

## **2015 FINANCIAL SYSTEM REFORMS**

This document aims at presenting a summary on the main provisions issued by Banco de México during year 2015 in exercise of its powers, to regulate the monetary and exchange policy, foster a sound development of the payment systems and protect the interests of the public.

In light of which, for ease of reference, the abovementioned regulation is organized under the following sections: 1. Provisions regarding monetary and exchange policy; 2. Provisions issued as financial agent of the Federal Government of the United Mexican States; 3. Provisions regarding payment systems; 4. Provisions issued as financial system regulator and 5. Provisions issued jointly with other authorities.

To better locate the provisions, hereunder is included an index of the information contained in this document:

### **PROVISIONS ISSUED BY BANCO DE MÉXICO**

- 1. Provisions regarding monetary and exchange policy**
  - US dollar sale auctions with no minimum price (Circular 5/2015)
  - US dollar sale auctions (Circulars 6/2015 and 17/2015)
  - Government securities swap by Banco de México on its own behalf (Circular 16/2015)
  - Auctions swaps from Limited Trading Monetary Regulation Bonds (Brems L) to Negotiable Monetary Regulation Bonds (Brems R) (Circular 18/2015)
- 2. Provisions issued as financial agent of the Federal Government of the United Mexican States**
  - Procedure to act as market makers of government securities (Circulars 11/2015 and 12/2015)
- 3. Provisions regarding payment systems**
  - Fund transfers from the Sole Account of credit institutions to their account in the Interbanking Electronic Payment System (Circular 3/2015)
  - Amendments to the Interbanking Electronic Payment System Provisions (Circulars 2/2015, 4/2015, and 13/2015)

4. Provisions issued as financial system regulator
  - Procedure to assess securities subject matter of repurchase transactions or granted in guarantee to Banco de México (Circular 1/2015)
  - Payroll portability (Circular 7/2015)
  - Derivative transactions (Circular 8/2015)
  - Amendments to the general provisions setting the calculation methodology, formula, components, and assumptions of the Total Annual Cost (TAC) (Circulars 9/2015 and 15/2015)
  - Additional ordinary liquidity facility (Circular 10/2015)
  - Legal Entity Identifier Code - LEI Code (Circular 14/2015)
5. Provisions issued jointly with other authorities
  - General provisions applicable to means of disposal networks
  - General provisions on liquidity requirements for commercial banks

**PROVISIONS ISSUED BY BANCO DE MÉXICO****1. PROVISIONS REGARDING MONETARY AND EXCHANGE POLICY****US DOLLAR SALE AUCTIONS WITH NO MINIMUM PRICE (CIRCULAR 5/2015)**

Regulations of the aforementioned auctions were amended to eliminate the schedules in which Banco de México may carry out them and to establish that this Central Institute may call a new auction should the amount of offered dollars has not been totally allocated.<sup>1</sup>

**US DOLLAR SALE AUCTIONS (CIRCULARS 6/2015 and 17/2015)**

The schedule and the time frame of each of the three periods to submit bids in such auctions were amended in order to adjust them to the observed operating conditions.<sup>2</sup> Also, the possibility to conduct supplementary auctions in addition to said three periods was provided and the factors that the Exchange Commission may determine and Banco de Mexico may disclose in the relevant auction calls for determining the minimum bidding price were fixed.<sup>3</sup>

**PROPRIETARY GOVERNMENT SECURITIES SWAP BY BANCO DE MÉXICO ON ITS OWN BEHALF (Circular 16/2015)**

Regulations were amended to allow swaps with all kinds of Development Bonds of the Federal Government of the United Mexican States (Bondes), including those denominated in Investment Units (Udibonos) and with variable interest rates, in order to increase the average maturity of the outstanding stock of Bondes and consequently, a more efficient sterilization strategy to instrument the monetary policy.<sup>4</sup>

Therefore, the regulations were also amended to include as a type of auctions those at fixed price or rates, as well as the procedure to settle Bondes with variable interest rate.

**AUCTIONS SWAPS FROM LIMITED TRADING MONETARY REGULATION BONDS (BREMS L) TO NEGOTIABLE MONETARY REGULATION BONDS (BREMS R) (CIRCULAR 18/2015)**

Banco de México announced the regulation under which such auctions shall be carried out, with the purpose of allowing credit institutions to enter into swaps from those Brems L assigned by Banco de México in the auction of June 18, 2014, placed in accordance with the provisions of Circular 10/2014, to Brems R, in order to enable said credit institutions to use additional repo facilities.<sup>5</sup>

## **2. PROVISIONS ISSUED AS FINANCIAL AGENT OF THE FEDERAL GOVERNMENT OF THE UNITED MEXICAN STATES**

### **PROCEDURE TO ACT AS MARKET MAKERS OF GOVERNMENT SECURITIES (CIRCULARS 11/2015 and 12/2015)**

Among the most important amendments to such procedure is the reduction from forty to thirty-five percent of the proportional net long position threshold that market makers and Udibonos market makers may have regarding a Bond or Udibono issue, to be able to enter into securities loan transactions with Banco de México.<sup>6</sup>

Furthermore, the calculation methodology of the premium that Udibonos market makers must pay in securities loan transactions was standardized with the one regarding the calculation of the premium applicable to market makers. To this end, the seven percent factor for premium calculation was eliminated and in its place it was established that Banco de México shall calculate this factor on a monthly basis, for a period starting on the 16th day of each month and ending on the 15th day of the immediately following month. The resulting factor shall be applied for the premium calculation starting from the first business day of the following calendar month.<sup>7</sup>

Also, the calculation methodology of the activity index in Udibonos was amended in order to weigh the traded volume by the duration of such securities.

## **3. PROVISIONS REGARDING PAYMENT SYSTEMS**

### **FUND TRANSFERS FROM THE SOLE ACCOUNT OF CREDIT INSTITUTIONS TO THEIR ACCOUNT IN THE INTERBANKING ELECTRONIC PAYMENT SYSTEM (CIRCULAR 3/2015)**

As consequence of the amendments made to facilitate the use of mobile devices in the processing transfer requests through the Interbanking Electronic Payment System (SPEI, in Spanish) — according to which credit institutions participating in such payment system need sufficient liquidity in order to carry out timely processing of said transfers within the extended schedule of that system — Banco de México decided to establish a mechanism to allow SPEI credit institutions to obtain the liquidity they may need, through fund transfers made from their demand deposit accounts in domestic currency in Banco de México (Sole Account) to the account in domestic currency that such institutions maintain in the SPEI (SPEI account).<sup>8</sup>

Since the aforementioned amendment, credit institutions participating in SPEI may make transfers under any of the following two alternatives: (A) through transfer orders sent by the credit institutions themselves through SIAC-Banxico (the Customer Service System of Banco de México) from 19:00 of each banking business day and until 18:00 of the following banking business day, or (b) through transfer orders sent by Banco de México, at the beginning of transactions of the SPEI of each banking business

day, based on the payment capacity of the credit institution as set by Banco de México the previous banking business day. To that regard, it was established that the institution's payment capacity would be the positive balance resulting from subtracting from the amount used to secure the overdrafts in its Sole Account with the term deposits entered into in accordance with the procedure for determining the Interbank Equilibrium Interest Rate in Mexican currency (TIIE), the following amounts: i) the amount of the institution's overdraft in its Sole Account at the beginning of transactions of the SPEI; ii) the amount of the institution's liabilities in favor of Banco de México payable at the beginning of transactions of SIAC-Banxico the next banking business day, and iii) the amount reserved by the institution itself through the SIAC-Banxico.

#### **AMENDMENTS TO THE REGULATIONS OF THE INTERBANKING ELECTRONIC PAYMENT SYSTEM (CIRCULARS 2/2015, 4/2015, and 13/2015)**

It was established that SPEI participants that had maintained less than 1,500 demand deposit accounts during the third quarter of 2014 would be exempt from the obligation to receive and credit transfer orders in the extended schedule provided in Circular 4/2013 to process transfer orders sent through mobile devices.<sup>9</sup>

To that regard, it was established that Banco de México would calculate the aforementioned number of accounts in said quarter based on the report submitted to it through its Financial System Information Department.

Credit institutions participating in SPEI were allowed to make scheduled payments in this system, after hiring a "SPEI Alternate Account".<sup>10</sup>

There were specified the cases and terms in which SPEI participants must credit and, if necessary, return accepted transfer orders, depending on the time and means through which they are received.

Also, in order to enhance certainty in the use of SPEI, measures to bind SPEI participants to provide their customers with detailed information regarding transfer orders they send were established.<sup>11</sup>

In addition, it was established that when a participant of such payment system would receive a transfer order that has been returned and it is not able to transfer the resources into the account of the customer who submitted the original transfer order, said participant shall refrain from returning it and shall make relevant resources available to its customer so that he/she may withdraw the funds at the counter or that the funds may be transferred into the account indicated by the customer.

Two procedures were incorporated to handle contingency events: the "Alternate Operating Procedure" and the "SPEI Alternate Operating Customer". It was also established that credit institutions participating in SPEI and other SPEI participants

authorized to open demand deposit accounts to their customers, as well as clearing houses of transfers made through mobile devices, are required to maintain their connection with the SPEI during all the operating hours of such system.

Finally, securities depository institutions were allowed to act as SPEI participants.

#### **4. PROVISIONS ISSUED AS FINANCIAL SYSTEM REGULATOR**

##### **PROCEDURE TO ASSESS SECURITIES SUBJECT MATTER OF REPO TRANSACTIONS OR GRANTED IN GUARANTEE TO BANCO DE MEXICO (CIRCULAR 1/2015)**

Annex 7 to Circular 3/2012 was amended, with the purpose of further clarifying the procedure used by Banco de México to determine the value of the securities of the repo transactions, targeted to provide liquidity to the payment systems and to formalize the liquidity auctions that Banco de México enters into with credit institutions.<sup>12</sup>

##### **PAYROLL PORTABILITY (CIRCULAR 7/2015)**

In response to the most recent reforms to the Law for the Transparency and Regulation of the Financial Services, in particular regarding periodic transfers of deposits of wages, pensions, and other labor benefits that credit institutions are required to make at the request of account holders, Banco de México decided to establish the conditions and terms to provide certainty and clarity to these institutions and their relevant account holders when attending said transfer requests submitted either before such institution or before another institution to which resources are being transferred.<sup>13</sup>

Particularly, the abovementioned provisions permitted the employees to agree with the credit institution they choose, to ask to the credit institution where their labor benefits are deposited, to request on their behalf to transfer said labor benefits to the the employees' account in the former credit institution.

Additionally, requests were allowed to be made either in person or through the online banking service, for which application and cancellation forms of the transfer request were added. Also, minimum documentation needed was established in order that — either recipient or ordering — credit institutions may be certain that the employee making the request has an account with the institution where the labor benefits will be transferred, not being able to require additional or different documentation, or charge for such services.

##### **DERIVATIVE TRANSACTIONS (CIRCULAR 8/2015)**

The rules for the execution of derivative transactions were modified so as to: i) include general deposit warehouses and multiple purpose financial companies (Sofomes)

having economic ties with a commercial bank, and ii) to replace the name of the investment companies for that of investment funds.<sup>14</sup>

Along with these changes, the definition of standardized derivative transactions was included. It was also included the obligation for the credit institutions, the Rural Financial Institution (*Financiera Rural*) and the securities firms (hereinafter “Entities”) to execute the transactions entered into among them or between an Entity and a foreign financial entity, as well as between an Entity and a given institutional investor in recognized markets, through companies managing systems to facilitate securities transactions, authorized or recognized by the National Banking and Securities Commission, and to settle said transactions through clearing houses incorporated in terms of the “*Rules that derivatives contract market participants must comply with*” or through central counterparties in derivative exchanges or in foreign over-the-counter markets, recognized by the Banco de Mexico as such.

It was also established that any set of transactions, contracts or any kind of agreements that, individually or jointly, producing the same economic effects that any of the derivative transactions, would be subject to the provisions applicable to equivalent derivative transactions. Likewise, it was established that when Entities request authorization from Banco de Mexico to execute derivative transactions on their own account, they must specify in their application a full description of the underlyings whenever they intend to operate with derivative transactions that have as underlying other derivative transactions.

It was established that when requesting authorization from Banco de Mexico to enter into derivative transactions different from futures, forwards, options, swaps, credit derivatives or any combination of those, or with underlyings different to those established in the Rules, the Entities must attach to its application a communication issued by their auditing committee, in the same terms than the one they must submit annually on March.

Entities were authorized to execute forwards on their own account, without Banco de México authorization, provided the underlyings are Bonds and settlement takes place in a term no greater than eight business days from the date of agreement thereof.

The Entities were required to have an appropriate counterparty risk assessment, to determine the hedging effectiveness, and to submit their intended transactions to their risk committees prior to their execution.

Also, the Entities and Sofomes willing to acquire or issue titles implementing structured transactions on their own account, shall obtain authorization from Banco de México to execute the derivative transactions referring to the underlyings to which such structured transactions are referred-to.

Banco de México recognized as a transaction entered into by authorized counterparties those executed in foreign central counterparties and it was established the obligation for the counterparty of the derivative transactions entered into in recognized markets to be the clearing house or, as applicable, the foreign institution acting as the central counterparty recognized by Banco de México.

Banco de México was empowered to acknowledge as central counterparties or central information registries, those foreign institutions that: i) are authorized by the financial authorities of the jurisdiction where they act as such and they are subject to effective supervision and surveillance; ii) their regulatory framework produces similar or equivalent outcomes to those of the provisions issued by the Mexican authorities and they comply with the Principles for Financial Market Infrastructures issued by the Committee on Payment and Settlement Systems of the Bank for International Settlements and the Technical Committee of the International Organization of Securities Commissions, and iii) Banco de México or the National Banking and Securities Commission has executed a memorandum of understanding with the foreign financial authorities regulating and supervising said foreign institution.

Regarding over-the-counter derivative transactions where clearing and settlement is not carried out through clearing houses or foreign institutions acting as central counterparties, it was established that the Entities must set proceedings to verify along with their counterparties the form and terms under which the periodical assessment of the derivative transactions entered into with said counterparties takes place, the dispute resolution mechanisms regarding the enforcement of the aforementioned verification proceedings and the proceedings to periodically assess all the derivative transactions executed with its counterparties.

#### **AMENDMENTS TO THE GENERAL PROVISIONS SETTING THE CALCULATION METHODOLOGY, FORMULA, COMPONENTS, AND ASSUMPTIONS OF THE TOTAL ANNUAL COST (TAC) (CIRCULARS 9/2015 AND 15/2015)**

TAC Circular was amended with the purpose of making revisions to the methodology for TAC calculation and to clarify assumptions intended for advertising. Likewise, to determine the amount of each payment it was established that it must be included the cash collateral, the amount of funding granted to cover insurance premiums as well as other payments required for taking and maintaining the credit. It was also provided that it shall also be included in said amount those fees, rights, or services associated with the credit—including those with optional payments when they are determining factors to qualify for preferential interest rates on credits.<sup>15</sup>

Regarding revolving credits, the following assumptions were included for TAC calculation : i) that customer used the total amount of the credit line at the beginning of the term of the credit; ii) that customer made the minimum payment in each period; iii) that customer used the part of the amount of the credit line resulting immediately after the payment of each installment; iv) that the interests, the



minimum payment, and the new use of the credit line were accrued or made at the end of the relevant period; v) that the minimum payment and interest remained constant for all periods, and vi) that the amount of the annual fee was charged at the end of the first period of each year, remained constant over the three-year period and belonged to the specific product according to the registration of fees that Banco de México has. Furthermore, for such calculation purposes it was established that discounts, bonuses, or any other amount the customer would be entitled to receive should he/she complied with the contract payment terms, are to be excluded.

#### **ADDITIONAL ORDINARY LIQUIDITY (CIRCULAR 10/2015)**

Banco de México issued new rules applicable to those commercial banks that may need liquidity beyond their ordinary needs, overruling the former rules established in Circular 48/2008.<sup>16</sup>

Financing may be asked for by entering into a credit agreement or a repo agreement. Financing granted through a credit agreement must be guaranteed with Monetary Regulation Deposits (*Depósitos de Regulación Monetaria*) or dollar deposits that the credited commercial bank has with Banco de México. Financing granted by repo agreements, shall be entered into with the following securities: Certificates of the Federal Treasury issued by the Federal Government of the United Mexican States (*Cetes*), *Bondes*, Coupons segregated from *Bondes* with a fixed interest rate (*Bonos*) or *Udibonos*, Savings Protection Bonds (BPAS), *Brems*, United Mexican States Bonds (UMS Bonds) and debt securities denominated in Mexican currency, investment units, dollars or certain major currencies with credit ratings equal or above AA or its equivalent, issued by, among others, national government entities and governments or central banks of other countries.

It was established that both agreements must of one banking business day, renewable automatically for the same term. It was additionally, established that Banco de México may refrain from renewing the credit or repo agreements should the commercial bank does not apply the financing to cover the liquidity needs specified in its application, or if said commercial bank does not comply with the rules or in the terms and conditions provided in the agreement entered into with Banco de México to such effect.

It was established that for paying the financing, the commercial bank shall give a written notice to Banco de México with one banking business day in advance.

#### **LEGAL ENTITY IDENTIFIER CODE – LEI CODE (CIRCULAR 14/2015)**

Considering the efforts made by financial authorities from different jurisdictions, within talks and recommendations promoted by the United Mexican States together with the other countries of the Group of Twenty (G20) to establish a globally unique identifier for parties making transactions in the financial system, Banco de México

issued the regulations applicable to the Legal Entity Identifier Code. These regulations oblige credit institutions to have a Legal Entity Identifier Code (LEI Code) and to verify that the counterparties with whom the aforementioned credit institutions enter into certain transactions — such as the granting of discounts; loans or credits; issuance of credit cards; third-party obligation assumption through the granting of securities acceptances, endorsements, or guarantees; conducting gold, silver, and exchange transactions, and issuing of letters of credit — have in turn such code. The foregoing in accordance with the terms and conditions, as well as with the gradualness and terms that Banco de México may determine by general provisions.<sup>17</sup>

To that end, it was established that the LEI Codes must be issued in accordance with the policies and standards of the Global System by local operating units. These local operating units are legal entities incorporated either inside or outside the country accredited by the Global Legal Entity Identifier Foundation (GLEIF)—a not-for-profit foundation incorporated in Switzerland by the Financial Stability Board. Banco de México may recognize as national local operating units to legal entities established in the country that have obtained accreditation from the Global Foundation. Additionally, it was provided that LEI Codes must be renewed annually.

## **5. PROVISIONS ISSUED JOINTLY WITH OTHER AUTHORITIES**

### **GENERAL PROVISIONS APPLICABLE TO MEANS OF DISPOSAL NETWORKS**

The National Banking and Securities Commission and Banco de México amended the provisions governing the means of disposal networks aimed at clarifying the definition of "Specialized Companies," as well as to appoint the entities to be classified as participants in means of disposal networks.<sup>18</sup>

### **GENERAL PROVISIONS OF LIQUIDITY REQUIREMENTS FOR COMMERCIAL BANKS**

The National Banking and Securities Commission and Banco de México amended the procedure for calculating the liquidity coverage ratio in order to provide that — in the case of foreign exchange transactions involving the execution of a framework agreement under which it is allowed to extinguish by offsetting in a single settlement all transactions made with the same counterparty — winning trade transactions must be offset with losing trade transactions.

Finally, it was provided that commercial banks must include the resulting amount as inflows or outflows, depending on whether the result corresponds to a winning or losing trade position. The transitional regime was also amended with the purpose of extending the terms of the progressive period originally established in the Provisions, particularly to comply with the daily report of the calculation of the liquidity coverage ratio.<sup>19</sup>

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- <sup>1</sup> Circular 5/2015, addressed to credit institutions, issued on March 11, 2015.
- <sup>2</sup> Circular 6/2015, addressed to credit institutions, issued on March 13, 2015.
- <sup>3</sup> Circular 17/2015, addressed to credit institutions, issued on November 19, 2015.
- <sup>4</sup> Circular 16/2015, addressed to credit institutions, securities firms, investment funds, Retirement Fund Management Companies and the Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural), dated October 29, 2015, published in the Official Gazette of the Federation on November 3, 2015.
- <sup>5</sup> Circular 18/2015, addressed to credit institutions, dated November 24, 2015, published in the Official Gazette of the Federation on November 26, 2015.
- <sup>6</sup> Circular 11/2015, addressed to credit institutions and securities firms, dated July 21, 2015, published in the Official Gazette of the Federation on July 27, 2015.
- <sup>7</sup> Circular 12/2015, addressed to credit institutions and securities firms, dated July 21, 2015, published in the Official Gazette of the Federation on July 27, 2015.
- <sup>8</sup> Circular 3/2015, addressed to credit institutions and the Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural) dated February 27, 2015, published in the Official Gazette of the Federation on March 3, 2015.
- <sup>9</sup> Circular 2/2015, addressed to the participants in the Interbanking Electronic Payment System (SPEI), dated January 14, 2015, published in the Official Gazette of the Federation on January 16, 2015.
- <sup>10</sup> Circular 4/2015, addressed to the participants in the Interbanking Electronic Payment System (SPEI), dated March 4, 2015, published in the Official Gazette of the Federation on March 6, 2015.
- <sup>11</sup> Circular 13/2015, addressed to the participants in the Interbanking Electronic Payment System (SPEI), dated August 26, 2015, published in the Official Gazette of the Federation on August 31, 2015.
- <sup>12</sup> Circular 1/2015, addressed to credit institutions and the Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural), dated January 7, 2015, published in the Official Gazette of the Federation on January 9, 2015.
- <sup>13</sup> Circular 7/2015, addressed to credit institutions and the Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural) , dated March 17, 2015, published in the Official Gazette of the Federation on March 20, 2015.
- <sup>14</sup> Circular 8/2015, addressed to the credit institutions, securities firms, investment funds, multiple purpose financial companies with economic ties with a commercial bank, general deposit warehouses and to the *Rural Financial Bank*, dated April 13, 2015, published in the Official Gazette of the Federation on April 17, 2015.
- <sup>15</sup> Circular 9/2015, addressed to credit institutions, multiple purpose financial companies, regulated and non-regulated, popular financial companies, community financial companies, savings and loan associations, credit unions, financial entities acting as trustees in trusts granting credit to the public, as well as companies regularly granting credits, dated April 23, 2015, published in the Official Gazette of the Federation on April 27, 2015.
- <sup>16</sup> Circular 10/2015, addressed to commercial banks, issued on May 11, 2015.
- <sup>17</sup> Circular 14/2015, addressed to credit institutions, dated September 8, 2015, published in the Official Gazette of the Federation on September 15, 2015.
- <sup>18</sup> Resolution modifying the General Provisions applicable to disposal networks, published in the Official Gazette of the Federation on April 2, 2015.
- <sup>19</sup> Resolution modifying the General provisions on the liquidity requirements for commercial Banks, published in the Official Gazette of the Federation on December 31, 2015.