

Working Paper N° 25
“Financial Markets in Latin America:
Convergence and Integration
The Case of Chile”
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Abstract

This paper studies the Chilean experience in financial integration, addressing three main aspects: 1) the Chilean path toward financial integration; 2) the characterization of the Chilean financial market; and 3) the initiatives aimed at strengthening the Chilean financial industry's integration with the rest of the world.

In the first part, we analyze the Chilean path toward financial integration and we propose that the gradual but persistent approach Chile has taken to integrate with the global economy first based on trade of goods and non-financial services linkages and later and more gradually on financial issues, has been a success. We showed the high degree of integration of the Chilean financial market by observing the high correlation among Chilean and rest of the world interest rates and stock prices. This gradual approach, however, has not been without costs. First, integration in terms of the financial industry was carried out in a later stage and therefore limited competition during several years created strong local financial institutions where competition among them was insufficient. A second cost was that the financial sector development became dependent on legislative and normative advances.

In a second part, we present a characterization of the Chilean capital market with an emphasis on market instruments and Chilean institutional investors, banks, and stock exchanges. In addition, we present an evaluation of the market regulatory framework, where the Chilean securities regulation is compared with International Organization of Securities Commissions principles, as well as with the main accounting and auditing international standards. An analysis of the domestic treatment of foreign capital flows and tax regulations is considered afterwards.

Finally, we offer a set of initiatives aimed at reinforcing Chilean adherence to international financial standards. Among these initiatives are: strengthening the regulatory capacity of the exchanges, improving clearing and settlement regulatory framework; lifting bank secrecy for investigation purposes; developing certification standards for industry professionals; reinforcing the autonomy and governance of the securities regulator by changing its governance arrangements, improving information sharing with foreign regulators; implementing International Financial Reporting Standards in entities related to the securities market; and establishing a

public oversight body for statutory auditors. In fact, some of these initiatives are under some degree of development.

JEL Codes: G2, G15, G18, G28, O16.

Key Words: Financial Markets, Securities Markets, Regulation, Latin America, Chile

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