

# Treasury Management in Chile

[Copyright 2000 - Knowledge Management Applications - All Rights Reserved - Updated 6-28-2000](#)

## Overview

Chile is a large Latin American country physically separated from much of the continent by the Andes mountains.

The unit of currency is the Chilean Peso (CLP). It is not further subdivided. The Chilean Peso has a dual exchange rate structure with formal and parallel markets. The formal market is used for transactions defined by the Banco Central de Chile (BCC) such as capital transactions, debt service, and all transactions which affect the trade balance. Within this market there is the Acuerdo rate which is a fixing from the BCC and the Observado rate which reflects commercial transactions in the formal market. The parallel market is used for all transactions not defined by the BCC. Both markets are legal and transactions in both markets take place at freely negotiated rates of exchange. The Acuerdo fixing is set by a formula which includes other currencies (EUR, JPY, and USD) and an inflation adjusted productivity factor.

The Banco Central de Chile (BCC) is the central bank and is independent of the government in the conduct of monetary and exchange rate policy. The BCC shares regulatory responsibility for the banking system with the Superintendent of Banks and Financial Institutions.

There are two payment and clearing systems in Chile that relate to cash and treasury management.

1. Check clearing takes place in eight regional clearing houses. Encoded checks are presented daily in each of the clearing houses which report the net amounts due/from each participant to the BCC. These net amounts are settled for value on the next business day through participant accounts with the BCC. Of the clearing houses, referred to as Camara de Compensacion, the bulk of activity is in Santiago, Valparaiso, and Concepcion.
2. There is a privately run electronic ACH called the Camara de Compensacion Automatica (CCA). The CCA uses CO-ach automated clearing house processing software for transactions between the eleven participating banks. Value is typically given to the customer on the day following processing when participants receive value from each other.

A corporation is considered to be resident in Chile if it is incorporated in Chile. Residents are subject to income tax on worldwide income. Non residents (branches of foreign corporations) are taxed on Chile source income. Income derived from certain regions (extreme north and south) is exempt from taxation but generally the current rate of tax is 15%.

## Treasury Management

Chile's geography and relations with the major trading blocks of Mercosur and NAFTA has not encouraged its development as a regional treasury center. However, market based reforms instituted in the mid 1970's have yielded average annual GDP growth of 8.1% from 1988-1997. The strong and

## Weblinks

### Sponsor



### Background

[US State Department](#), [US Department of Commerce](#), [USCIA](#), and [US Embassy](#)

### Government

[Banco Central de Chile](#), [SBIF](#), [ProChile](#), [Ministerio de Hacienda](#), and [Congreso Nacional](#)

### Consultants

[DTT](#), [WorldTax](#) and [Ernst & Young](#)

### Associations

[Asociación de Bancos](#) and [AmCham](#)

### Banks

[Citibank](#), [Banco Sud Americano](#), [Banco de Chile](#), [Banco BiCE](#), [BBV](#), [Banco BHIF](#), [Bci](#), [BSCH](#), and [Banco Santander](#)

### News

diversified economy this has produced makes Chile attractive as a market for exports, imports, and locally manufactured goods.

There are several taxes in Chile which are specific to banking services. Checking accounts are assessed a fixed fee per debit at a current rate of CLP 121 per check, a fee set by the government and subject to change every six months. Cross border transfers are subject to bank fees plus VAT at 18%. There is also a stamp duty on debt instruments equal to 0.1% of the monthly outstanding however the total tax cannot exceed 1.2% regardless of the tenor of the debt.

All common treasury management techniques are permitted in Chile including leading/lagging, re invoicing, sweeping, cash concentration, and multilateral netting. Notional pooling is permitted only within the same legal entity. Relative lack of automated treasury systems and a deregulating FX market place the principal focus of cash management in Chile the fast collection of receivables with the interface to a regional or global treasury system handled on a manual basis.

The Unidades de Fomento (UF) is a legal index tied to the rate of inflation. It is used in contracts in a variety of debt and investment contracts to neutralize the effect of inflation on the financial instrument. The USD is also used as an index in Chilean contracts. The CLP's link to the US dollar makes it less used in international trade than the US dollar given the reserve currency role of the US dollar. The Foreign exchange (FX) market in Chile is large and vigorous and trading is a major revenue source for foreign and domestic banks.

Multiple CLP accounts can be held to facilitate accounting objectives or as part of an overall treasury strategy. Sweeping (zero balancing) and concentration are permitted.

## **Accounts**

The basic CLP operating account is referred to as a checking account and may be held by resident or non-resident corporations legally incorporated in Chile. Payment of interest on checking account balances is not permitted. Overdrafts are permitted by arrangement with the account holding bank with rates determined by market conditions subject to a maximum rate set by the SBIF.

Resident and non-resident corporations may hold accounts in Chile that are denominated in currencies other than the CLP and USD.

There are a number of short term investment options for resident or non-resident corporations. Short term deposits are popular along with the prepayment of longer term debt. CDs and repos round out the range of short term investment options.

Overdrafts are permitted, with the amount and rate determined by each bank and are a relatively expensive form of short term finance. More traditional are 30 day term loans indexed to the Unidades de Fomento (UF). In general, bank finance continues to be the major source of funding.

## **Payments and Receipts**

Checks, cash, and ATMS are widely used in settlements. The CCA (ACH) is also popular for recurring transactions such as payroll and vendor payments in the major centers. Larger settlements are made by check because there is no high value electronic system in Chile. Some companies leave checks for

[Santiago Times](#)

## **Specialist Sites**

[Bolsa de Comercio de Santiago, Chile Information Project, Trade and Investment Guide, Teleductos S.A., Business in Chile, TRANSBANK, and Finanzas y Economia](#)

[International Treasurer](#)  
The Journal of Global Treasury and Financial Risk Management

payment at their offices for pickup and deposit by their suppliers. In other cases, banks are directly enlisted to use their branch networks to collect and concentrate funds.

Lockbox type arrangements are permitted and are common business practice given Chile's size and reliance on checks. A typical arrangement would be to deposit checks at a branch of the company's principal bank and have the bank concentrate the funds to a master account.

Controlled disbursement is not possible because of the check clearing cycle. Some banks offer a functional alternative by moving all funds above a certain balance into an in-house mutual fund on a daily basis.

## **Technology and Marketplace**

Chile has one of the most sophisticated telecommunications networks in Latin American including a completely digital phone system. There are multiple long distance carriers, cellular telephone providers, and internet service providers. Bandwidth is reasonably priced and readily available. Financial EDI has become more popular since the establishment of EdiBank in 1993. Electronic banking products including access systems and balance reporting, are available and commonly used.

There are 29 banks and 3 financial societies operating in Chile. New entrants to the market have not been allowed since the early 1980's which has led to consolidation of the banking market and the growing dominance of foreign banks. The major locally owned indigenous banks are Banco de Chile, Banco Credito Inversiones, and Banco BiCE. Foreign banks with major positions in Chile include Banco Santander Central Hispano (BSCH), Banco Sud Americano (significant holdings by Scotiabank), and Citibank. In addition, the customary international players including ABN-AMRO, Bank of Boston (Fleet), Bank of America, and Chase have presence in Chile.

## **Treasury Management in Chile**

[Copyright 2000 - Knowledge Management Applications - All Rights Reserved - Updated 6-28-2000](#)

About This Document - The copyright is owned by Knowledge Management Applications. The style comes from a document type definition which is the valuable intellectual property of Knowledge Management Applications. The references to sites on the World Wide Web are for your convenience. These sites are provided and maintained according to separate terms and conditions of use. You may display this document on a computer screen, print it on paper, email it to others, and store it in electronic form. You may not modify, extract pages, mimic the style, or restrict access to the document. The document is for your general information and does not constitute any form of advice, recommendation, or arrangement by Knowledge Management Applications. The information in this document is provided 'as is' and there is no guarantee as to accuracy, completeness, or fitness for a particular purpose.