for the practice of law, and (4) exceptions to the disclosure of information.

With this Law, the various departments of the State will not only have to publish on paper or on their websites all the information regarding their composition and activities, but will also have to timely respond to requests for specific information made by any citizen.

In case of failure to comply with reporting requirements, citizens may report public services before the Council for Transparency, an entity created by this Law as an autonomous body with supervisory and sanctioning powers, which will ensure compliance with the standard and apply the corresponding sanctions.

3. What in your economy's experience are the keys to the success of reform? (e.g. leadership, institutional framework, communication strategy, consultation process) What are the factors, if any, that impeded reform? What lessons can we learn from your experience?

There is no one sufficient condition to the success of reform and surely all the cited examples of leadership, institutional framework, communication strategy, consultation process are important. However, our recent experience points to the additional importance of international norms and benchmarks. Take two examples:

First, as part of the accession process to the OECD, Chile had to make substantive improvements in Corporate Governance in order to comply with best international practices in this field. In fact, as from 1 January 2010, a new law on corporate governance was enacted drawing on the guidelines of the OECD and other standards. Thanks to this law, important regulatory changes have taken place: companies must now disclose greater information both to their own shareholders and to the auditing regulators; oversight of markets is now more adequate; and minority shareholders are better protected.

Secondly, international benchmarks such as those defined by the Doing Business Report have helped identify areas where burdensome administrative procedures are currently undermining Chile's international competitiveness and have thus helped trigger important reforms. For instance, the Sistema Integrado de Comercio Exterior (SICEX) is a new project that will implement the Single Window for International Trade, and thereby reduce barriers to "Trading Across Borders." Also, the government has recently announced a project to decrease costs for "Starting a Business" to US\$20, and the time required to one day.

4. What are the impacts, both positive and negative, of the reform on the economy and the flow of trade and investment? Please provide data or statistics where available.

The "Estado de la Hacienda Pública" is a comprehensive yearly report that presents the economic performance, reviews implemented structural changes, and further draws the roadmap for future economic policy. The 2010 publication defines the roadmap for Chile to growth at an average annual rate of 6 percent in future years; to create an average 200,000 new

jobs each year (2010-2014); to elimination extreme poverty by 2014; and sets the foundations for totally defeating poverty and become a developed economy by 2018.

The “Estado de la Hacienda Pública” publications from 2006 through 2010 can be found at: http://www.minhda.cl/documentos/estado_de_la_hacienda_publica.php

5. In what ways can APEC better promote structural reform in the region? What would be some possible next steps beyond 2010 based on the achievement of the LAISR process?

One way in which APEC could better promote structural reform in the region is by facilitating a work dynamic of collaboration through which civil servants from economies committed to undertaking particular structural reforms could visit and learn from their peers in economies with a leading experience in the field.

This “field trip” work dynamic would complement the traditional APEC workshops as it would cater to civil servants that need in-depth and customized information that cannot be typically shared on workshops intended for a broader audience.

The “field trip” work dynamic has been useful for Chile in the design of its Single Window for International Trade (see above), whereby Chilean authorities have visited and learned from leading economies in the field, and acquired an understanding that compliments that gained through EoDB Phase 1 and 2 initiatives.

We envision the possibility that APEC economies with particular expertise on given areas could offer to host customized and well-designed visits for interested economies on an individual basis. Such field trips could include meetings with top officials, visits to relevant governmental organizations and academia. Chile, for instance, could potentially host visits for sharing our worldwide recognized expertise on pension reforms, amongst others.