2001 FINANCIAL SYSTEM REFORMS

This document describes the major financial provisions issued in 2001. In order to facilitate consultation the provisions were ordered by topics beginning with regulations issued by Banco de México to regulate monetary and exchange rate policy followed by those issued by the Bank as financial system regulator and Federal Government agent. Finally, it briefly explains diverse important provisions issued by Banco de México in conjunction with other financial authorities as well as financial laws issued that year and the most important amendments to current legislation.

I. PROVISIONS ISSUED BY BANCO DE MÉXICO

I.1 Monetary and foreign exchange policy provisions issued by Banco de México

FIXED TERM BANK CASH DEPOSITS IN BANCO DE MÉXICO

In order to broaden the range of instruments through which it undertakes open market transactions, on certain dates Banco de México decided to accept voluntary fixed-rate cash deposits from banks. Likewise, it was established that the respective funds will be deposited with the Bank for 3 years at a rate equivalent to the arithmetic average of the "TIIE" with the same term that the Central Bank publishes daily during the corresponding interest period. Banco de Mexico will pay the deposits' principal in 4 installments on the last 4 interest payment dates, unless after the first year they are created it opts to make early payments.[1]

US DOLLAR AUCTIONS

In accordance with the Foreign Exchange Committee's instructions, as of June 29, 2011, Banco de México suspended the auction mechanism for US dollar sale options implemented in August 1996 under which the payment of a premium gave the country's banks the right, under certain conditions, to sell that currency to Banco de México, as in the Committee's opinion the mechanism had successfully met its objectives thereby enabling Banco de México to accumulate a large amount of international assets without creating distortions in the foreign exchange market and helping to improve Federal Government external and internal financing conditions.[2]

Furthermore, in order to maintain the symmetry of the current floating exchange rate regime, as of July 2nd, 2001, in accordance with what the Foreign Exchange Commission had agreed, the Central Bank suspended the US dollar sale auctions mechanism under which Banco de México offered 200 million dollars daily at an exchange rate at least 2 percent above the previous day's level.[3]

I.2 Provisions issued by Banco de México as financial system regulator

FOREIGN EXCHANGE RISK POSITION

With respect to the calculation of banks' foreign exchange risk, the possibility of the Central Bank authorizing the inclusion or exclusion of certain assets and liabilities when calculating the Position was determined following a request from the interested banks.[4]

WAIVERS TO DIVERSE REGIMES

Considering the appropriateness of being in a position to authorize some of the liability admission regime excesses incurred by banks with respect to foreign currency transactions, bank and net holdings of government security transactions, foreign currency risk positions and positions in foreign currency security transactions issued backed or guaranteed by the Mexican Government or by Foreign Governments when such excesses stem from administrative errors as well as a regime that permits their prompt correction, it was provided that Banco de México may authorize excesses to the aforementioned regimes incurred by banks for up to five working days in a twelve month period for each regime.

The afore-going as long as within five working days as of when the excess in question is verified the respective intermediary sends Banco de México a communiqué detailing the act or omission that gave rise to the excess, exhibits the proof and arguments it believes pertinent to demonstrating that the excess effectively derived from an administrative error, states the actions taken to correct the error and avoids similar errors in the future and provides the information required to prove that once the error has been redressed the bank complies with the regime in question.[5]

Furthermore, provisions for brokerage houses similar to previous ones were issued in the area of foreign exchange risk positions, repo transactions and bank and government securities lending as well as positions in foreign currency transactions issued, backed or guaranteed by the Mexican Government or Foreign Governments; in the case of money exchanges the rules they will adhere to for foreign currency and precious metal transactions, and for financial leasing companies and financial factoring companies that are part of financial groups that include insurance companies in which commercial banks and brokerage firms do not participate, their foreign exchange risk positions.[6]

It should be pointed out that these provisions issued on different dates in March and April last for one year as of the date of their issuance.

CLEARING AND FUND TRANSFER

The regime applicable to clearing houses was adjusted to include the following assumptions:

a) The power of participating banks to appoint a provisional alternate board

member until the corresponding decision-making body meets was established when the person appointed by them as a full and/or alternate member of the clearing house ceases to render their services to such banks during the period in which the appointment is exercised.

This appointment will be made in writing and must be delivered to the management body and the person or body responsible for oversight and will prevail until the aforementioned decision-making body is convened.

b) Banks that belong to the same controlling groups should be considered single when determining their participating in the clearing house, so they may only appoint a full member of the board and the respective alternate in order to diversify clearing house boards.

The limitation indicated in the paragraph above was also made applicable to associated banks that fall under this assumption and have previously appointed more than one member of the board, in which case they must jointly appoint a single member.[7]

Furthermore it was established that debits and credits made by banks to clients' accounts related to checks submitted to the clearing housing for collection must take place by 12:00 hours on the banking working day following submission (T + 1 ½) at the latest so that banks have more time to review checks and thereby prevent fraud and increase the security of the check as a payment medium.[8]

The bank clearing regime was also modernized by modifying the regulatory framework applicable to clearing houses as follows:

a) Postage stamps were eliminated as documents that can be cleared in clearing houses.

b) The procedure for reducing or increasing the capital stock of clearing houses in cases in which the capital variation occurs due to a bank's entry or withdrawal.

c) The regulations were modified to enable banks with a larger trading volume to appoint half plus one of the members of the clearing house's board. However, a qualified majority is required in order for the board to be able to make decision about the house's spin-off or merger, among other things, as well as the calculation of tariffs, which their procedures manual must no longer contain.

d) A mechanism was established that facilitates the procedure to follow when a bank withdraws from the house, and

e) Considering the use of electronic media for submitting documents to clearing houses, it was established that when there are documents that for some reason banks refuse to pay, they should have an electronic seal or note on the back specifying the reason for their return instead of having to attach a piece of paper explaining the reason for the return.[9]

Finally, during the year the regionalization of the country's existing clearing

houses continued and diverse related provisions were issued.[10]

DERIVATIVE TRANSACTIONS

The following modifications were made to update and clarify regulations applicable to commercial banks in the area of derivative transactions:

a) The different types of derivative transactions that commercial banks can undertake were included in one provision. Furthermore, underlying assets on which such transactions could be undertaken were regrouped. Swap transactions were included as a transaction, not as an underlying asset established in the previous regime;

b) Banco de México was given the power to authorize financial transactions known as derivatives on underlying assets similar or related to those indicated in the applicable regime;

c) The possibility of banks with permanent authorization to enter into any derivative transaction on an underlying asset being able to directly request permanent authorization to enter into the transaction authorized on any underlying asset;

d) Banco de México's power to authorize banks to undertake derivatives for a certain term and amount without having to comply with risk management requirements when the purpose of such transactions is exclusively to hedge the bank's own risks, and

e) As a result of modifications to the rules governing MEXDER Mercado Mexicano de Derivados, S.A. de C.V., banks authorized to act as Intermediaries were permitted to charge fees for third party account transactions as Traders in that market.[11]

ADAPTATIONS OF REGULATIONS TO LEGAL REFORMS IN THE AREA OF FINANCE

Diverse provisions of Circular 2019/95 and provisions applicable to development banks were adapted to Decrees through which several articles of the Law on Credit Institutions and the Securities Market Act published in the Official Federal Gazette on June 1 and 4 2011, respectively, were amended, supplemented and repealed.

The most relevant aspects of the adaptations to Banco de México's regulations are:

i) Considering the limited practical use of bank acceptances, the ability of banks to issue such instruments was eliminated;

ii) The regime applicable to bank bonds and subordinated notes was adjusted;

iii) Commercial banks' obligation to disclose to public investors whether their

liabilities are guaranteed by the Bank Savings Protection Institute in documents that implemented their transactions;

iv) With regard to portfolio sale and discount, number M.81 of Circular 2019/95 was repealed as it is the National Banking and Securities Commission and not Banco de México that is empowered to authorized banks to sell or discount their portfolio with persons other than Banco de México, other banks or trusts created by the Federal Government;

v) In relation to provisions applicable to repo transactions involving bank securities, the possibility of commercial banks placing and negotiating securities they have issued through repo transactions was eliminated, and[12]

vi) The ban on the sale of rights associated with fixed-term deposits documented in certificates was lifted, paving the way for back to back transactions.[13]

REFERENCE RATES FOR LENDING TRANSACTIONS

As of November 1st, 2001 the possibility of banks using the "Cost of fixed-term deposits denominated in investment units" (CCP-UDIS) as a reference rate was eliminated and as of November 2011, Banco de México stopped publishing it in accordance with resolution published in the Official Federal Gazette on October 25th of the same year.[14]

FOREIGN CURRENCY DEPOSITS AND LOANS

In order to broaden the range of currencies available to banks for entering into lending and borrowing transactions, the Central Bank issued "General rules banks must adhere to when receiving foreign currency denominated deposits in checking accounts"[15] and modified the regulatory framework applicable to the foreign currency denominated transactions that commercial banks may enter into as follows:

a) It states that for the purposes of provisions applicable to lending and borrowing in foreign currency, "Foreign Currency" should be understood as the dollar of the United States of America and any other currency with which dollars of the United States of America can be freely bought because there are no restrictions on foreign exchange transactions and international transfers and payments in that currency;

b) Banks may accept "Foreign Currency" checking account deposits in the same cases as those provided for United States of America dollar checking account deposits; term deposits payable abroad, bank bonds and subordinated notes may also be denominated in "Foreign Currency", and

c) Banks may grant "Foreign Currency" loans and use reference rates that are not calculated unilaterally by a financial entity and may be calculated by a financial authority of the country in question or by a group of financial entities and include LIBOR.[16]

Changes related to the possibility of issuing "Foreign Currency" bank bonds were the only ones made applicable to development banks.[17]

TRUSTS

Fifty percent of funds received by trusts and state government or local government trusts set up to undertake public activities in the state or municipality, which only receive funds from the Federal Government or from state or local governments as trustors, was exempted from the investment regime provided for in Circular 2019/95 consisting of the obligation to make non-interest bearing deposits in Banco de México. It was also established that such trusts could receive funds from persons other than those mentioned when they stem from a securities placement by the same trust and gains on investments made using the trust's assets, so any other resources, assets or rights received must be contributed freely as a donation.[18]

REPURCHASE TRANSACTIONS

Provisions were issued to enable equity mutual funds to enter into repurchase transactions involving government securities and bank stocks, as well as to provide greater flexibility to the aforementioned fixed-income and equity mutual funds. Regarding this, limits dating from 1992 under which the total amount of repurchase transactions could not exceed twenty percent of the mutual fund's total assets and the maximum percentage investment each mutual fund could make in repurchase agreements entered into with the same broker could not exceed five percent were eliminated. Likewise, the provision stating that the term of the repurchase transactions entered into by fixed-income mutual funds could not be more than ninety two days became 360 days as provided for brokerage firms and banks.[19]

CORRESPONDENCE

On July 9th, 2001, provisions applicable to bank correspondence services were updated, and only those relevant to the correspondent account statement "next day value" were retained. This was because the Central Bank currently only provides the Federal Government with services related to the payment of centralized sector expenses through the issuance of certified accounts pending settlement issued by Implementation Units that deliver them to Banco de México correspondent banks so they can pay the respective beneficiaries with cashier checks.[20]

I.3 Provisions issued by Banco de México as Federal Government financial agent

RULES FOR THE PLACEMENT OF GOVERNMENT SECURITIES

At the end of May 2001, Banco de México issued new rules for government

securities primary placements in order to update and simplify the current rules and facilitate the publication of auction results through the Bank's web page. Regarding this, a series of options that had previously complied with certain objectives but stopped being used was eliminated from the rules along with references they contained to government securities the Federal Government had ceased to issue such as Federal Government Adjustable Bonds (Ajustabonos), Federal Treasury Bonds (Tesobonos) and Federal Treasury Certificates denominated in Investment Units (Udicetes). Such Rules are applicable to banks and brokerage firms.[21]

MARKET MAKERS REGIME

In January, May and October, the Ministry of Finance and Public Credit modified aspects of the procedure for acting as a Market Maker to make it more efficient and Banco de México banks and brokerage houses of this.

Formulas for calculating the Market Makers activity index were modified and one of the factors used to allocated government securities they are eligible to acquire was made more flexible.[22]

In order to foster a continuous money market operation, the Market Makers selection process and cancellation was reformed by eliminating the restriction on the number of brokers able to participate as such, and it was established that the period in which they could operate as such would be indefinite. Regarding this the Ministry of Finance and Public Credit will establish an activity index that interested brokerage must comply with in order to be able to continue operating as Market Makers. Likewise, differences between buy and sell prices Market Makers must quote for all of the maturities of the Government Securities Banco de México deems relevant were adapted to current levels prevailing in the money market. Additionally and in order to give Market Makers that obtain the three highest activity indexes an incentive, they are allowed to buy more Government Securities when exercising their right to buy than others. Finally, the term for Market Makers to exercise their right to buy Government Securities once the results of the primary auctions have been published was extended so they have more time to assess them.[23]

With respect to this the "Procedure for Market Makers to exercise the right to buy Government Securities and enter into lending transactions on them with Banco de Mexico as Federal Government financial agent" was adapted.[24]

SUPPORT PROGRAMS

The Ministry of Finance and Public Credit decided to make different specifications to rules used to calculate the conditional percentage support the Federal Government must absorb as a result of the application of the Cattle Breeding, Agriculture and Fishing Funding Agreement, the Cattle Breeding, Agriculture and Fishing Sector Debtor Benefits Program, the Micro, Small and Medium-sized Company Financial Support Agreement and the Business Loan Debtor Benefits Program announced by Banco de México. The

specifications refer mainly to information delivery deadlines, interest generation and the payment of funding related to the application of the Agreements and Programs.[25]

Banco de México also informed the country's banks of the document through which the Ministry of Finance and Public Credit notifies the National Banking and Securities Commission of the issuance of general rules applicable to diverse Bank Debtor Support Programs (Programs) related to:

a) The calculation of the conditional support the Federal Government will provide in relation to the Programs in the case of banks that have merged or been taken over as of December 31st 2000;

b) The calculation of the conditional percentage support corresponding to the Federal Government in relation to the Programs in the case of banks that have not been taken over and merged after December 31st, 2000;

c) The treatment applicable to conditional support the Federal Government must absorb in relation to the Programs in the event of bank spin-offs, and

d) The treatment applicable to loans involved in any of the Programs, in bank spin-offs or mergers, sales of loans or their flows, Bank liquidations or closures.

Finally the deadline for banks to inform the Ministry about the implementation of said rules was announced and it was established that they should also send a brief to Banco de México containing the same terms and within the same deadline.[26]

II. PROVISIONS ISSUED BY BANCO DE MÉXICO WITH OTHER FINANCIAL AUTHORITIES

FINANCIAL INFORMATION REQUIREMENTS

As part of actions undertaken by the financial authorities to rationalize and simplify information that banks and brokerage firms must present, Banco de México and the National Banking and Securities Commission decided to eliminate information requirements that might imply double delivery in the case of debt securities, securities lending, equity and derivative transactions and local currency swaps for banks[27] and debt securities holding, lending and repos as well as derivatives transactions for brokerage firms.[28]

DERIVATIVE TRANSACTIONS

Banco de México and the National Banking and Securities Commission modified the regime applicable to brokerage firms in the area of derivatives giving them powers to: i) undertake swaps, and ii) undertake currency futures and options exclusively for third parties acting as Brokers in Mexder, Mercado Mexicano de Derivados, S.A de C.V. and charge fees for them. This took account of changes made to "Rules that funds and trusts which intervene in the establishment and operation of an exchange listed futures

and options market must adhere to" and "Prudential rules that participants in exchange listed futures and options markets must adhere to".[29]

III. NEW FINANCIAL LAWS AND MODIFICATIONS TO CURRENT LEGISLATION

III.1 New financial legislation

ORGANIC LAW OF BANCO DEL AHORRO NACIONAL Y SERVICIOS FINANCIEROS

This law, which was published in the Official Federal Gazette on June 1st, 2011, and became effective the day following publication governs the workings of Banco del Ahorro Nacional y Servicios Financieros (Bansefi), Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, which arose from the transformation of Patronato del Ahorro Nacional, a decentralized body of the Federal Government. Bansefi's aim is:

a) Foster saving, funding and investment among sector members who are the bodies comprising it, popular saving and credit entities regulated by the Popular Savings and Credit Law, as well as individuals and corporations that receive services from them or grant services to them (Sector);

b) Offer instruments and financial services among Sector members, and

c) Generally foster the economic and regional development of the country.

Among other activities Bansefi can undertake the following:

i) Foster, manage and finance projects that meet the needs of the integration bodies referred to in the Popular Savings and Credit Law;

ii) Foster capital investment in the sector and its technological development;

iii) Be financial agent of the Federal Government in relation to the negotiation, provision and management of foreign loans for the Sector;

iv) Encourage joint funding and assistance actions with other banks, development funds, trusts, financial entities in general and Sector bodies, and

v) Be an administrator and trustor of operations that procure adequate compliance with their objective.

Within the limits of the law, Bansefi may undertake the transactions and render the services stated in article 46 of the Law on Credit Institutions, create savings plans, issue or guarantee securities, either its own or for third parties; take out loans for economic development activities; issue participation certificates based on trusts created for that purpose; grant funding to public funds and trusts and undertake prize draws in accordance

with the rules authorized by the Ministry of Finance and Public Credit.

The Ministry of Finance and Public Credit will determine the characteristics of the lending transactions that Bansefi undertakes as well as borrowing transactions that do not imply capturing funds from the public and services. Banco de México will regulate the characteristics of transactions that imply capturing public funds, the trusts, mandates and fees, and the money market and derivative transactions that Bansefi undertakes through general provisions.

At all times the Federal Government will answer for transactions that Bansefi enters into with local individuals or corporations, with foreign, private, government or intergovernmental institutions.

Bansefi's capital stock will be represented 66% by series "A" equity certificates and 34% by series "B" equity certificates. The former may only be subscribed by the Federal Government. Series "B" equity certificates can be acquired by Mexican individuals or corporations.

The institution will be managed by a Board of Directors and a Managing Director. The Board of Directors is comprised of nine full members who will be the Minister and Deputy Minister of the Ministry of Finance and Public Credit; the Governor of Banco de México, the heads of the Ministries of the Economy and Agriculture, Cattle Breeding, Rural Development, Fishing and Food; two members appointed by holders of series "B" equity certificates and two independent members appointed jointly by the series "A" and "B" board members. The Board of Directors will direct the Institution and will have the following powers, among others:

a) Approve the Managing Director's annual activities report;

b) Approve the general operating rules of savings plans and other fund raising instruments the institution offers, and

c) Approve the institution's internal rules as well as the bases, procedures and rules for acquisitions, sales, leasing, works and generally the rendering of any kind of services.

The Managing Director will be appointed by the President of Mexico through the Ministry of Finance and Public Credit.

Two officers are responsible for the institution's oversight. One will be appointed by the Ministry of Comptrollership and Administration and the other by board members appointed by holders of series "B" equity certificates.

With respect to Bansefi's operations, the fund-raising instruments determined by the Board will participate in prize draws and the funding will only be granted to integration organizations that assume some or all of the associated recovery risk.

Bansefi may also undertake funding transactions related, among others, to investments in stocks and the money market; transactions with the Federal

Government, state-owned entities, states and local governments, funding granted to popular savings and loan entities for infrastructure projects, training or technology of the such entities and loans granted to savings entities for liquidity purposes.

POPULAR SAVINGS AND LOANS LAW

On June 4, 2001, the Official Federal Gazette published the Decree through which the Popular Savings and Loans Law came into being. The objective of this Law is to create a legal framework which, in accordance with the Constitution of the United Mexican States, establishes mechanisms that facilitate the organization and expansion of social sector economic activity by strengthening trust in and the credibility of the financial activities that organizations that capture popular savings and grant consumer credit carry on or micro and small company production through the inclusion of adequate organizational, operating and working rules.

The Law states that the Popular Savings and Loans System will comprise: savings and loans cooperatives and financial corporations (Companies); Federations authorized by the National Banking and Securities Commission to exercise the auxiliary oversight functions of such Companies as well as Confederations authorized by the Commission to manage their respective protection funds.

Companies must receive favorable reports from a Federation and authorized by the Commission to operate as popular savings and loans Companies. Their main objective will be popular savings and loans understood to mean the capture of funds from their partners or clients in accordance with the Law through acts which cause direct debt, or, in a contingency, the Company's obligation to meet the principal as well as any interest on funds that are captured and the placement of such funds among their partners or clients. Likewise, a transaction level from I to IV will be assigned to each Company and they may only undertake the transactions stipulated by the Law depending on the level assigned.

Furthermore, the Federations will be created through voluntary groups of Companies and they must be authorized by the National Banking and Securities Commission to use the auxiliary oversight powers stipulated by the Law.

Likewise the Confederations will consist of voluntary groups of Federations and they must be authorized by the Commission to exercise hedge fund management powers. They will also be the Federal Government collaboration bodies for the design and execution of programs that facilitate popular savings and loans activities.

The main aim of hedge funds will be to cover the deposits of each saver in the popular savings and loans system, including the principal and interest for an amount up to four thousand, six thousand, eight thousand and ten thousand investment units for transaction levels I, II, III and IV, respectively, per individual or corporation, whatever the number or type of

transactions performed by the same Entity in the event of dissolution or liquidation or bankruptcy.

It will also be responsible for granting financial aid to Companies undergoing spin-offs, mergers or sale, as long as this option is considered cheaper than paying savers their deposits. As an exception, the hedge fund may grant preventive liquidity support to participating Companies. Total preventive support granted by the hedge fund may not exceed 15% of the fund's assets.

Transactions undertaken by the Companies can only be backed by hedge funds within the limits described and the Federal Government and Public State-owned Administration may not be held responsible for or guarantee the outcome of Company, Federation and Confederation outcomes or assume any responsibility for compliance with obligations entered into with their partners or clients.

With respect to regulations the Law states that the National Banking and Securities Commission is responsible for issuing general working rules for Companies which will determine the lending, borrowing and services transactions they may enter into in accordance with assigned operating levels, the characteristics of the transactions and requirements to establish the form and terms under which transactions with related parties must be approved as well as the issuance of minimum prudential regulation guidelines Companies must adhere to in areas such as loan loss provisions, liquidity ratios, investments in public works, integral risk administration, internal controls, loan processes, best financial practices as well as any others considered appropriate for providing financial solvency and the adequate working of Companies. It will also issue rules on the minimum capital of Companies as well as applicable capitalization requirements based on credit risk and also the market risk that Companies incur.

General rules that establish criteria for assigning the level of each Company's transactions should take other elements into account, the Company's assets and liabilities, the number of partners or clients, the geographical environment of the transactions and the Company's technical and operating capacity.

The Commission must request the Ministry of Finance and Public Credit's opinion about provisions its issues in relation to loans with related parties and capitalization requirements and that of Banco de México in relation to liquidity ratios and foreign currency transactions. Likewise, if deemed necessary, it can request the opinion of the authorities to ensure full compliance with the attributes conferred on it under the Law.

Likewise, the Companies, Federations and Confederations will be subject to oversight by the National Banking and Securities Commission. Federations may participate in Company oversight.

The Ministry of Finance and Public Credit must also issue general provisions for establishing measures and procedures for preventing and detecting acts or transactions among Companies that could be linked to money laundering activities.

With respect to provisions related to the information that Companies may disclose about clients' transactions, the Law states that they may only provide news or information about deposits, services or any type of transactions to the client, depositor, borrower, holder or beneficiary, their legal representatives or persons empowered to use the savings or to intervene in the transaction or service except in cases where they provide information to the Federations under the terms of this Law as well as those envisaged in article 117 of the Law on Credit Institutions.

Finally, the Law stipulates that savings and loans companies, credit unions that capture savings deposits and Savings and Loans Cooperatives and those with savings and loan sections incorporated prior to when the Popular Savings and Loans Law came into force, will have a period of two years as of June 5th 2011 to request authorization from the National Banking and Securities Commission to operate as an Entity. Likewise, within a year following the Law's coming into effect, Federations and Confederations authorized in accordance with it will have two years following their authorization to comply with the minimum number of affiliated Entities and Federations, respectively.

LAW ON MUTUAL FUNDS

On June 4, 2011 the Law on Mutual Funds was published in the Official Federal Gazette and came into force six months following its publication date.

The objectives of the Law are to regulate the organization and working of mutual funds, the trading of their stock on the stock exchange and services they must contract to ensure the proper performance of their activities. The Law also aims to strengthen and decentralize the stock market, give small and medium-sized investors access to it, diversify capital, contribute to funding the country's production base and protect public investor interests.

The Law establishes that the purpose of mutual funds will be to purchase and sell investable assets using funds raised from the placement among public investors of stock representing their capital stock as well as to contract the services and other activities envisaged in the Law.

By investable assets the following shall be understood: the securities and documents that the Securities Market Act applies and that are registered in the National Securities Register or listed13on the International Quotations System; other securities, cash funds; assets, rights and credits documented in contracts and instruments, including those referenced to financial transactions known as derivatives as well as others subject to trade eligible to form part of their assets.

Creating a mutual fund requires the prior authorization of the National Banking and Securities Commission. The following types of mutual funds can be created:

I. Equity mutual funds which can trade shares, debentures and other securities as well as securities or documents representing third party debt.

II. Debt instrument mutual funds authorized to trade in securities or documents representing third party debt.
III. Equity mutual funds that can trade in the stock or equity, debentures and bonds of companies in the mutual fund that require medium and long-term funding.
IV. Limited purpose mutual funds authorized to trade in assets defined in their statutes and prospectuses for public investors.

It was also established that mutual funds should adopt one of the following form:

I. Open-end: those under the obligation to repurchase stock representing their capital stock or to amortize it with assets in their portfolio, unless in accordance with the assumptions mentioned in the prospectuses for public investors, the repurchase is subject to a one-time and temporary suspension, or

II. Closed-end: those that may not repurchase assets representing their capital stock and amortize assets in their portfolio unless their shares trade on a stock exchange.

The board of the mutual funds will comprise a minimum of 5 and a maximum of 15 full members, at least 33% of whom should be independent.

With respect to mutual fund transactions, the Law states that they may only: a) buy, sell or invest in assets in accordance with the applicable regime depending on the type of fund; b) enter into repo and securities lending with banks and brokerage firms acting as buying parties or where applicable borrowers or lenders; c) buy the shares they issue with the exception of equity and closed-end mutual fund, which may only do so if their shares trade on the stock exchange and they adhere to that set forth in the Securities Market Act; d) buy or sell stock representing the capital stock of other mutual funds; e) obtains loans and credits from banks, non-bank financial intermediaries and foreign financial entities; f) issue debt securities to fulfill their objective, and g) similar related situations that the National Banking and Securities Commission determines.

During the course of such transactions mutual funds must adhere to the rules issued by the Commission with the exception of repo transactions, securities lending, loans, securities issuance and derivatives and foreign currency transactions, which will adhere to Banco de México provisions.

Furthermore, the Law stipulates that mutual funds must contract the following services in order to meet their objective:

a) Asset management;

b) Share distribution;

c) Mutual fund stock valuation;

d) Rating;

e) Price Supplier of investment assets;

f) Deposit and custodianship of investment assets;

g) Accounting;

h) Administrative,
and

i) Others authorized by the National Banking and Securities Commission.

Setting up and working as a mutual fund operator, distribution company or appraiser of mutual fund stock requires authorization from the National Banking and Securities Commission. Banks, brokerage firms, auxiliary credit organizations, money exchanges, limited purpose financial companies and insurance companies may only offer mutual funds asset management services through operating companies set up especially for that purpose in accordance with the applicable provisions.

With respect to affiliates, the Law establishes that mutual funds, mutual fund operators and distribution companies may set up affiliates to undertake the same transactions as unaffiliated companies unless the applicable treaty or international agreement imposes a restriction.

Finally, the Law authorizes the National Banking and Securities Commission to establish, through general provisions, mutual fund classifications which take into investment regime criteria such as diversification, specialization and type into account. The Law also provides that the Commission will be responsible for inspection and oversight of the mutual funds, people that render services to them in pursuit of their objective, and insurance company activities regarding the distribution of mutual fund stock.

ORGANIC LAW OF THE FEDERAL MORTGAGE COMPANY

This is a regulatory law for paragraph six of article 4 of the constitution, which regulates the organization and working of the Federal Mortgage Company, (Sociedad Hipotecaria Federal), the National Loans Company, (Sociedad Nacional de Crédito), and the Development Bank Institution, (Institución de Banca de Desarrollo). It was published in the Official Federal Gazette on October 11th, 2001 and came into effect the following day; it revokes any opposing provisions.

The aim of the Company is to foster the development of primary and secondary mortgage markets by granting home construction, acquisition and improvement guarantees, preferably for low income homes, as well as to boost production capacity and technological development related to housing. To achieve this goal it may, among other things: guarantee funding related home fittings, accept credits and loans, issue bank bonds, create deposits with banks and foreign financial entities, trade in securities and foreign

currencies, guarantee securities, guarantee loans granted by financial intermediaries and undertake the transactions mentioned in article 46 of the Law on Credit Institutions.

Through general provisions, the Ministry of Finance and Public Credit will determine the characteristics of the Company's lending transactions, liabilities that do not imply deposits from the general public and services. For its part Banco de México will regulate the characteristics of borrowing transactions that imply deposits from the public, trusts, mandates and commissions, money market transactions and derivatives transactions undertaken by said Company.

The Company's capital will be 66% represented by series "A" capital contribution certificates and 34% by series "B". The nominal value of these certificates will be determined in its Organic Regulations. The A series will only be subscribed by the Federal Government. The "B" series will be subscribed by the Federal Government, by state and municipal governments and by Mexican individuals and corporations. The Ministry of Finance and Public Credit is responsible for establishing the form, proportions and other conditions applicable to the subscription, possession and circulation of the series "B" certificates.

Under no circumstances may foreign individuals or corporations or Mexican companies whose bylaws do not include a direct and indirect foreigner exclusion clause participate in the Company's capital.

The Company will be run by a Board of Directors and a Managing Director. The Board will convene at least four times a year and be comprised of seven board members, four series "A" members: the Ministry of Finance and Public Credit, the Deputy Minister of Finance and Public Credit, the Minister of Social Development and the Governor of Banco de México, and three series "B" members appointed by the President through the Ministry of Finance and Public Credit, one of which will be independent.

The aforementioned Law establishes diverse powers for the Board, including the following:

a) Determine the specific characteristics of the Company's assets, liabilities and services in accordance with the general provisions issued by the Ministry of Finance and Public Credit or Banco de México;

b) Approve the Managing Director's annual activity report;

c) Approve the Company's specific programs and internal rules for the Ministry of Finance and Public Credit's authorization;

d) Issue the rules under which the Company must contract asset acquisitions, undertake sales, leases, real estate construction and render services of any nature when public tender offers are not ideal for guaranteeing said conditions.

e) Issue the rules and criteria that the Company must adhere to when

preparing and exercising the Company's current expense and physical investment budget, and

f) Approve the general working conditions that the Company and its personnel should observe.

The Managing Director will be appointed by the President through the Ministry of Finance and Public Credit.

Two officers appointed by the Ministry of Comptrollership and Administrative Development will be responsible for oversight of the Company and series "B" board members. An alternate will be appointed for each officer.

The Company must publish the end of year balance sheet in the Official Federal Gazette. Likewise every quarter the Company must publish the status of its assets along with indicators representing its financial situation and administration in two broad circulation newspapers.

The Company will prepare its financial programs, general expenditure and investment budgets and revenue projections as well as operating programs.

The Federal Mortgage Company will be the substitute fiduciary of the Operation and Banking Finance Fund for Housing (FOVI) as of the day on which its Board convenes its first session. The Federal Government, through the Ministry of Finance and Public Credit guarantees the obligations of Fund derived from financial transactions contracted before the Law came into force.

III.2 Amendments to current legislation

AMENDMENTS TO THE SECURITIES MARKET ACT

On June 1st, 2001 the Official Public Gazette published diverse amendments to the Securities Market Act (Law), which came into effect the following day. Such amendments aim to promote a greater level of transparency in the securities market, in order to boost investors' confidence in it as an attractive alternative investment.

To facilitate its study, the amendments in question can be grouped as follows in accordance with the objectives sought:

1.- Protection for minority shareholders

Minority shareholders with a restricted vote that represents at least 10% of the capital stock of the issuer companies will have the right to appoint a board member, an alternate member and an officer; to convene a shareholders meeting and request that a vote on any issue on which there is insufficient information be postponed. Likewise, shareholders that represent at least 15% of the capital may take a direct liability action against administrators, officers and/or members of the audit committee.

Furthermore, shareholders that represent at least 20% of the capital stock may legally oppose the resolutions of general shareholder meetings they have voting rights in when certain conditions are met.

2.- Independent board members

It is established that the boards of issuer companies whose shares are registered in the National Securities Registry must be comprised of a minimum of 5 and a maximum of 20 full members, at least 25% of which should be independent. Each full member will have an alternate member on the understanding that alternate members must have the same character.

It was also established that the boards of brokerage firms and stock market experts should be comprised of a minimum of 5 and a maximum of 15 board members 25% of which should be independent.

3.- Audit committee

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It is established that issuer companies that successfully register their stock in the National Securities Registry must have an audit committee that should be comprised of board members, the chairman, the majority of which should be independent. One or several officers will attend the committee meetings as invitees with a voice but no vote. The committee must voice an opinion on large value transactions or related parties, and propose hiring the services of independent experts when deemed appropriate.

4.- Privileged information

The concept of relevant event is introduced, which consists of any act, deed, or event capable of influencing the prices of securities registered in the National Securities Registry. It is also pointed out that knowledge of relevant events that are not in the public domain will constitute privileged information. People with access to privileged information are prohibited from undertaking proprietary transactions or transactions on behalf of third parties or informing or making recommendations to third parties with respect to transactions involving any kind of securities the prices of which could be influenced by such information whilever it remains privileged.

Furthermore, issuers of securities registered in the National Securities Register must inform the public of all relevant events as and when they occur.

Likewise, directors, managers, factors, independent external auditors, officers, secretaries of collegiate bodies and shareholders with a more than 10% interest in the capital stock of an issuer may only sell or buy the shares of the issuer they are linked to through a public offering.

5.- Information disclosure.

Prior to the amendments, all information about securities directed at the public required the prior authorization of the National Banking and Securities

Commission. Now only information of a promotional or advertising nature directed at the public will require the Commission's prior authorization. Therefore, any information about issuers with a different purpose may be divulged without authorization.

6.- National Securities Registry

The Intermediaries section was eliminated from the National Registry of Securities and Intermediaries, now the National Securities Registry in order to eliminate the dual procedure brokers had to follow consisting of obtaining on the one hand authorization to incorporate and on the other their registration in the Intermediaries Section of the aforementioned Registry.

It was also made obligatory for issuers seeking to register their securities in the National Securities Registry to submit to the National Banking and Securities Commission more information that would contribute to adequate decision making on the part of public investors as well as the need for a rating from a securities rating institution in the case of debt securities.

7.- Stock Exchanges

It is established that besides brokerage firms and stock market experts, banks, insurance companies, surety companies, mutual funds, companies that operate mutual funds, retirement funds, issuing companies and other persons that the Ministry of Finance and Public Credit so determines may be shareholders of stock exchanges.

8.- Central counterparties

The concept of central counterparties was included to reduce or eliminate the risk of non-compliance with obligations stock market intermediaries are responsible for. Central counterparties will be incorporated as reciprocal creditors and debtors of rights and obligations derived from securities transactions previously entered into, assuming that character with intermediaries, who in turn will maintain a legal link with the central counterparty and not between themselves.

Central counterparties must determine and apply a system of financial safeguards system consisting of a series of measures aimed at ensuring they comply with their obligations.

Only corporations with a Federal Government concession may render this service and central counterparties may only act as such with stock market intermediaries that are their partners who may in turn participate on their own behalf or on behalf of third parties.

9.- Stock certificates

A new receivable is contemplated which may be issued by corporations, state-owned public administration entities, federal states, municipalities and financial entities when acting as fiduciaries. Issuance requirements are simple as the issuance certificate does not have to be submitted to a notary public, nor does its issuance have to be agreed on at a shareholders

meeting.

AMENDMENTS TO THE GENERAL LAW ON CREDIT ORGANIZATIONS AND AUXILLIARY ACTIVITIES

On June 1st the Official Federal Gazette publish a decree to amend, supplement and revoke diverse provisions of the General Law on Credit Organizations and Auxiliary Activities, which came into effect the day following its publication.

These reforms limit the amount of foreign currency transactions that can be habitually and professionally undertaken without authorization to act as a money exchange to ten thousand US dollars per client in the case of purchases and sales of: a) notes, coins and common metals of legal tender in the issuance country, b) foreign currency-denominated travelers checks, c) metal coins; and d) demand documents denominated and payable in foreign currency payable by financial entities. In the latter case the documents can only be sold to banks and brokerage firms.

The Ministry of Finance and Public Credit is empowered to issue general provisions to establish measures and procedures for foreseeing and detecting money laundering in auxiliary credit organizations, brokerage firms and companies known as foreign exchange centers.

Finally, auxiliary credit organizations, brokerage firms, companies known as foreign exchange centers, their board members, officers, external auditors, officers and civil servants of the Ministry of Finance and Public Credit and the National Banking and Securities Commission must refrain from providing news or information about transactions that could be considered money laundering to any person, entity or authority other than those stipulated by law.

AMENDMENTS TO THE LAW ON CREDIT INSTITUTIONS AND THE LAW REGULATING FINANCIAL GROUPS

On June 4th, 2011, the Official Federal Gazette published a decree amending, supplementing and revoking diverse provisions of the Law on Credit Institutions and the Law Regulating Financial Groups, which came into force the day following its publication.

Based on the reasons given for the Decree, the purpose of the amendments is to adjust the regulatory framework governing commercial bank and financial group operations in order to bring it into line with healthy national and international financial practices and to strengthen the organization and working of the aforementioned entities to promote their competitiveness and capitalization by including preventive mechanisms which should translate into greater public security and the healthy working of the financial system as a whole.

To facilitate their study the amendments can be grouped in accordance with the objective they pursue as follows:

1.- Stock holding

The 20% ceiling on the stock holding of any individual or corporation was eliminated on the understanding that authorization should be obtained from the Ministry of Finance and Public Credit when the shareholding exceeds 5% of the bank or controlling company's capital stock.

2.- Best corporate practices

The number of people that can sit on the boards of directors of multiple banks and controlling companies was reduced to a minimum of 5 and a maximum of 15, 25% of which must be independent.

Likewise persons that are members of the board of other independent financial entities and other controlling companies or financial entities that belong to a different financial group may not be members of the board of commercial banks or controlling companies.

3.- Composition of financial groups

Companies that operate mutual funds may be counted in the composition of a financial group when it does not involve at least two different types of the following entities: commercial banks, brokerage firms and insurance companies.

4.- Asset, liability and service transactions

Financial factoring and derivative transactions are specifically included in the catalog of transactions that commercial banks may undertake in accordance with the rules issued by Banco de México and after hearing the opinion of the Ministry of Finance and Public Credit and the National Banking and Securities Commission.

Banks are allowed to offer their clients direct debits or previously authorized charges consisting of clients authorizing a third party, usually a services provider, to make money withdrawals by debiting their account. The authorization of the respective client can be submitted directly to the bank in question or remain in the possession of the services provider.

Rules for the protection of clients that use this service are also include and establish the bank's obligation to return the corresponding funds to clients when they object to a debit. An objection should be made within ninety calendar days following the date on which the debit was made, and the bank must make the reimbursement the next bank working day following submission at the latest.

The ban on banks granting loans guaranteed by their own liabilities or those of other banks is lifted with the exception of subordinated debentures issued by banks or controlling companies.

The 20 year limit on bank borrowing and lending transactions is lifted and they may offer transactions with longer maturities.

With respect to bank bonds and subordinated debentures the obligation whereby banks reserve the right to pay them in advance is lifted, and they are allowed to do so only when it has been stipulated in the indenture and corresponding titles, and in the case of subordinated debentures when they also have authorization from Banco de México. Likewise, any amendment to the terms of payment must be approved by three quarters of the bank's board and holders of the corresponding securities.

Subordinated debentures are also classified into preferred and non-preferred depending on the order of payment. The latter will be paid after the preferred ones if the company goes into liquidation or goes bankrupt.

With respect to transactions with related parties, the definitions are narrowed to include all transactions in which by Law related parties can be debtors of bank and it is provided that these transactions cannot be undertaken under more favorable terms and conditions than those undertaken with clients. Furthermore, the aggregate ceiling on such transactions is limited to 75% of banks' net tier 1 capital and transactions with related parties to an amount above the local currency equivalent of 2 million UDIS, or 1% of the bank's tier 1 capital, which must be approved by 75% of the board members that are present. When the transactions do not exceed the local currency equivalent of 6 million UDIS or 5% of tier 1 capital the board may delegate such powers to a committee comprising a minimum of 4 and a maximum of 7 board members, one third of whom must be independent. Finally the power of the National Banking and Securities Commission to make exceptions to these provisions is eliminated.

Banks are prohibited from entering into transactions or making offers to their depositors in relation to the acquisition of goods or services which state that they must express their disagreement to avoid being charged as well as providing information about their clients in relation to the sale of goods and services without first obtaining their consent.

5.- Capitalization

The definition and calculation of net capital is modified to bring it into line with current practices contained in the Capital Requirement Rules, giving the authorities more flexibility to determine the components of said capital and how it is calculated.

The National Banking and Securities Commission is authorized to classify Banks in different levels depending on their capitalization ratio and to establish the minimum corrective measures they must adopt depending on their classification. Corrective measures that banks that fail to meet the established capital requirements must adopt are also established, such as the suspension of dividend payments and any other acts implying monetary gains for shareholders as well as the early conversion of any subordinated debentures that may have been issued. Likewise such banks must submit a capital restructuring plan to the Commission for its approval following the opinion of the Ministry of Finance and Public Credit.

6.- Interventions

In order to specify the powers corresponding to the National Banking and Securities Commission and the Bank Savings Protection Institute in this area the management intervention determined by the Commission may end once the irregularities found have been remedied and if this does not happen within a period of 6 months the actions laid down in the Bank Savings Protection Law will be invoked.

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Affiliates

Affiliated commercial banks and controlling companies may issue subordinated debentures for purchase by persons others than their parent company.

Commercial bank affiliates may set up subsidiaries and branches abroad and the obligation to merge banking subsidiaries owned by the same foreign financial institution or controlling company affiliate.

In the case of boards of directors the same rules as for unaffiliated commercial banks and controlling companies are established on the understanding that if they are 99% owned by the same foreign bank the board may be comprised of the number of members it so determines with a minimum number of 5.

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[1] Circular-Telefax 22/2001 directed at the country's banks.

[2] Circular-Telefax 17/2001 directed at the country's banks.

[3] Circular-Telefax 18/2001 directed at the country's banks.

[4] Circulars-Telefax 3/2001 and /2001 directed at commercial and development banks, respectively.

[5] Circular-Telefax 4/2001 directed at commercial banks, Circulars-Telefax 8/2001 and 9/2001 directed at development banks.

[6] Circulars 97/99 BIS 1 and 83/95 BIS 3 directed at brokerage firms; Resolution that amends the rules money exchanges must adhere to in relation to foreign currency and precious metal transactions, Rules governing the foreign currency risk positions of financial leasing and financial factoring companies that are part of financial groups which include insurance companies, and in which commercial banks and brokerage firms do not participate; they were published in the Official Federal Gazette on March 28th, 2001.

[7] Circular-Telefax 10/2001 directed at commercial banks and Circular-Telefax 11/2001 directed at development banks.

[8] Circular-Telefax 12/2001 directed at commercial banks and Circular-Telefax 13/2001 directed at development. banks

[9] Circular-Telefax 44/2001 directed at commercial banks and Circular-Telefax 45/2001 directed at development banks.

[10] Circulars-Telefax 20/2001, 23/2001, 28/2001, 32/2001, 34/2001, 40/2001, 42/2001, 46/2001, 50/2001 and 54/2001 directed at commercial banks and Circulars-Telefax 21/2001, 24/2001, 29/2001, 33/2001, 35/2001, 41/2001, 43/2001, 47/2001, 51/2001 and 55/2001 directed at development banks.

[11] Circular-Telefax 19/2001 directed at commercial banks.

[12] Circular-Telefax 25/2001 directed at commercial banks and Circular-Telefax 26/2001 directed at development banks.

[13] Circular-Telefax 62/2001 directed at commercial banks.

[14] Circular-Telefax 52/2001 directed at commercial banks and Circular-Telefax 53/2001 directed at development banks.

[15] Published in the Official Federal Gazette on December 6th, 2001.

[16] Circular-Telefax 56/2001 directed at commercial banks.

[17] Circular-Telefax 57/2001 directed at development banks.

[18] Circular-Telefax 62/2001 directed at commercial banks.

[19] Circular 1/2001 directed at equity and debt instrument mutual funds.

[20] Circular-Telefax 27/2001 directed at commercial banks.

[21] Circular-Telefax 15/2001 directed at commercial banks, Circular-Telefax 16/2001 directed at development banks and Circular 104/2001 directed at brokerage firms.

[22] Circulars-Telefax 2/2001 and 14/2001 directed at the country's banks and Circulars 102/2001 and 103/2001 directed at brokerage firms.

[23] Circular-Telefax 48/2001 directed at the country's banks and Circular 108/2001 directed at brokerage firms.

[24] Circular-Telefax 49/2001 directed at the country's banks and Circular 109/2001 directed at brokerage firms.

[25] Circular-Telefax 31/2001 directed at the country's banks.

[26] Circular-Telefax 61/2001 directed at the country's banks.

[27] Circular 1502 issued jointly by Banco de México and the National Banking and Securities Commission directed at banks.

[28] Circular 10-211 BIS 1 issued jointly by Banco de México and the National Banking and Securities Commission directed at brokerage firms.

[29] Circular 10-231 BIS 7 issued jointly by Banco de México and the National Banking and Securities Commission directed at brokerage firms.