

## **2011 FINANCIAL SYSTEM REFORMS**

This document is a brief description of the most important provisions issued by Banco de México in 2011. In order to facilitate its consultation, information about them is divided into two parts, one relative to provisions issued as the Central Bank and another as the Federal Government's Financial Agent.

### **I. PROVISIONS ISSUED AS THE CENTRAL BANK**

#### **DEMAND DEPOSIT ACCOUNT OPERATING LEVELS**

Banco de México amended the regulations applicable to banks establishing that demand deposit accounts must be classified according to four operating levels depending on new account opening requirements pursuant to the "General provisions of article 115 of the Law on Credit Institutions" issued by the Ministry of Finance and Public Credit.

The provisions aim to take banking services to a larger segment of the population by encouraging the use of new ways of accessing bank deposits and making it easier for depositors to access their funds through efficient and expedite media.

Total deposits for one calendar month must not exceed the equivalent in national currency of 750 UDIS in the case of level 1 accounts; 3,000 UDIS in the case of level 2 accounts; 10,000 UDIS in the case of level 3 while there will be no limit on accounts classified as level 4 unless banks agree on a limit with their clients.

Among other things the provisions also established that banks may open level 1 and 2 accounts for individuals only while level 3 and 4 accounts could be opened by individuals and corporations.

Likewise banks must allow cash deposits in all types of accounts through electronic fund transfers and checks and give clients access to the accounts' funds in accordance with the following:

- a) With respect to level 1 accounts, exclusively through debit cards.
- b) With respect to level 2, 3 and 4 accounts through media determined by the banks, such as electronic fund transfers, the direct debit service and debit cards.
- c) In the case of level 4 accounts, withdrawals may also be authorized through the release of checks.<sup>1</sup>

## **BASES FOR THE PROVISION OF AUTOMATIC TELLER MACHINE SERVICES**

In order to promote the sound development of the financial system, protect the public's interests, encourage a more efficient use of ATMs and the greater penetration of financial services for the benefit of users, bases were established for banks to jointly offer their cardholders services through ATMs operated by third parties.

The amendments established that banks interested in offering these services should request authorization from Banco de México and include corporate and financial information in it.

Furthermore, the provisions state that transactions undertaken by clients of said banks at other ATMs will be regarded as having taken place through their own. Therefore banks that are part of those ATM networks may not charge their cardholders commissions for their use.<sup>2</sup>

## **REGIME APPLICABLE TO DERIVATIVE TRANSACTIONS**

In a bid to promote the use of financial products to mitigate the risk caused by changes in farm product prices, the regime applicable to derivative transactions was modified to permit the use of new underlying assets on which banks and brokerage firms can base such transactions.

Such underlying assets are: any type of corn (previously only yellow corn was permitted), rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barely, cattle, swine, milk, soybean oil and soy meal.<sup>3</sup>

## **PROVISIONS APPLICABLE TO FOREIGN CURRENCY BANK CARDS**

In order to continue fostering the healthy development of the financial system and taking into account amendments made to the regulations applicable to local currency lending transactions with respect to operating levels of the above referred deposit accounts, Banco de México decided to make amendments to provisions applicable to foreign currency prepaid bank cards.

Thus the central bank established that banks could freely determine the physical characteristics of the cards, their maximum balance and commercial name. However, the back of the cards must clearly state their expiry date, denomination or any other expression, the symbol, emblem or logo of the issuing bank, and the name of the individual to whom it belongs.

The central bank also established that the cards could be used both locally and abroad as long as they are not used for electronic fund transfers.

To credit bank cards in foreign currency through electronic fund transfers the CLABE assigned by the banks could be used or else the 16 identification digits of the corresponding card.<sup>4</sup>

## **LENDING TRANSACTION REFERENCE RATES**

In order to foster the healthy development of the financial system and protect the public's interests, the Weighted Bank Funding Rate and the Weighted Government Funding Rate became additional reference rates for lending transactions in local currency undertaken by banks. Also, reference rates no longer used as the interbank interest rate called "MEXIBOR" were eliminated.<sup>5</sup>

## **CREDIT CARD MINIMUM PAYMENT**

In order to foster the healthy development of the financial system and protect the public's interests, Banco de México issued "Provisions for determining the minimum payment on credit cards", which are applicable to unregulated multiple purpose financial companies, popular financial companies, savings and loans companies as well as financial entities that act as trust fiduciaries that grant public financing and issue credit cards.

These provisions evenly regulate the terms in which such credit card issuers must determine the minimum amount they charge each period for which a formula is established whereby each minimum payment amortizes part of the credit's principal so that the respective debts can be covered by cardholders within a reasonable period of time.<sup>6</sup>

It should be pointed out that Banco de México regulations applicable to banks and other credit card issuers establish an equivalent regime for determining the respective minimum payment.

## **II. PROVISIONS ISSUED AS THE FEDERAL GOVERNMENT'S FINANCIAL AGENT**

### **RULES FOR THE EXCHANGE OF GOVERNMENT SECURITIES**

The reason for issuing these rules was:

- a) Provide the Federal Government with tools for optimizing the maturity profile of Government Securities;
- b) Continue to foster the development of the local debt market;
- c) Boost liquidity and increase the efficiency of the price formation process of available instruments;
- d) Contribute to the reduction of the cost and risk involved in the Federal Government finding by fostering a better internal debt market, and
- e) Encourage the use of best international practices with respect to securities trading.

Federal Treasury Certificates (CETES) were included in the regulation as originally, only peso denominated Federal Government Development Bonds with a fixed interest rate (BONDES) and those denominated in investment units (UDIBONOS) could be exchange.<sup>7</sup>

## **SYNDICATED AUCTIONS OF GOVERNMENT SECURITIES**

In order to encourage the participation of a larger number of market makers in syndicated auctions of government securities, improve the price formation process of said auctions and foster healthy competition, Banco de México issued "Rules for the Syndicated Auctions of Government Securities".<sup>8</sup>

### **PROCEDURE FOR MARKET MAKERS TO EXERCISE THE RIGHT TO PURCHASE GOVERNMENT SECURITIES AND UNDERTAKE LOAN TRANSACTIONS ON THEM WITH BANCO DE MÉXICO AS THE FEDERAL GOVERNMENT'S FINANCIAL AGENT**

This procedure was modified to enable UDIBONOS market makers to participate in it as the Ministry of Finance and Public Credit recently authorized this concept.

Likewise, as a result of the issuance of this provision, said procedure was compiled in one law, as there were previous regulations on the same topic directed on the one hand at banks and on the other at brokerage firms.<sup>9</sup>

- 
1. Circulars 14/2011 and 1/2006 Bis 41, directed at multiple banking institutions and development banks, respectively, date June 17 and July 7, 2011.
  2. Circulars 6/2011 and 1/2006 Bis 39, directed at multiple banking institutions and development banks, respectively, dated February 16 and 21, 2011.
  3. Circulars 25/2011 and 1/2006 Bis 44, directed at multiple banking institutions and brokerage firms as well as development banks, respectively, dated December 19 and 21, 2011.
  4. Circular 15/2011, directed at multiple banking institutions dated June 20, 2011.
  5. Circulars 4/2011 and 1/2006 Bis 38, directed at multiple banking institutions and development banks, respectively, both dated February 4, 2011.
  6. Circular 13/2011, directed at unregulated multiple purpose financial institutions, popular financial companies, savings and loans companies and financial entities that act as trust fiduciaries that grant public funding, dated June 1, 2011.
  7. Circular 2/2011, directed at banks, brokerage firms, mutual funds and companies specializing in retirement funds, dated February 4th, 2011.
  8. Circular 16/2011, directed and banks and brokerage firms dated July 11, 2011.
  9. Circular 7/2011, directed and banks and brokerage firms dated February 28, 2011.