

1996 FINANCIAL SYSTEM REFORMS

Annex 5 of Banco de Mexico's 1995 Annual Report stated that on September 20th, 1995, the central bank issued Circular 2019/95. This Circular contains the regime applicable to commercial bank lending, borrowing and service transactions. The main amendments made to the Circular are mentioned below in addition to other provisions issued by Banco de Mexico directed at commercial and development banks and brokerage firms as well as other financial intermediaries during 1996.

On two occasions during the year Banco de México compiled amendments to Circular 2019/95. On the first occasion the amendments covered only the period from the Circular's issuance date to July 31st, 1996. On the second occasion, not only were amendments from July 31st 1996 to October 7th included, but amendments were also made to: 1) prohibitions on banks with respect to liability transactions; 2) dollar futures markets, dollar options markets, and nominal interest rate and National Consumer Price Index futures markets; and 3) transaction penalties and suspension.

Furthermore, the regime applicable to nominal interest rate futures markets, National Consumer Price Index Futures, short-term Foreign Exchange hedges, dollar futures and dollar options markets was standardized for banks acting as brokers. If they had a report issued by a consulting company and had already been authorized to act as intermediaries in one of those markets it was easier for them to obtain the corresponding authorizations.

COST OF TERM DEBIT DEPOSITS IN LOCAL CURRENCY, IN INVESTMENT UNITS AND US DOLLARS

In the Official Federal Gazette dated February 13th, 1996, Banco de México announced that it would begin providing a monthly estimate of the "cost of term deposits in respect of interest rate term liabilities in local currency for commercial banks" (CCP). CCP is a more accurate reflection than the "average percentage cost of deposits" (CPP), the cost of time deposits for commercial banks. Even so, in order to avoid a disruption to both commercial banks and persons that had entered into transactions referenced to the CPP, Banco de México said it would continue to publish said reference rate in the Official Federal Gazette until December 31, 2005 at the least.

Furthermore, in the Official Federal Gazette dated February 13th, 1996, Banco de México changed "average percentage cost of liability deposits denominated in investment units" (CPP-UDIS) for "the Cost of term deposits of liabilities denominated in investment units" (CCP-UDIS), in order to bring the name of the estimate into line with the one referenced to CCP instruments, the only difference being their denomination in local currency or in investment units.

Given the possibility of undertaking investment unit-denominated transactions, there was no longer any justification for local currency-denominated deposit institutions to use the National Consumer Price Index as a Reference Rate. Therefore, through the corresponding Circular-Telefax, Banco de México permitted the use of the CCP as a reference rate for

liability transactions.¹

With respect to "cost of term deposits of liabilities denominated in US dollars (CCP-Dollars), on May 6th, 1996, in the Official Federal Gazette Banco de Mexico said it would be published monthly so it could be used as a reference for calculating the interest rate on US dollar-denominated loans (dollars). As a result the CCP-Dollars was included in reference rates available to commercial banks.²

INTEREST RATES FOR LENDING TRANSACTIONS

In February 1996, a new option was introduced for calculating the interest rate commercial banks are allowed to charge on their loans. The option permits a fixed component and a variable component; in other words, the interest rate may be expressed by stating the maximum and minimum number of percentage points that can be added; within that range the interest rate is calculated by multiplying the reference rate by a fixed factor and adding a fixed number of percentage points, or fractions thereof, to the result.³

It was also stated that with respect to new loans on which Banks had not waived their reporting right, an agreement could be reached to fix the interest rate applicable to each drawdown.

In the case of loans whose cost is partially determined by fees charged by a third party, as long as these were not known at the time of the loan transaction, or the third party was able to modify after the loan had been granted, banks were allowed to reach an agreement with borrowers to reflect fee amounts. Likewise, they were allowed to use the rates agreed on for instruments documenting funding received from development Banks or public trusts for economic development as loan reference rates.

EQUILIBRIUM INTERBANK INTEREST RATES

In order to have a more frequent calculation of an interest rate that reflects money market conditions and meet the request of several institutions, provisions related to the calculation of the Equilibrium Interbank Interest Rate (TIIE) were modified.⁴

It was decided that Banco de México would inform participating banks in writing of the days on which they could submit interest rate quotations as well as the terms and local currency and/or investment unit amounts they could be submitted in.

It was also decided that Banco de Mexico could stipulate minimum and maximum limits on amounts within which quotations could be submitted, in multiples of a base quantity known as base amount. It was established that quotations submitted the day following primary market government security auctions should consist of a single amount determined by Banco de México.

NOMINAL INTEREST RATE AND NATIONAL CONSUMER PRICE INDEX FUTURES MARKETS

At the end of February 1996, and due to changes to the procedure for calculating equilibrium interbank interest rates, it became necessary to clarify what "observed TIIE" meant. It was decided that it would be the Equilibrium Interest Rate for the "Reference TIIE Maturity" determined by Banco de México on the bank working day immediately following the day on which primary auction government securities auctions take place.⁵

Subsequently, on March 22nd, 1996, it was established that authorizations to act as intermediaries would be granted discretionally once Banks and brokerage firms had met the 31 internal management and control requirements similar to those they should comply with in order to act as such in other markets.

On October 7th and 10th, 1996, with respect to banks and brokerage firms, the regime regulating these markets was modified along with the one governing short-term foreign exchange hedges and dollar futures and options markets in the case of commercial banks and development banks and authorization to act as intermediaries.⁶

On the same dates facilities were granted to banks and brokerage firms to obtain the corresponding authorizations if they were in receipt of a report issued by a consulting company or had been authorized to act as intermediaries in one of those markets.

CALL TO BUY FEDERAL TREASURY CERTIFICATES

In order to reduce the amount of its money market liquidity withdrawal and injection transactions, Banco de México made diverse calls, mainly in the first half of 1996, to purchase Federal Treasury Certificates (CETES) in which Mexican banks could only make their own bids to sell CETES.⁷

DOLLAR FUTURES AND OPTIONS MARKET

In response to diverse petitions from banks, at the beginning of March 1996, authorization was also given for obligations corresponding to these markets to be honored not only by delivering the dollar amount in exchange for local currency, but also whatever currency had been agreed to before entering into the transaction, as well as through delivery of the local currency amount resulting from the difference obtained from the exchange rates stipulated in the contract.⁸

Furthermore, in the middle of April, 1996, the Mid America Commodity Exchange of the Chicago Board of Trade was included as a recognized market by Banco de México for banks to undertake foreign currency future transactions involving the local currency.⁹

DOCUMENT CLEARING HOUSES

In order to make the date on which banks receive tax and service payment documents for submission to the clearing house and credits to accounts congruent with the date on which they are received, it was established that banks should submit them to the clearing house on the exact same date they are received.¹⁰

With respect to the settlement of remittances, banks agreed that in general documents payable at a maturity other than the one received by the clearing house –when both maturities are not covered by the same clearing house– must be credited to clients’ account on the sixth working day immediately following the one on which such documents were submitted to the clearing house.

Therefore, in the middle of May of this year, Banco de México’s regulations included that in the event of the above, and in the case of most of the markets covered by clearing houses operating in the country, the respective debits and credits must be made on the referred date.¹¹

Furthermore, in order to foster and modernize Mexico’s payments system, in accordance with the opinion of the Mexican Bankers Association (Asociación de Banqueros de México, A.C.), Banco de México issued new clearing rules for local currency documents, which came into effect on November 1st, 1996.¹²

Before November 1st, the clearing house was operated by a trust comprised of banks within Banco de México, called Centro de Cómputo Bancario (CECOBAN) – Bank Computer Center, in the cities of México, Distrito Federal; Monterrey, Nuevo León; and Guadalajara, Jalisco.

Under the aforementioned rules, it was stipulated that banks could set up a clearing house in those cities to offer the interbank payment service using the operating mechanism of their choice, and give all banks that meet the requirements prior to its creation fair access.

As a result, as of November 1st, 1996, the CECOBAN trust stopped providing the three aforementioned cities with clearance. Consequently, the banks in the trust created a company called CECOBAN, S.A. de C.V. that is responsible for electronic, traditional and automated clearance in those cities.

SINGLE ACCOUNT REGIME

In order to procure additional instruments for efficiently managing monetary policy, diverse amendments were made to Banco de México’s local currency single account regime with banks.¹³

As a result, it was determined, among other things, that for the purpose of calculating accumulated daily balances, the following positive or negative daily balances of banks in excess of the amount that turns out to be lower than expected in section 1) or the result of section 2) would not be computed: 1) 250 million pesos, or 2) the greater of: a) the equivalent of 0.25 percent of the average monthly daily balances of certain local currency liabilities, or b) the equivalent of 2.5 percent of their net capital.

It was also clarified that if on a bank working or non-working day a bank registers negative daily balances in excess of the amount obtained from the mechanism described above, the next working day Banco de México will charge that bank’s single account interest resulting from applying to said balances an interest rate equivalent to twice the CETES rate.

On October 28th this regime was modified once again so as to limit the guaranteed overdraft amount commercial banks may incur in their single account by establishing that they can only incur overdrafts that do not exceed an amount that is the lower of one third of the ceiling established by Banco de México in relation to the sum of the risk exposure ceilings determined by the participating bank in the Extended Use Electronic Payments System with respect to other accounts or three billion pesos.¹⁴

In order to facilitate commercial banks' compliance with this measure it was introduced gradually.¹⁵

CALCULATION OF THE EXCHANGE RATE FOR MEETING FOREIGN CURRENCY OBLIGATIONS PAYABLE IN MEXICO

On March 22nd, 1996, Banco de México published in the Official Federal Gazette "Provisions Applicable to Calculating the Exchange Rate for Meeting Foreign Currency Obligations in Mexico." The aim was for the exchange rate used to determine the equivalence of the local currency for meeting foreign currency-denominated obligations to be based on a procedure that permits the calculation of a rate that is representative of the quotations observed in the foreign exchange market at different times of the day.

In accordance with the new provisions at three different times during each bank working day, Banco de México obtains dollar buy and sell exchange rates for transactions to be settled on the bank working day following the quotation date from banks whose transactions reflect conditions prevailing in the wholesale foreign exchange market for amounts that in its opinion reflect the prevailing practice in that market.

Based on the information it receives in each period, the Central Bank proceeds to calculate the equilibrium exchange rate of each by applying the calculation algorithm. Subsequently the arithmetic average of the three equilibrium exchange rates is obtained and the result is published in the Official Federal Gazette the next bank working day.

Regarding this, it was determined that when requesting quotations from participating banks Banco de México may enter into dollar buy and sell transactions with them based on the quotations it has received.¹⁶

Dollar-denominated payment obligations entered into inside or outside Mexico for settlement inside Mexico continue to be honored by delivering their equivalent in local currency at the exchange rate published by Banco de México in the Official Federal Gazette on the bank working day immediately prior to the one on which payment is made.

These provisions repeal previous ones under the same name published in the Official Federal Gazette on November 10th, 1991. However, they state that between April 22nd 1996 and April 22nd, 1997, Banco de México will continue to publish the exchange rate referred to in the "Resolution on the Exchange Rate Applicable to Calculating the Local Currency Equivalent of the Principal and Interest on Foreign Currency Denominated Treasury Bonds Payable in Local Currency", published in the official Gazette on November 10th, 1991.

SHORT-TERM FOREIGN EXCHANGE HEDGE MARKETS

As the exchange rate used to settle foreign currency hedge transactions that expire before April 22nd, 1997, will only be published until that date, Banco de México modified provisions that regulate short-term foreign currency hedges that mature as of April 22nd in order to establish, among other things, how our currency's appreciation or depreciation against the dollar will be calculated and the applicable exchange rate.¹⁷

FOREIGN CURRENCY DEBT INVESTMENT REGIME

In order to give commercial banks more investment options for their foreign currency-denominated debt, in the middle of this year Banco de México added a new concept to already permitted ones, enabling them to invest in investment funds that invest in authorized asset or assets with similar characteristics and whose maturity does not exceed one year as of the date of their acquisition or ninety day in the case of non negotiable assets in secondary markets.¹⁸

Banks that want to comply with the liquidity ratio by investing in such funds must notify Banco de México of their main characteristics.

THE AGREEMENT OF RECIPROCAL PAYMENTS AND CREDITS OF THE LATIN AMERICAN INTEGRATION ASSOCIATION (ALADI) AND THE DOMINICAN REPUBLIC

Banco de México decided to make provisions applicable to the Agreement of Reciprocal Payments and Credits of the Latin American Integration Association (ALADI) and the Dominican Republic more flexible in order to foster Mexico's trade relations with such countries.¹⁹

Therefore, instruments issued by banks that have obtained central bank authorization to pay for merchandise exports through the Agreement pursuant to Circular 1740/72 were divided into two types: reimbursable instruments with a maturity of less than 180 days and reimbursable instruments with a maturity of more than 180 days.

In the case of the former, the country's banks are guaranteed that Banco de México will make the reimbursement for the amount covering the instruments even if the central bank of the import country fails to make the respective payment.

At the end of July 1996, in order to keep an updated record of the different signatory banks' payment commitments, Banco de México resolved that as of August 20th the same year, on the first working day of each week such banks must notify it of instruments issued by banks with central bank authorization that were received for payment the previous week or have been modified or cancelled without the respective reimbursement having yet been requested.²⁰

Furthermore, it was determined that as of October 29th, 1996, only the payment of instruments Banco de México has been notified of in accordance with the previous paragraph will be reimbursed, and the

information should be submitted at the latest on the first working day of the week following the one in which the instruments were received, modified or cancelled.²¹

SECURITIES LENDING

At the end of April 1996, Banco de México authorized the country's banks to undertake stock lending without the intervention of brokerage firms and offer these cash or securities transactions in guarantee. With respect to brokerage firms, they were allowed to enter into securities lending transactions with low liquidity stock.²²

Furthermore, it was established that securities that can be used to guarantee securities lending are the same as those that can be used to enter into such transactions with the exception of stocks and ordinary participation certificates, both of which have low liquidity.

It was also established that banks cannot accept the stock of financial entities or financial group controlling companies as guarantee unless they have the authorization of the Ministry of Finance and Public Credit. This also applies to brokerage firm proprietary transactions.

It was also stipulated that as fiduciary institutions banks can manage guarantees but must obtain authorization from Banco de México.

Certain rules were established for securities lending transactions involving stock. Among the most important was that the borrower must reimburse the product of the entitlements of the loaned stock to the lender; that if the loaned stock is exchanged for the stock of the same or another company, the lender must settle the loan with the number of shares obtained from the exchange, and the borrower can ask the lender to exercise the stock subscription right and must provide it from the respective funds at least 48 hours before the expiry date established by the issuer for said subscription.

EXTENDED USE ELECTRONIC PAYMENT SYSTEM (SPEUA)

In order to foster the use of the SPEUA, as of June 4th, 1996, the minimum amount of payment orders that can be processed through this system was lowered to \$100,000.00 (ONE HUNDRED THOUSAND PESOS 00/100 IN LOCAL CURRENCY).²³

BANCO DE MÉXICO MONEY AND GOVERNMENT SECURITIES AUCTIONS

Banco de México allowed banks to submit bids for central bank interactive money auctions, so it was determined that in the event of it being decided that bids should be submitted in this way, the interested parties will be informed in the corresponding notification.²⁴

In response to petitions from commercial banks, Banco de México established that loans it assigns to banks between 18:30 and 19:30 hours will be subject to the general guarantees regime.²⁵

FEDERAL TREASURY CERTIFICATIONS AND GOVERNMENT DEVELOPMENT BONDS DENOMINATED IN INVESTMENT UNITS

In view of the fact that at the end of May 1996, the Federal Government issued Federal Government Development Bonds in investment units (UDIBONOS), Banco de México adapted some provisions to include these and Federal Treasury Certificates denominated in investment (UDICETES) in transactions that can be undertaken by banks and brokerage firms.

Thus provisions related to the reference rates that commercial banks can use for lending and borrowing transactions were modified; likewise, all provisions regulating government security transactions were subsequently amended, among others, Rules for the Placement of Government Securities, Banco de México Money Market Rules and Government Security Auction Rules and provisions that regulate Securities Lending.²⁶

CASH SETTLEMENT OF SECURITIES TRANSACTIONS IN S.D. INDEVAL, S.A. DE C.V., SECURITIES DEPOSIT INSTITUTION (INDEVAL)

Given that systems used to make cash settlements in relation to securities transactions in Indeval reached the required level of reliability, Banco de México decided that on June 3rd, 1996, the system would come into effect for bank securities and certificates of ordinary participation backed by Nacional Financiera, S.N.C., and for government securities as of July 5th, 1996.²⁷

As of July 5th, 1996, the validity of clauses referring to security deposits in custody in government securities transaction contracts banks had entered into with the central bank, was indefinitely suspended.

On August 26th, 1996, the terms applicable to the valuation of SPECIAL CETES, Federal Backed credit securities issued by FOBAPROA and the joint payment obligations of the latter with the Federal Government, as well as the content of some formulas for valuing credit securities for guarantee purposes was clarified.²⁸

FUTURES TRANSACTIONS WITH "BRADY BONDS" TRADED IN MARKETS RECOGNIZED BY BANCO DE MÉXICO

Banco de México allowed banks to undertake futures transactions with Federal Government securities in US dollars known as "Brady Bonds" on the Chicago Mercantile Exchange and Mid America Commodity Exchange of the Chicago Board of Trade, both located in Chicago, Illinois, USA.²⁹

Banks undertaking these transactions were also allowed to pledge portfolio securities to guarantee compliance with obligations derived from said transactions.

LOAN PORTFOLIO TRANSFER OR DISCOUNT

In order for commercial banks to transfer or discount their loan portfolios, as of July 10th, 1995, Banco de México decided to authorize the transfer or discount, with or without its responsibility, of local or foreign currency

denominated loan portfolios with financial leasing companies, financial factoring companies or insurance and surety companies and without its responsibility, their foreign currency loan portfolios with foreign entities.³⁰

In the case of portfolio transfer or discount without responsibility, the assignor institution and entities that are part of the financial group to which they belong as well as the companies they participate in, may not grant, either directly or indirectly, any type of financing to acquire or discount said portfolio and may not acquire or reacquire the transferred or discounted portfolio; agree on mechanisms that directly or indirectly ensure total or partial payment of transferred or discounted portfolio, or agree to obligations other than those inherent to these transactions.

US DOLLAR SALE OPTION AUCTIONS

The Foreign Exchange Committee, comprised of Ministry of Finance and Public Credit and Banco de México civil servants, decided it was appropriate for Banco de México to raise the level of foreign currency reserves to improve new loan granting conditions without altering the foreign exchange regime.

The Bank also warned of the importance of this being achieved through a regime that favors purchases of the issuance institution when there is a market over-supply and inhibits them when there is excess demand. But above all it is achieved using a formula that does not alter the nature of the floating rate regime, one of the main characteristics of which is not to predetermine the level of the exchange rate.

To achieve the objectives, Banco de México decided to undertake dollar sales options on the last day of each month. The amount of each auction was initially 130 million dollars.

The rights derived from dollar sale options can be exercised by option holders either fully or partially, the month immediately following the respective auction.³¹

Option holders can sell to Banco de México in amounts of one million dollars or multiples thereof at the exchange rate for settling foreign currency denominated obligations payable in Mexico published by Banco de México in the Official Daily Gazette on the bank working day on which the right derived from a sale option is exercised, as long as said exchange rate is not higher than the average exchange rates determined by Banco de México during the twenty working days immediately following the date on which the right will be exercised.

Furthermore, banks that had received an allocation in the auctions were authorized to transfer either fully or partially the rights derived from the respective sale option to other banks on the understanding that in order for the transfer to be effective for Banco de México, the bank transmitting the rights must notify it of the transfer characteristics.

It was also clarified that banks that obtain an allocation in such auctions, may sell dollar sale options to their clients so the clients themselves sell them dollars up to the amount their rights permit. Banks must undertake

the sales under the same terms and conditions –with the exception of the premium- as the sale options they buy from Banco de México.

In view of the solid performance of this mechanism and given the favorable Outlook for the balance of payments, the Foreign Exchange Committee decided to increase the monthly dollar option auction amount by 300 million. It was also agreed that this amount would be lowered in the event of a strong decrease in foreign inflows into Mexico.³²

FOREIGN EXCHANGE RISK POSITIONS

On November 21st, 1996 the foreign exchange risk positions regime was modified for financial leasing companies and factoring companies that are part of financial groups whose members include commercial banks or brokerage firms or which are affiliates of said intermediaries to determine that under these assumptions their foreign currency transactions must be added to the foreign exchange risk positions of banks and brokerage firms, whichever is applicable. In the event of both intermediaries participating in a group comprising both types of intermediaries, it was established that their position will be added to that of the commercial banks.³³

INITIAL CONTRIBUTIONS TO THE BANK SAVINGS PROTECTION FUND (FOBAPROA)

On November 1st, 1996, Banco de México announced the Ministry of Finance and Public Credit document stating the initial amount that commercial banks must contribute to the trust referred to in article 122 section VI of the Law on Credit Institutions, as well as the terms established by the trust's Technical Committee regarding how the initial amount should be covered.³⁴

STANDBY LETTERS OF CREDIT

In response to diverse requests from banks to confirm whether they are empowered to issue contingency letters of credit or standby letters of credit as well as contractual and first demand guarantees and considering that the Ministry of Finance and Public Credit authorized banks to issue such documents, as of November 12th, 1996, Banco de México included such instruments in its regulations establishing that they should be issued based on irrevocable new loan contracts.³⁵

FUTURES AND FUTURES OPTIONS REFERENCED TO THE MEXICAN STOCK EXCHANGE INDEX

As of November 26th, 1996, Banco de México allowed commercial Banks and brokerage firms to undertake futures and futures options referenced to the Mexican Stock Exchange Index, Índice de Precios y Cotizaciones de la Bolsa Mexicana de Valores, S.A. de C.V. in markets recognized by Banco de México, so that such intermediaries have another option for covering risks efficiently and competitively.

Thus it was determined that Banco de México's authorization is needed for banks and brokerage firms to act as intermediaries in the Chicago Mercantile Exchange located in Chicago, Illinois, USA. These authorizations last six

months as of when they are granted, and are renewable for further six month periods at Banco de México's discretion.

As with the regulation for other derivative markets in Mexico, it was decided that authorizations to act as intermediaries would be granted with discretion once commercial banks and brokerage firms comply with the 31 administrative and internal control requirements.³⁶

CREDIT SUPPORT PROGRAMS

During 1996 extensions for the acquisition of the corresponding portfolios were announced; with respect to the exercise of credit lines granted by the Federal Government; for the acquisition of SPECIAL CETES and for the payment of the loan that is exercised under the referred credit line in diverse loan support programs agreed between the Federal Government, banks and other financial intermediaries.

Likewise, in order to reduce the growing past due loan problem of banks, the Program for Agriculture, Cattle Breeding and Fishing was signed under which banks can transfer restructured agriculture and fishing loans to trusts managed by them.³⁷

Furthermore, mechanisms were established based on which credit support granted by the Federal Government will be granted and financed under the terms of agreements for agriculture and fishing sector financing and funding for micro, small and medium-sized companies.³⁸

AMENDMENTS TO FINANCIAL LEGISLATION

On April 30th, 1996, the Official Federal Gazette published the Decree reforming, adding to and repealing diverse provisions to the Law for the Regulation of Financial Groups; the Law on Credit Institutions; the Stock Market Act; and the General Law on Auxiliary Credit Activities and Organizations.

The Law for the Regulation of Financial Groups was modified to establish that when FOBAPROA or the Stock Market Support (FAMEVAL) subscribes or acquires 50 percent or more of the capital stock of any financial entity belonging to a group, its separation need not be authorized by the Ministry of Finance and Public Credit, nor shall it require registration in the Public Commerce Registry for such purposes.

It was determined that financial entities of a group may not grant funding for the acquisition of stock representing their capital, the controlling company's capital or any other financial entity that is part of the group to which they belong and may not receive stock in guarantee from those financial entities the law allows financial groups to be formed with, controlling companies or credit unions, unless they have the Ministry of Finance and Public Credit's authorization.

It was stipulated that the articles of incorporation of credit information companies as well as any modification to them must first be submitted for approval to the aforementioned entity and once approved the articles or any

modifications to them must be recorded in the Public Commerce Registry.

Among the most important amendments to the Law on Credit Institutions, is the elimination of the provision establishing that the Ministry of Finance and Public Credit could establish general application criteria clarifying whether or not resources were public.

It was established that in adherence to general provisions issued by Banco de México banks could undertake repo and securities lending transactions on behalf of third parties without the intermediation of brokerage firms when the aim of such transactions is to ensure the sound working of the payments system.

Banks were exempted from keeping the banking secret with respect to information related to the assets mentioned below when such information is provided to persons with whom the following transactions are entered into: a) loans that will be the object of transfer or discount; or b) their portfolio or other assets concerning the transmission or subscription of a large percentage of their capital stock or of the financial group they belong to.

With respect to limited purpose financial companies, it was determined that their articles of incorporation along with any modification to them must be approved by the Ministry of Finance and Public Credit and be registered in the Public Trade Registry.

Banks were prohibited from granting loans for the acquisition of securities representing their capital as well as from granting loans or loans with a stock guarantee from banks or financial group controlling companies unless they have the prior authorization of the Ministry of Finance and Public Credit.

The Ministry was given greater freedom to determine commercial banks' initial contribution to the trust and following the fund's creation date authorization must be obtained to exist and operate as such. The Stock Market Act underwent a similar modification with respect to the Stock Market Support Fund.

With respect to amendments to the General Law on Auxiliary Credit Organizations and Activities, a third class of general deposit warehouse was created which can grant financing subject to Ministry of Finance and Credit capitalization requirements.

On May 23rd, the Official Federal Gazette published the Decree of the Retirement Savings System Law. The aim of said law is to regulate the working of retirement savings systems as well as their participants.

The authority responsible for coordinating, regulating, supervising and overseeing retirement savings systems is the National Commission for Retirement Savings (Consar), which is an administrative organ separate from the Ministry of Finance and Public Credit.

Among other things, through general standards Consar has the power to regulate everything relative to the operation of retirement savings systems, the creation, organization, working and operation of savings systems participants as well as to grant, revoke or modify authorizations and concessions mentioned in legislation.

Retirement savings system participants include Retirement Fund Managers (Afores), variable capital corporations engaged exclusively, habitually and professionally in the management of individual accounts and channeling the sub account funds comprising them pursuant to the social security laws as well as managing mutual funds.

Among other things, the objective of Afores is to open, manage and operate individual accounts, receive the corresponding quotas and contributions corresponding to individual accounts from social security institutes and receive voluntary contributes from employees and employers.

Being an Afore requires authorization from Consar, which it grants at its sole discretion after hearing the Ministry of Finance and Public Credit's opinion.

The capital stock of the Afores will be comprised of series A stock that will represent at least 51% of said capital. The other 49% may be comprised of either series A or B shares. The series A shares may be acquired by both Mexican individuals and corporations whose capital stock is majority owned by Mexicans and also controlled by them. Series B stock are freely subscribed.

Afores will only be able to charge commissions to workers' individual accounts as well as any voluntary contributions in accordance with the general rules issued by the Commission.

Another participating institution are retirement mutual funds (Siefores), which are managed and run by the Afores. The sole objective of the Siefores is to invest the funds received from individual accounts pursuant to the social security laws.

Finally, on November 4th, 1996, the Official Federal Gazette published new foreign Exchange risk position rules for financial leasing and factoring companies that are part of financial groups that include insurance companies and which commercial banks and brokerage firms do not participate in. Likewise, on the same date a decision was made to deregulate the following: a) the foreign exchange positions of financial leasing and factoring companies that are not part of financial groups or subsidiaries of banks or brokerage firms; and b) the foreign exchange risk positions of financial leasing and factoring companies that are part of financial groups in which banks, brokerage firms and insurance companies do not participate.

¹ Circular-Telefax 7/96 directed at commercial banks, February 16th, 1996.

² Circular-Telefax 42/96 directed at commercial banks, May 7th, 1996.

³ Circular-Telefax 7/96 directed at commercial banks.

⁴ Circular-Telefax 8/96 directed at commercial banks, February 29th, 1996.

⁵ Circular-Telefax 9/96 directed at Banks and Circular 67/94 Bis 3, directed at brokerage firms both on February 29th, 1996.

⁶ Remittance 2 of Circular 2019/95, Circular-Telefax 87/96 and Circular 67/94 Bis 5.

⁷ Circulares-Telefax 10/96, 11/96, 15/96 and 65/96, directed at the company's banks.

⁸ Circulares-Telefax 12/96 and 13/96, directed at the country's multiple and development Banks, respectively.

⁹ Circulares-Telefax 35/96 and 36/96, directed at development banks and commercial Banks,

respectively.

- 10 Circulars-Telefax 16/96 and 17/96, directed at development banks and commercial Banks, respectively, March 15th, 1996.
- 11 Circulars-Telefax 49/96 and 50/96, directed at commercial banks and development Banks, respectively.
- 12 Circulars-Telefax 85/96 and 86/96, directed at commercial banks and development Banks, respectively.
- 13 Circulars-Telefax 18/96 and 44/96, directed at commercial banks and Circulars-Telefax 19/96, 45/96, 59/96 and 64/96, directed at development banks.
- 14 Circular-Telefax 91/96, directed at commercial banks.
- 15 Circulars-Telefax 91/96, 92/96 and 100/96, directed at commercial banks.
- 16 Circular-Telefax 24/96 directed at banks.
- 17 Circulars-Telefax 25/96 and 30/96 as well as 26/96, directed at commercial and development banks, respectively, and Circulars 63/93 Bis 1 and 63/93 Bis 2, directed at brokerage firms.
- 18 Circular-Telefax 37/96 directed at commercial banks.
- 19 Circular-Telefax 38/96 directed at banks.
- 20 Circular-Telefax 70/96 directed at banks.
- 21 Circular-Telefax 93/96 directed at banks.
- 22 Circular-Telefax 39/96 directed at banks, and Circular 10-195 Bis 1, directed at brokerage firms.
- 23 Circular-Telefax 43/96 directed at banks.
- 24 Circular-Telefax 46/96 directed at commercial banks and 47/96 directed at development banks.
- 25 Circulars-Telefax 72/96 and 73/96 directed at commercial and development Banks, respectively.
- 26 Circular-Telefax 51/96 directed at multiple banks; Circulars-Telefax 52/96 and 53/96 directed at development banks; Circulars 66/94 Bis 1 and 10-195 Bis 2, directed at brokerage firms Circular-Telefax 54/96 directed at banks.
- 27 Circulars-Telefax 55/96, 60/96, 67/96, 68/96, 75/96 and 56/96 61/96 and 69/96 directed at commercial and development Banks, respectively, and Circulars 66/94 Bis 2, 70/94 Bis 3 and 70/94 Bis 4, directed at brokerage firms.
- 28 Circular-Telefax 76/96 directed at commercial banks and Circular 70/94 Bis 5, directed at brokerage firms.
- 29 Circulars-Telefax 57/96 and 58/96, directed at commercial and development Banks, respectively.
- 30 Circular-Telefax 66/96 directed at commercial banks.
- 31 Circulars-Telefax 71/96, 74/96 and 78/96, directed at banks.
- 32 Circular-Telefax 106/96 and Circular 83/95 Bis, directed at banks and brokerage firms, respectively.
- 33 Circular-Telefax 96/96 and Circular 83/95 Bis, directed at banks and brokerage firms.
- 34 Circular-Telefax 1/96, directed at commercial banks referred to in section VI of article 122 of the Law on Credit Institutions.
- 35 Circular-Telefax 98/96 directed at commercial banks.
- 36 Circular-Telefax 101/96 and 86/96, directed at commercial banks and brokerage firms, respectively.
- 37 Circulars-Telefax 107/96 and 108/96, directed banks.
- 38 Circulars-Telefax 109/96 and 110/96, directed at banks.