

AMENDMENTS TO THE FINANCIAL SYSTEM DURING 2014

This document contains a brief description of the main provisions issued during the year 2014 by Banco de Mexico, with the purpose of regulating monetary and exchange policy, promoting the sound development of the financial system and of the payment systems and to protecting the public interest. Likewise, it summarizes the main reforms to the financial legislation resulted from the “Executive Order through which various provisions in financial matters are amended, added, and repealed and the Financial Groups Law is issued” (Financial Reform), published in the Federal Official Gazette on January 10, 2014, which took effect on January 11th of that same year, save for a number of exceptions (hereinafter Financial Reform or Executive Order of Reform).

The document is divided into two sections: the first one consists of a brief description of the most relevant provisions issued by Banco de Mexico in said year, and with the purpose of facilitating their consultation, are organized under the following headings: I.1 Monetary and exchange policies; I.2 In its capacity of financial agent of the Federal Government of the United Mexican States; I.3 As a result of the Financial Reform; I.4 Payment systems; I.5 As regulator of the financial system and I.6 Jointly issued with other authorities. The second section contains a brief summary of the main amendments to the financial legislation derived from the Financial Reform.

With the purpose of facilitating the identification of the provisions as well as of the reforms to the financial legislation, we include an index of the information in this document hereunder:

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I. PROVISIONS ISSUED BY BANCO DE MEXICO

I.1 MONETARY AND EXCHANGE POLICIES

RULES FOR THE EXCHANGE OF GOVERNMENT SECURITIES CARRIED OUT BY BANCO DE MEXICO ON ITS OWN ACCOUNT (CIRCULAR 8/2014)

With the purpose of mitigating the monetary effect of the amortizations profile of the government debt, as well as making the injection and withdrawal of liquidity transactions more effective, Banco de Mexico decided to exchange government securities on its own account.¹

MONETARY REGULATION DEPOSITS (CIRCULAR 9/2014)

To improve the instrumentation of the monetary policy, the interest rate paid by the monetary regulation deposits, through which the excess of liquidity in the money market is regulated, was amended in order to refer it to the target rate that the Board of Governors of Banco de Mexico determines for the interbank interest rate to one day. Likewise, it was established that the monetary regulation deposits could be composed by cash, securities, or both, in the proportions and with the characteristics determined by the Central Bank and finally, other characteristics of the deposits constituted on the issue date of the mentioned Circular were specified.²

RULES FOR THE AUCTION OF MONETARY REGULATION BONDS WITH LIMITED NEGOTIABILITY (BREMS L) PERFORMED BY BANCO DE MEXICO (CIRCULAR 10/2014)

An alternative was provided for credit institutions to comply with the obligation of keeping monetary regulation deposits in Banco de Mexico, and in order to make the implementation of the monetary policy more effective. Therefore, Banco de Mexico performs auctions of Brems L, which shall be settled through charges to the special deposit account of each institution in which it keeps its monetary regulation deposit for an amount equal to the total amount of the nominal value of the Brems L that were assigned to each institution.³

INCREASE TO THE AMOUNT THAT CONSTITUTES THE MONETARY REGULATION DEPOSIT (CIRCULAR 11/2014)

With the purpose of regulating the excess of liquidity in the money market and ensure the implementation of the monetary policy, the amount that the credit institutions are required to constitute as monetary regulation deposit in the Central Bank was increased.⁴

U.S. DOLLAR PUT OPTIONS AUCTIONS (CIRCULAR 19/2014)

In compliance with the agreement of the Exchange Commission adopted on December 8, 2014, pursuant to which Banco de Mexico, starting from December 9, 2014 and until further notice, shall offer, in case it is necessary, U.S. dollars with the purpose of providing liquidity to the exchange market, the auction

mechanism provided in Circular 47/2008 was reactivated. Such mechanism had been suspended through the agreement of the Exchange Commission dated April 8, 2013.⁵

I.2 IN ITS CAPACITY OF FINANCIAL AGENT OF THE FEDERAL GOVERNMENT OF THE UNITED MEXICAN STATES

PROCEDURE TO ACT AS MARKET MAKERS OF GOVERNMENT SECURITIES (CIRCULARS 2/2014 AND 7/2014)

To continue promoting the development of the market for Development Bonds of the Federal Government of the United Mexican States denominated in national currency with a fixed interest rate coupon (BONDS) and Development Bonds of the Federal Government denominated in Investment Units (UDIBONDS), two instruction letters of the Ministry of Finance were reported with the purpose of modifying the procedure to act as Market Makers of government securities, included in Circular 5/2011.

Through the first instruction letter, it was established that the Market Makers and Market Makers of UDIBONDS may not exercise the option to buy BONDS and UDIBONDS during the weeks that the syndicated auctions for the placement of such government securities take place.⁶

Through the second instruction letter, the incentives and the penalizations that make up the formula for the calculation of the Market Maker index were increased, taking into account the diversification of the government securities that operate in the Mercado Mexicano de Derivados, S.A. de C.V. (MexDer), the estimates of the sale and purchase of BONDS future derivatives contracts and Federal Treasury Certificates (Bids in the MexDer), and the purchase and sale transactions of future contracts with a government security as underlying asset performed in this market (Transactions in the MexDer),⁷.

PROCEDURE FOR THE MARKET MAKERS TO EXERCISE THE RIGHT TO PURCHASE GOVERNMENT SECURITIES AND PERFORM LOAN TRANSACTIONS (CIRCULAR 3/2014)

With the purpose of continuing to promote the development of the BONDS and UDIBONDS market, the corresponding adjustments to the procedure for the Market Makers to exercise the right to purchase government securities and perform loan transactions on said securities with Banco de Mexico in its capacity of financial agent of the Federal Government were done.⁸

I.3 DERIVED FROM THE FINANCIAL REFORM

AMENDMENTS TO THE PROVISIONS THAT ESTABLISH THE CALCULATION METHODOLOGY, FORMULA, COMPONENTS, AND EVENTS OF THE TOTAL ANNUAL GAIN (CIRCULAR 12/2014)

In compliance with the most recent reforms to the Financial Services Transparency and Regulation Law, provisions were issued regarding the Total Annual Net Gain both in real and nominal terms. Additionally, requirements for credit unions were included so they have to comply with the formula, the components,

and the methodology of the Total Annual Gain calculation. Likewise, various precisions were made to the definition of the Total Annual Income.⁹

AGREEMENTS REGARDING AUTOMATIC TELLER MACHINES (CIRCULAR 15/2014)

With the purpose of preserving the conditions that encourage competition and avoiding discriminatory practices in the use of the automatic teller machines infrastructure of credit institutions, through schemes that allow fostering greater efficacy and growth in said infrastructure, requirements were established that must be included in the agreements through which credit institutions allow the use of their respective automatic teller machines infrastructure to account holders of other institutions so that they may be exempt from the payment of fees for said use or, so that they may pay lower fees than those established for account holders of all the other institutions.¹⁰

COLLECTION OF FEES RELATED TO AGREEMENTS REGARDING AUTOMATIC TELLER MACHINES (CIRCULAR 16/2014)

In accordance with the amendments to the Circular 3/2012 (Circular 15/2014) regarding the agreements for the use of automatic teller machine infrastructure and for the purpose of maintaining competition and transparency conditions in the charging of fees by entities that operate the automatic teller machines, the amendments recognize the events for which fees related to said use can be charged, as provided by the Financial Services Transparency and Regulation Law.¹¹

GENERAL PROVISIONS APPLICABLE TO THE INFORMATION THAT FINANCIAL ENTITIES MUST PROVIDE TO CREDIT INFORMATION BUREAUS (CIRCULAR 17/2014)

To comply with the amendments to certain legal provisions related to the reporting of credit transactions to credit information bureaus, particularly to those provisions by virtue of which financial entities are required to be users and to provide information to said bureaus in terms of the Credit Information Bureaus Law, the general provisions establish the terms and conditions applicable to such entities to duly comply with said obligations.¹²

I.4 PAYMENT SYSTEMS

RULES APPLICABLE TO CLEARING HOUSES FOR PAYMENTS WITH CARDS (CIRCULAR 4/2014)

With the objective of promoting competition in the clearing houses for payments with cards market and achieving greater development of the card payment market, Banco de México issued the aforementioned rules in order to, among others: avoid barriers to entry that result in discriminatory policies to potential competitors; avoid price distortions by prohibiting fees practices that are not competitive such as forced bundling of products or discounts in terms of the individual characteristics of the clients; facilitate innovation, eliminate barriers for development that make it difficult to incorporate the improvements in the infrastructure and operation, and strengthen the security and the handling of network risks through guidelines for business continuity and security of the participants frameworks.¹³

OUTSOURCING BY CLEARING HOUSES FOR PAYMENTS WITH CARDS (CIRCULAR 18/2014)

The requisites and conditions to allow the clearing houses for payments with cards to outsource services related to their objective were established. Likewise, some other aspects were specified related to the incorporation and operation of clearing houses for payments with cards.¹⁴

RATES FOR THE USE OF THE INTERBANK ELECTRONIC PAYMENTS SYSTEM (SPEI) (CIRCULAR 20/2014)

To provide incentives that promote a greater use of SPEI, a new mechanism to determine the amount of the fees that participants of SPEI must pay for its use was implemented.¹⁵

I.5 AS REGULATOR OF THE FINANCIAL SYSTEM

AMENDMENTS TO CREDIT CARD RULES (CIRCULAR 13/2014)

It was specified the manner in which payments made by the credit card holder that exceed the minimum required at the cutoff date of each period will be applied.

AMENDMENTS TO THE PROVISIONS FOR THE DETERMINATION OF THE MINIMUM PAYMENT FOR CREDIT CARDS (CIRCULAR 14/2014)

It was specified the manner in which payments made by the credit card holder that exceed the minimum required at the cutoff date of each period will be applied. On the other hand, considering the performance of transactions relative to credit cards by some development banks, the regime regarding the minimum payment was extended to include said banks. Likewise, pursuant to the Financial Services Transparency and Regulation Law, the following financial entities are now subject to the general provisions of Banco de Mexico regarding the amount of minimum payment which must be charged for the credits, loans, or revolving financing associated to a card: unregulated and regulated multiple purpose financial companies with financial link to entities different from the credit institutions, popular financial companies, community financial companies, savings and loans cooperative companies, financial entities that act as trustees in trusts that grant credit or finance the public and development banks.¹⁶

I.6 JOINTLY ISSUED WITH OTHER AUTHORITIES

GENERAL PROVISIONS APPLICABLE TO PAYMENT INSTRUMENTS NETWORKS

The provisions were issued pursuant to the principles included in article 4 Bis 3 of the Financial Services Transparency and Regulation Law, with the purpose of regulating the payment instruments networks, the network participants, the term and conditions in which the services related to said networks are provided, the conditions that the network participants must fulfill, as well as the interchange fees, commissions, or any other fee that is directly or indirectly charged, except for the services provided by Banco de Mexico and those that the Payment Systems Law refers to.¹⁷

GENERAL PROVISIONS REGARDING THE LIQUIDITY REQUIREMENTS FOR COMMERCIAL BANKS

With the purpose of complying with the Credit Institutions Law (LIC for its initials in Spanish), which grants the joint power to the National Banking and Securities Commission (CNBV for its initials in Spanish) and to Banco de Mexico to issue general provisions establishing liquidity requirements that commercial banks must fulfill at all times, in accordance with the guidelines established by the Committee of Banking Liquidity Regulation issued in terms of said law. The abovementioned provisions were issued, following these guidelines:

- a) Foresee that commercial banks maintain unencumbered high quality liquid assets to face their liquidity obligations and needs during 30 days;
- b) Establish a liquidity coverage ratio pursuant to a calculation methodology that reflects the international standard;
- c) Take into account, for the calculation of the liquidity coverage ratio, all the transactions of commercial banks included in their respective balance sheets, as well as those out of balance transactions that due to their characteristics imply a potential liquidity risk for the banks;
- d) Foresee that to calculate the liquidity coverage ratio, the banks must consolidate their balances with those of their subsidiaries that perform financial operations, except for those that are authorized to be excluded, as well as to include the transactions that are performed by the financial entities that are part of the same financial group that said commercial banks is a part of, or that are intermediaries through those financial entities that may have an impact on the liquidity levels of said banks;
- e) Ensure that the banks disclose their liquidity coverage ratio, and
- f) Define the terms and conditions under which the liquidity coverage ratio of the commercial banks shall be determined for all legal effects and purposes.¹⁸

MARKET PARTICIPANTS OF THE DERIVATIVE CONTRACTS LISTED IN THE STOCK EXCHANGE

The regulation was amended to grant greater transparency and order to the referred market, including measures to more efficiently regulate standardized derivative contracts, as well as a regulation and control framework for over the counter derivative contracts in order to comply with the G-20 commitments assumed in 2009. The foregoing, with the purpose of having clear and transparent regulation which guarantees the access and functioning of the derivatives market and promotes its growth, in such a manner that the investors continue using derivatives as an investment and coverage vehicle.

Likewise, the clearing houses are allowed to offset and settle derivative transactions negotiated in electronic trading platforms, in this way obtaining a better risk administration of the transaction. Also, the derivative stock exchanges were operationally unlinked and the possibility of incorporating clearing houses and clearing members that exclusively provide their services in respect to standardized derivative transactions performed through electronic trading platforms was established.

Finally, it was established that the clearing houses may provide the services of “trade repository” in respect to derivatives, regardless of them being cleared in it, this allows a greater flow of information and transparency.¹⁹

II. FINANCIAL REFORM

The Financial Reform is made-up by 13 initiatives and its general purpose consists in providing greater flexibility and incentives in order for the private sector and the development banks to jointly grant more credits and in better conditions, under substantial powers for the financial authorities. For this, the following four lines of action were considered:

- Promote credit through development banks. In particular, more regulatory and financial flexibility is granted to their operation, with special emphasis on the priority areas for the national development. Likewise, financial inclusion is actively fostered and gender and social banking equality aspects are adopted.
- Increase competition in the financial system. For this, the Federal Economic Competition Commission is instructed to, in the exercise of its powers and duties, investigate the conditions of competition in the financial system and to formulate recommendations to the financial authorities. On another hand, it is proposed to provide facilities to medium companies so that they may have access to and remain listed in the Mexican Stock Exchange. Likewise, additional protection measures are suggested to the financial consumers. The possibility of creating a public credit bureau is also considered.
- Expand credit to the private financial institutions. The frameworks for granting, as well as to execute credit guarantees are simplified and adjustments to the commercial bankruptcy process of commercial companies are introduced to promote trust in said process and achieve greater legal certainty. Likewise, the functions of the authorities to evaluate the performance of the commercial bank periodically are reinforced, with the purpose of promoting transparency in the performance of the sector.
- Ensure the soundness and prudence of the financial sector as a whole. The powers of the financial authorities are strengthened in terms of the supervision and penalties that they may impose, as well as the integral implementation of the Basel III regime, besides strengthening the coordination and cooperation mechanisms between said authorities, among which the recognition at the level of a law of the Financial System Stability Board is included. It also sought to institutionalize ad hoc procedures to deal with bank resolutions.

The main reforms consist of the following:

II.1 BANCO DE MEXICO

General purpose: To strengthen the supervision and sanctioning powers of Banco de Mexico.

Main reforms:

1. Penalties

- It established that the infringements of the Banco de Mexico Law or the regulatory provisions issued based on said law or on other laws shall be penalized with administrative fines imposed by the Bank itself.
- Noncompliance with the obligation to provide information to the Central Bank in the form, conditions, terms, and other characteristics that are defined as violations to the law, as well as preventing, obstructing, and hindering the supervision and oversight performed by the Bank itself.
- A minimum amount for all the fines that may be applied are expressly provided and the maximum amount of said fines is increased for not supplying information and for obstructing the supervision.

2. Rules for the supervision and penalization of financial intermediaries

- The Central Bank is empowered by article 28 of the Constitution to, in the exercise of the powers and duties as an authority to regulate and provide for the compliance with the regulation that it issues, issue the rules that its personnel must adhere to in order to sanction and supervise the financial entities.

3. Supervision of financial intermediaries.

- Banco de Mexico is empowered to supervise and oversee them without the intervention of another financial authority. Through the supervision, Banco de Mexico may perform on-site visits of the financial intermediaries to verify their operations, as well as to review records and systems. Through the oversight, it may carry out the analysis and monitoring of the information that said intermediaries send to it.

4. Joint visits with the supervisory commissions of the financial system

- Joint visits may be perform in coordination with the corresponding national supervisory commissions.

II.2 PAYMENT INSTRUMENTS NETWORKS, STRENGTHENING THE POWERS OF THE NATIONAL COMMISSION FOR THE PROTECTION OF USERS OF FINANCIAL SERVICES (CONDUSEF for its initials in Spanish) AND THE FINANCIAL SERVICES TRANSPARENCY AND REGULATION LAW.

General Purpose: To promote competition and strengthen the protection of the users of financial services.

Main reforms:

1. Payment instruments Networks

- It is provided that for the issuance of the regulation applicable to the clearing houses, Banco de Mexico must hear the opinion of CNBV. Likewise, it is expressly requires that the supervision of the clearing houses shall correspond to Banco de Mexico.

- The framework applicable to the payment instruments networks and their participants is incorporated, it provides that regulation shall be issued jointly by CNBV and Banco de Mexico, exception of said regulation are the services provided by Banco de Mexico and those provided in the Payment Systems Law. CNBV is authorized to perform supervision visits of the participants in payment instruments networks, and to fine infringements of the provisions applicable to said networks.
- It is established that the interchange fees, commissions, or charges of any nature related to payment instruments networks must be revised annually in a joint manner by CNBV and Banco de Mexico. It corresponds to CNBV to protect the interests of the final user of the payment instruments, including holders and businesses.
- It is provided that the regulation relative to the recognition of new payment instruments shall be issued jointly by CNBV and Banco de Mexico.

2. Strengthening of the powers of CONDUSEF

- It is provided that CONDUSEF has the obligation of establishing a repository of financial entities (financial entities bureau) in which it must include information regarding their practices, fines, and claims, obtained from said entities, from their users, as well as from the competent authorities.
- CONDUSEF is empowered to regulate the clauses that may be considered as abusive that are included in the adhesion contracts that the financial institutions have with their clients (except in interest rates, fees, and considerations).
- The nature of “non-negotiable executive title” is granted to certain rulings that CONDUSEF shall be empowered to issue in the conciliation processes that it carries out directed from claims presented against financial institutions.
- The arbitration system in financial matters is created so that the financial institutions may report the option of solving disputes that are presented in the future through arbitration.
- The obligation currently imposed on banks and sofomes to record the fees that they charge for payment and credit services offered to the public before CONDUSEF is extended to entities of the savings and popular credit sector and credit unions.

3. Financial Services Transparency and Regulation Law

- The financial entities and other people that regularly offer credit are prohibited from conditioning the contracting of their financial operations or services to contracting of other operations or services (tying sales).
- The assignment of consumer credits of any financial or commercial entity that regularly grants them is allowed. The aforementioned rule is now applicable to passive transactions.
- The entities are allowed, with prior authorization from Banco de Mexico, to not collect fees or charge lower amounts for the use of their infrastructure by clients of other entities with whom they have agreed on this, provided they allow any other entity to agree on it as well.
- The recognition that financial authorities, including Banco de Mexico, may request the Federal Economic Competition Commission to exercise the powers and duties that the valid law in matters of competition grants it in respect of the financial entities is added.

It provided the obligation of the entities (financial and commercial) to constitute themselves as users of at least one credit information bureau.

II.3 BANK RESOLUTIONS

General purpose: To amend various provisions of the Credit Institution Law with the purpose of increasing the powers of financial authorities in order to allow them to act swiftly and effectively resolve problems of lack of liquidity or solvency that commercial banks may face,, as well as ensure their orderly liquidation and recovery, while protecting consumer interests, the stability of the financial system, and the proper functioning of the payment systems. For such effects, the legal time periods during the resolution process of the commercial bank as well as for its liquidation are reduced. Lastly, it includes several international standards developed mainly in the last years due to the recent international financial crisis.

Main reforms:

1. Judicial Bank Liquidation

- A judicial bank liquidation process is created, this process is specialized and more efficient for these financial intermediaries and substitutes the commercial bankruptcy process provided for commercial banks in the Commercial Bankruptcy Law.
- The extinction of capital that takes place when the assets of the institution are not enough to cover its liabilities was included as a new cause for revoking the banking license. Said cause is the trigger of the judicial bank liquidation.
- The judicial liquidation is a special process in which it is sought to maximize the recovery value of the assets of the institution, by carrying out their segregation in an expedited manner, safeguarding the rights of the creditors and resolving the possible disputes presented during the process. The Institute for the Protection of Banking Savings (IPAB for its initials in Spanish) acts as judicial liquidator.
- With the purpose of ensuring the continuity of the financial services, a legal framework is established to perform the transfer of assets and liabilities (including the covered obligations) to another private commercial bank or one operated and managed by IPAB (bridge bank). To determine said transfer, it is established that IPAB must apply the “lower cost resolution approach”.
- The stay of the early termination rights of financial contracts that document derivative transactions, of repurchase agreements and of securities loans is incorporated. The suspension is for two business days starting from the date when the revocation of the authorization of the commercial bank to operate as such is published.
- It is provided that a compensation will operate in favor of IPAB, between the liabilities covered by said institute and the excess balances of credit rights in favor of the institution that is subject to the resolution process.

2. Liquidity and capital dispositions

- The Committee of Banking Liquidity Regulation integrated by Banco de Mexico, the Ministry of Finance, and CNBV is created, which shall have the only purpose of dictating guidelines to determine

the liquidity requirements applicable to the commercial banks. In turn, the regulation implemented by such guidelines shall be issued jointly by Banco de Mexico and CNBV.

- Several provisions were established in case the Central Bank grants a credit of last resort and requires the shares of the borrowing commercial bank to be given as guarantee, for which a pledge on securities on said shares shall be constituted. Likewise, it is established that in such event, the institution must comply with various measures during the existence of the credit, such as; suspending the payment of dividends to the shareholders, suspending share repurchase programs, suspending the payment of compensations and bonuses that are additional to the salary of directors and some officials, as well as the others that Banco de Mexico agrees with the borrowing institution.
- It is considered that in the event that the institution does not comply with the payment of the credit of last resort granted by Banco de Mexico and the revocation of the institution may have systemic implications, IPAB, in its capacity of receiver of the institution, must contract a credit on behalf of said institution with the IPAB itself acting on its own, for an amount equal to the resources necessary to pay said credit, and consequently, IPAB shall subrogate to the rights that Banco de Mexico has in respect of the aforementioned credit, including the guarantees.

It is established that the credit institutions must maintain a net capital, which may be expressed through an index and may not be less than the amount that results from adding the capital requirements established by CNBV in terms of the provisions that it issues. Regardless of the referred index, credit institutions must maintain the supplements of capital above the minimum required for said index.

3. Other amendments

- The obligation that commercial banks must have contingency plans detailing the actions to reestablish their financial condition in the face of adverse scenarios that may affect their solvency or liquidity.
- IPAB is empowered to develop resolution plans for commercial bank that include the manner and terms in which each institution may be resolved in an expedited and orderly form are detailed.
- Powers and duties are granted to CNBV to issue prudential measures to with the objective of preventing that the financial problems that may affect the stability and solvency of foreign financial institutions (parent companies), affect the solvency or liquidity of the Mexican affiliates of said institutions.
- Foreign governments are allowed to participate, in a temporary manner, directly or indirectly, in the capital stock of the banks when they do so based on the implementation of prudential measures, such as financial aids or rescues.
- The powers of the financial authorities are defined so that, in the scope of their powers and duties, may provide or exchange information with other Mexican financial authorities an also with foreign financial authorities. Banco de Mexico is empowered to deliver confidential information to foreign financial authorities, prior signing of a memorandum of understanding that contemplates the principle of reciprocity.
- Banco de Mexico and CNBV are empowered to commission personnel to temporarily provide services to IPAB, when such institute requests this, due to it being considered necessary for the effective and timely implementation of the resolution method of a commercial bank.

II.4 MULTIPLE PURPOSE FINANCIAL COMPANIES

General purpose: To strengthen the powers of authorities to obtain information relative to the size and impact of the activity of the sofomes in the indebtedness of the population, among others, with the purpose of diagnosing the systemic risk and to expand the powers of CONDUSEF to establish a more stringent control in the records of these intermediaries.

Main reforms:

Recording and definition of regulated sofomes

- It is added as a pre-requisite to operate and enjoy certain fiscal benefits that they are registered with CONDUSEF. Likewise, the obligation to keep updated information with CONDUSEF, which may cancel the registration of the entity, the effect of said cancelation shall be the loss of its license to act as financial entity and therefore, of the fiscal benefits attributed to it.
- The following are considered regulated sofomes, besides those that have capital ties with credit institutions; those that maintain the referred to ties with entities of the savings and popular credit sector, including savings and loan cooperative companies. Likewise, those entities that issue debt in the securities market even with low regulatory requisites, are incorporated into this regulated entities regime, as well as those that issue trust certificates that are registered in the National Securities Registry, when the fulfillment of the obligations in relation to the trust certificates totally or partially depend on said company, acting as trustor, assignor, or manager of the trust property, or as surety or guarantor of the aforementioned certificates.

II.5 FINANCIAL GROUPS

General purpose: To issue a new Financial Groups Law with the purpose of modernizing the structure and the investments that the holding companies may perform, facilitate administrative procedures and improve corporate government matters. Likewise, expressly provide in the law, the powers of the President of the Republic to constitute boards among financial authorities to facilitate the coordination of measures and actions that are of with the purview of the Ministry of Finance, of the offices and entities of the Federal Public Administration and Banco de Mexico.

Main reforms:

1. Holding companies

- The holding companies are allowed to own in at least 51% of the capital of the sub-holding companies, provided they hold control. The sub-holding companies are companies whose exclusive purpose is to acquire and manage shares of financial entities, service providing companies, and real estate companies.
- It is provided that the holding companies may invest, directly or indirectly, in other national financial entities and in foreign financial entities, which shall not be considered members of the financial group.

2. Financial System Stability Board

- The existence of this Board (originally created through Agreement of the Federal Executive published in the Federal Official Gazette on July 29, 2010), is now recognized by law, which is a coordinating board among authorities for the evaluation and analysis of risks that affect financial stability, with the purpose of avoiding substantial interruptions or alterations in the functioning of the financial system and, in the given case, of minimizing the impact when these take place. Its main functions are to identify and analyze the potential risks to the financial stability of the country, formulating recommendations, and acting as a coordination forum of the measures and actions that shall be performed and implemented by the financial authorities represented in it.

3. National Financial Inclusion Board

- The existence of this Board (originally created through Agreement of the Federal Executive published in the Federal Official Gazette on October 3, 2011), is recognized by law. Its main function is to be the instance to review, consult, advice, and coordinate with the purpose of proposing measures for planning, formulating, instrumenting, executing, and following-up of a National Financial Inclusion Policy.

4. Financial Education Committee

- The existence of the Financial Education Committee is recognized by law, as the instance to coordinate efforts, actions, and programs in matters of financial education of its members, with the purpose of reaching a National Financial Education Strategy, avoiding duplicity of efforts and promoting the maximization of the resources.

II.6 SECURITIES MARKET

General Purpose: To develop and make the operation of the securities market more efficient and transparent, providing greater Swiftness, legal certainty and security to the offering processes. To improve the dynamics of the participating entities and promote greater clarity of the responsibilities of the users, intermediaries, and other members of the market, and to grant new powers to CNBV.

Main reforms:

1. Trust Certificates

- It incorporates the trust certificates whose purpose is to obtain public resources to allocate them to investment, allowing the development of business activities in favor of legal entities (CKDs), with the purpose of investing in real estate for their development, commercialization, or administration (FIBRAS) or, with the purpose of investing in securities or assets that seek to replicate the behavior of indexes, financial assets, or reference parameters (ETFs).

- It is established that, in the event that the company issue several series of trust certificates, the assets related to each series may not be used for the fulfillment of obligations of different series in case of commercial bankruptcy or bankruptcy of the issuing trust.
- The managing companies of investment funds are allowed to act as trustees of trusts, in respect of the issuance of trust certificates, in addition to banks and securities firms. In this regard, the minimum features of such negotiable instruments are incorporated, the general framework of the issuers of the CKDs are established, and it specifies the minimum rights that these documents should include as well as the FIBRAS.
- The mechanism denominated “capital calls” is incorporated, under which the issuer may resort to the holders to require them to pay resources additional to those of the issuance, in order to continue with the investments in question.

2. Securities Firms

- The regulatory framework of CNBV is strengthened, authority that is in charge of supervising the activities of the commercial banks and securities firms in the operation with securities in respect of their clients, and therefore it is empowered to regulate the following aspects: compensation system, committee responsible for the analysis of financial products and internal control mechanisms.
- Provisions that increase the transparency and effectiveness of the internal controls, minimize conflicts of interest, and clearly determine the responsibilities of management.
- The capitalization regime of the securities firms is standardized with those of the credit institutions. The concept of the net capital is adopted and the calculation of the capitalization index is standardized. The framework is also equivalent with that applicable to credit institutions with regards to the composition of the net capital, the minimum ratios of the basic and fundamental capital, the leverage ratio, and the supplements of capital.
- CNBV is empowered to classify the securities firms in categories based on their capitalization index, among others, and corrective measures are established to prevent and correct the problems that the securities firms present, derived from the operations that are performed and that may affect their financial stability or solvency.
- Certain obligations are introduced into the securities firms that participate in the offering of securities, among which stands out the evaluation of the issuers that plan to issue.

3. Electronic Trading Platforms (Brokers)

- It is established that besides providing quote dissemination services to credit institutions and securities firms, such as it was provided before, they may offer said services to national or foreign institutional investors. Also, in the case of transactions with derivatives and with foreign currencies, they may provide their services to foreign financial entities. Likewise, it is established that said companies must make sure that the operations that are performed through their systems, always have a credit institution or a securities firm as counterparty.

4. Issuers

- A special regime allowing the securities issuers to perform public offers addressed exclusively to a certain kind of investor (qualified and institutional) is introduced, likewise making the authorization procedures more flexible, with the purpose of enable them to deal with the investment needs of the market.

5. Securities in general

- It provides the possibility that the securities may be issued electronically in the form of a message with advanced electronic signature.
- CNBV is empowered to authorize that the public offers of securities issued in markets with which the stock exchanges have entered into international agreements, are recognized as such on national territory.
- The joint powers of CNBV and Banco de Mexico are broadened to regulate the administration of the risks of the central securities counterparties, as well as the adequate investment of their funds.

II.7 GRANTING AND ENFORCEMENT OF GUARANTEES

General purpose: To incorporate adaptations to generally promote the celerity and legal certainty in the commercial suits, the strengthening of mechanisms to attach the asset before the start of the respective suit (preventative attachment), the improvement of the commercial executive suit, the application of cash given in pledge without the need of promoting an executive procedure or a pending judicial resolution and the creation of the specialized federal jurisdiction on commercial matters.

II.8 SANCTIONS

General purpose: To strengthen the supervising and sanctioning powers of the financial authorities.

Main reforms:

- The events in which the financial authorities (CNBV, IPAB, and CONDUSEF) may sanction the financial intermediaries, the amount of the fines, and the powers of supervision, oversight, and imposition of sanctions are amended.
- New infringement assumptions are introduced, as well as of serious infringements and it is provided that CNBV may order the immediate suspension of operations and closing of the negotiation, when the execution of prohibited operations is presumed. Likewise, it is established that the justification to refrain from sanctioning must follow general guidelines issued by the Board of Governors of CNBV.
- It is provided in the different laws that the intermediaries and financial entities may submit, self-correcting programs in relation to irregularities or faults, to the authorization of the financial authorities, including Banco de Mexico.
- It is specified that the exchange centers and money transfer agencies are subject to supervision by CNBV in matters related to anti-money laundering and combating the financing of terrorism.
- The regulation in terms of “exchange of information” is as follows:

- With national financial authorities. The obligation of financial authorities to exchange information that they have for the purpose of preserving the financial stability, avoid disruptions in the functioning of the financial system, and to facilitate the fulfillment of their functions. For such effect, the aforementioned authorities must enter into a memorandum of understanding.
- With foreign financial authorities. The national financial authorities are empowered to enter into memorandum of understanding with foreign financial authorities. Likewise, Banco de Mexico is empowered to deliver information to these, protected or not by confidentiality provisions, which it obtains directly or through any other national authority, provided it has been expressly authorized by them for such effect.

II.9 DEVELOPMENT BANK

General purpose: To eliminate restrictions applicable to development banks and broaden their powers to grant credit. Likewise, provide them with greater managing and administration autonomy in regards to their human resources, as well as foster the development of the savings and popular credit sector through the incorporation of mechanisms allowing the entities that integrate them to expand the coverage of their services.

Main reforms:

1. Operation

- The obligation to preserve their capital in the development of their functions is substituted by the obligation to ensure their sustainability through the efficient, prudent, and transparent channeling of resources, considering the sufficiency of the guarantees that are constituted in their favor.
- It is established that their proprietary function shall be to deal with the sectors that do not have access to financing and maintain the operation of the productive workforce, as well as to grant financing when immediate attention is required, considering exclusively the indebtedness and the sufficiency of the guarantees granted.
- New concepts are added that the institutions must comply in performing their objectives: promotion of financial inclusion particularly within children and youth, promotion of innovation, creation of patents, generation of intellectual rights, and promotion of equality between men and women.
- It is also mentioned that it may also be the purpose of the relevant development banks (NAFIN), to create programs and products to address the micro, small, and medium enterprises, as well as small rural producers.

2. Greater autonomy in the management

- The functions of the board of directors are defined on strategic issues that may not be delegated instead of granting them with powers to decide all operations inherent to its purpose.
- The net financing is eliminated and, for the purpose of the financial intermediation, it is specified that it must at least include the deficit of the operation plus the net constitution of preventative reserves.

It is also clarified that the public trusts for the economic development must submit these issues to the authorization of the Ministry of Finance.

- The powers and duties of the Ministry of Government Services and the Bodies of Internal Control are limited to some specific aspects that mainly refer to the management of the institutions.

3. Highlighted changes to organic laws

- Nacional Financiera. The fact that its board of directors must approve a program aimed at financing micro, small, and medium enterprises each year is an addition, and it must allocate at least 50% of the value of the direct and guaranteed portfolio of the bank.
- Banco del Ahorro Nacional y Servicios Financieros. It is established that it shall perform social banking functions, establishing the objective to promote savings, financing, financial inclusion, promotion of innovation, the perspective of gender, and investment among the members of the sector.
- Sociedad Hipotecaria Federal. The guarantee of the federal government in respect of the passive transactions that it performs is homologated, with those of the other development banks, which is limited. Additionally, it is included among the operations that the federal mortgage corporation may carry out, the promotion of the instrumentation of supplementary insurance programs to the housing loans, expanding the coverage of risks and facilitating the release of the debt obligations under the borrowing parties, when adverse economic conditions that are not attributable to them take place.
- Financiera Rural. Its denomination is modified to “National Agriculture, Rural, Forestry, and Fisheries Sectors Development Bank”.

II.10 INVESTMENT FUNDS

General purpose: To establish less requirements for the incorporation of these companies, as well as to simplify the corporate model and incorporate some of the best practices, both at the national and international levels, with the purpose of correcting some weaknesses of the previous legal framework of investment companies, which became evident during the 2008 crisis, particularly, in what relates to the lack of flexibility of the corporate form through which they are incorporated, which made it difficult to split-off the same before a case of lack of liquidity of the securities that they manage, preventing the solving of the redemptions crisis that they faced. Likewise, this aims at modernizing the legal framework to promote the specialization of these services.

Main reforms:

1. New subtype of company and companies that provide services to the investment companies

- The denomination of the investment companies is modified to investment funds, with the exception of those specialized in retirement funds, establishing that they must add the following words to their corporate denomination, “sociedad anónima de capital variable fondo de inversión”. To lower costs, investment funds shall be incorporated by managing companies of investment funds (sole founding partner), in charge of taking the essential decisions which traditionally assigned to the shareholders’ meeting.

- It is established that the shareholders of the investment fund shall only have property rights but may not decide the course of the company.
- The traditional functions of an executive board are assigned to the managing companies, taking into account that under the legal regime before the reform, the operation and conduction of the investment companies were carried out by said managing companies.
- A flexible and expedited procedure to split-off the investment funds is incorporated, in case disorderly conditions, of high volatility or low liquidity, take place in the market, allowing to assign in the companies that get dissolved assets on which it is not possible to perform an assessment.

2. Additional issues

- The chapter relative to the self-regulatory organization is eliminated.
- The managing companies of investment funds are allowed to act as trustees in administration trusts or guarantee trusts on businesses directly related to its ordinary activities, among other characteristics.
- Managing companies of investment funds are allowed to outsource the management of assets of the investment funds with other managing companies and foreign financial companies of the same type.

II.11 GENERAL DEPOSIT WAREHOUSES

General purpose: To make the financial operation of the general deposit warehouses more effective and promote greater competition in the sector, as well as promote greater certainty in the negotiation of deposit certificates, through the creation of mechanisms for their registry and of information systems.

Main reforms:

1. Competition

- The limit of 49% of foreign investment previously established is eliminated.
- A new level of warehouses to deal with fishing, agriculture and livestock sector is created, which has a lower capital requirement in respect of the rest of the general deposit warehouses.
- The minimum capital for each of the levels of operations of the general deposit warehouses is established by law and not by a secondary regulation.
- The possibility of entering into repurchase agreements with deposit certificates and pledge bonds that are issued is incorporated, as well as derivate transactions, in accordance with the terms that Banco de Mexico through the issuance of general provisions establish.

2. Dissemination of sector information

- It creates an Integral Storage of Agricultural Products Information System under the purview of the Ministry of Agriculture, Livestock, Rural Development, Fishing and Food, with the purpose of improving the diagnostic of the inventories that exist in the country and have more information with respect to the warehouses themselves including the quality of the services provided.

- It provides a mechanism to control the information regarding to the deposit certificates in a better capacity through the creation of the Unique Registry of Certificates, Warehouses, and Merchandise, which shall be operated by the Ministry of Economy.

II.12 GUARANTEED CREDIT

General purpose: To promote creditor subrogation in mortgage credits to promote more competition and improve the conditions of financing for the debtors, without them having to absorb the cancellation and new constitution of mortgages costs. Likewise, consumers are protected by eliminating the requirement to contract insurances with the lending institution or with whomever it designates.

II.13 CREDIT UNIONS

General purpose: To promote a broader and more agile operation of credit unions by proposing various changes aimed at expanding their financing and capitalization sources, promote the granting of credit to more sectors and make the common interest group rules more flexible.

Additionally it seeks to strengthen the supervision of this sector establishing more controls on credits for related parties and more independence from some controlling bodies.

Likewise, just like in other articles that are part of the Financial Reform, alternatives are established for the credit unions to correct situations of regulatory noncompliance such as self-correcting plans, as well as CNBV's power to make the sanctioning processes public, which shall also create more incentives to comply with the regulation.

Main reforms:

Capitalization and funding facilities and credits for related parties

- The composition of the capital is made more flexible and greater levels of concentration are allowed through the increase of the participation percentages of the partners in the capital of the credit union, from 2% to 5%.
- The credit unions are allowed to receive funding from de-centralized entities of the federal, state, and municipal government and from the federal district, as well as from companies whose activity is preponderantly the granting of credit and from any financing entity and not only from credit, insurance and bonding companies, and from other unions and foreign financial institutions, such as it was provided before.
- The limit of the financing operations to another or other credit unions is increased from 10% to 50% of the net capital of the grantor.
- Controls are established on the transactions that are done with related parties.

II.14 COMMERCIAL BANKRUPTCY



General purpose: To amend the legal framework applicable to commercial bankruptcies, with the purpose of them being a more efficient alternative both for the creditors and for the business that may be subject to such proceedings, meaning, those that generally do not comply with the payment of their obligations, this being understood as the lack of payment of debts expired for more than 30 days to 2 or more creditors, which represent 35% or more of all the obligations under their charge and that do not have liquid assets to pay at least 80% of their expired obligations on the date that the claim is filed.

Additionally, considering that in the practice, the abuse of the rights of businesspeople and creditors, as well as the lack of timely compliance with the obligations of those who participate in the respective proceedings, have motivated for these to be regrettably lengthy. The reforms establish various measures to modernize and expedite the proceedings. The foregoing, with the intention of maximizing the value of the companies through their conservation and in the event that this is not possible, to preserve the economic value of the assets and rights through an orderly liquidation process.

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- ¹ [Circular 8/2014](#), addressing the credit institutions, securities firms, investment funds, retirement funds investment companies and the National Financial Institution for Agricultural, Rural, Forestry and Fishing Development of May 15, 2014, published in the Federal Official Gazette on May 19, 2014.
- ² [Circular 9/2014](#), addressing the credit institutions, from June 5, 2014, published in the Federal Official Gazette on June 9, 2014.
- ³ [Circular 10/2014](#), addressing the credit institutions, from June 5, 2014, published in the Federal Official Gazette on June 9, 2014.
- ⁴ [Circular 11/2014](#), addressing the credit institutions, dated June 25, 2014, published in the Federal Official Gazette on June 27, 2014.
- ⁵ [Circular 19/2014](#), addressing the credit institutions, dated December 8, 2014.
- ⁶ [Circular 2/2014](#), addressing the credit institutions and securities firms, on February 12, 2014, published in the Federal Official Gazette on February 14, 2014.
- ⁷ [Circular 7/2014](#), addressing the credit institutions and securities firms, dated May 14, 2014, published in the Federal Official Gazette on May 15, 2014.
- ⁸ [Circular 3/2014](#), addressing the credit institutions and securities firms, dated February 12, 2014, published in the on February 14, 2014.
- ⁹ [Circular 12/2014](#), addressing the credit institutions, popular financial companies, savings and loans cooperative companies, with operation levels from I to IV, as well as credit unions, dated June 18, 2014, published in the on July 28, 2014.
- ¹⁰ [Circular 15/2014](#), addressing the credit institutions and the National Financial Institution for Agricultural, Rural, Forestry and Fishing Development of September 29, 2014, published in the on October 3, 2014.
- ¹¹ [Circular 16/2014](#), addressing the credit institutions and regulated multiple purpose companies, dated September 29, 2014, published in the Federal Official Gazette on October 3, 2014.
- ¹² [Circular 17/2014](#), addressing the general deposit warehouses, bonding companies, insurance companies, securities firms, commercial banks, development banks, public organisms whose main activity is the granting of credits, economic promotion trusts constituted by the Federal Government, credit unions, savings and loans companies, community financial companies, popular financial companies, savings and loans cooperative companies with levels of operation from I to IV, financial entities that act as trustees in trusts that grant or administer credits, loans, or financing to the public, as well as regulated and unregulated multiple purpose financial companies, dated September 29, 2014, published in the on October 3, 2014.
- ¹³ [Circular 4/2014](#), addressing the clearing houses for the payment with cards, dated March 10, 2014, published in the Federal Official Gazette on March 11, 2014.
- ¹⁴ [Circular 18/2014](#), addressing the clearing houses for payments with cards, dated October 3, 2014, published in the Federal Official Gazette on October 7, 2014.
- ¹⁵ [Circular 20/2014](#), addressing the participants in the Interbank Electronic Payments System, dated December 10, 2014, published in the Federal Official Gazette on December 12, 2014.
- ¹⁶ [Circular 14/2014](#), addressing the regulated and unrelated multiple purpose financial companies with patrimonial ties with entities different from the credit institutions, popular financial companies, community financial companies, savings and loans cooperative companies, financial entities that act as trustees in trusts that grant credits or financing to the public and the development banks, dated July 18, 2014, published in the Federal Official Gazette on July 28, 2014.
- ¹⁷ Provisions issued jointly by Banco de Mexico and CNBV, published in the Federal Official Gazette on March 11, 2014.
- ¹⁸ Provisions issued jointly by Banco de Mexico and CNBV, published in the Federal Official Gazette on December 31, 2014.
- ¹⁹ Provisions issued jointly by Banco de Mexico, Ministry of Finance and CNBV, published in the Federal Official Gazette on May 15, 2014.