

AMENDMENTS TO THE FINANCIAL SYSTEM DURING 2016

This document aims at presenting a summary on the main provisions issued by Banco de México in exercise of its powers during 2016, in exercise of its powers, to regulate the monetary and exchange policy, the sound development of the financial system, the proper functioning of the payment systems and the protection of the public's interests.

For ease of reference, the abovementioned provisions are organized in the following sections: 1. Regarding monetary and exchange policy; 2. Regarding payment systems; 3. As regulator of the financial system, and 4. Issued jointly with other authorities.

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

PROVISIONS ISSUED BY BANCO DE MÉXICO

1. Regarding monetary and exchange policy
 - Auctions of Negotiable Monetary Regulation Bonds (BREMS R) made by Banco de México (Circular 9/2016)
2. Regarding payment systems
 - General provisions applicable to the credit institutions willing to participate in the payment systems for interbanking transfers of funds in Dollars¹ (Circulars 3/2016, 10/2016 and 13/2016)
 - Rules of the Interbanking Payment System in Dollars (Circulars 4/2016, 11/2016 and 13/2016)
3. As regulator of the financial system
 - Amendments to the admission regime of liabilities and of investment for passive transactions in foreign currency (Circular 1/2016)
 - Procedures to request and manage other credits granted by Banco de México (Circular 2/2016)
 - Refunds and fees for prepayment (Circular 8/2016)

¹ To facilitate the drafting of this report, the dollars of the United States of America, shall be designated as "Dollars."



- Derivative transactions (Circulars 6/2016 and 7/2016)
- Demand accounts in Dollars (Circulars 5/2016 and 12/2016)
- 4. Issued jointly with other authorities
- General provisions on the liquidity requirements for commercial banks

PROVISIONS ISSUED BY BANCO DE MÉXICO

1. Regarding monetary and exchange policy

AUCTIONS OF NEGOTIABLE MONETARY REGULATION BONDS (BREMS R) MADE BY BANCO DE MÉXICO (CIRCULAR 9/2016)

With the purpose of providing credit institutions with an alternative to comply with their obligation to maintain monetary regulation deposits in Banco de Mexico, this Central Bank issued the rules for the auctions of BREMS R, which allow to settle the purchase price of the Brems R assigned in the corresponding auctions, with the resources of said deposits.¹

2. REGARDING PAYMENT SYSTEMS

In March 2016, with the purpose of enabling entities to execute electronic funds transfers in Dollars in a safer, quicker and lower-cost fashion, Banco de México put in place a payment system in Dollars known as the Interbanking Payment System in Dollars (SPID). The regulation of this payment system is grouped in the following two sets of provisions:

GENERAL PROVISIONS APPLICABLE TO CREDIT INSTITUTIONS SEEKING TO PARTICIPATE IN PAYMENT SYSTEMS FOR INTERBANKING DOLLAR TRANSFERS (CIRCULARS 3/2016, 10/2016 AND 13/2016)

Banco de México regulated the procedure credit institutions must follow to be authorized to act as participants in the national payment systems in Dollars and established the obligations said institutions must comply with as participants in such systems.²

To such end, it established that the credit institutions offering demand deposit accounts in Dollars with or without checkbook, payable in the Mexican Republic to entities with domicile in national territory, interested in acting as participants in SPID, must obtain prior written authorization from the Central Bank and enter into an agreement with Banco de México as administrator of the aforementioned system.

Credit institutions acting as participants in SPID, as well as those interested in acting as such, were allowed to hire third parties services, through which these, the latter would provide them with an interface enabling their connection with SPID or with any other service required for the processing of transfer orders in such payment system. For this purpose, it was established that those credit institutions shall deliver to Banco de México the draft agreement with the express obligation by the third party to allow Banco de México to carry out visits to verify compliance with the provisions and the internal rules governing such payment system, to provide the information said Central Bank may require, to allow the hiring credit institution and an independent external auditor, to have access to its facilities, documents, equipment and

information in general and to carry out audits, as well as the obligation to preserve the confidentiality in respect of the information regarding the technical aspects of the SPID operation. In the event that the third parties render the whole service or part of it outside national territory, it shall also be attested that those third parties reside in countries whose internal law affords protection to the persons' data. Additionally, it was established that the credit institution that would have hired the third party shall be liable at all times, for the services provided by the latter.

RULES OF THE INTERBANKING PAYMENT SYSTEM IN DOLLARS (CIRCULARS 4/2016, 11/2016 AND 13/2016)

Banco de México, in its capacity of administrator of SPID, issued the Rules of operation of such payment system which include the requirements that must be observed by the credit institutions to strengthen the information and operative security of SPID and to prevent risks in connection with the use of said payment system for illicit purposes.³

During the last quarter of 2016, the aforementioned SPID Rules were amended to allow credit institutions to provide the service of electronic funds transfer in Dollars to entities incorporated and with domicile in Mexico and having accounts in pesos, provided they comply with the same information requirements to those applicable to Dollar accounts. To execute such transfers, credit institutions must enter into the exchange transaction at the exchange rate agreed with the account holders and charge the amount in Dollars to the account of the beneficiaries indicated in the delivery requests, who shall be entities with domicile in the national territory and with demand deposits in Dollars with or without checkbook, payable in the Mexican Republic with a credit institution. Likewise, the characteristics that the clients' additional risk models that the credit institutions must have to be admitted as participants of SPID, were established with more detail.⁴

3. AS A REGULATOR OF THE FINANCIAL SYSTEM

AMENDMENTS TO THE ADMISSION REGIME OF LIABILITIES AND OF INVESTMENT FOR PASSIVE TRANSACTIONS IN FOREIGN CURRENCY (CIRCULAR 1/2016)

Banco de México modified Annex 20 to the Provisions applicable to the Transactions of the Credit Institutions and of Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural) contained in Circular 3/2012, in order to establish the periods for the calculation of the deficit of liquid assets established in the liabilities admission and investment for passive transactions in foreign currency regime during 2016, 2017, 2018 and the beginning of 2019, so that the commercial banks could continue making the aforementioned calculation.⁵

PROCEDURES TO REQUEST AND MANAGE OTHER CREDITS GRANTED BY BANCO DE MÉXICO (CIRCULAR 2/2016)

Taking into consideration the convenience for commercial banks to keep updated the information regarding the assets that they could use as guarantee in favor of Banco de México, in credits other than those established in the Provisions applicable to the Transactions by the Credit Institutions and the Agriculture, Rural, Forestry and Fisheries Sectors Development Bank provided for in Circular 3/2012, and, on the other hand, to timely determine the processes that should be carried out internally within their respective organizations in case they would like to request and manage any such financing, a chapter was added to the aforementioned Provisions, under the title corresponding to transactions with Banco de México.⁶

REFUNDS AND FEES FOR PREPAYMENT (CIRCULAR 8/2016)

The General Provisions establishing prohibitions and limits to the collection of fees were amended, in order to address the circumstances giving rise to the collection of fees for the early termination of liability transactions, credit transactions and services, as well as for the early payment of mortgage credits on residential properties.⁷

DERIVATIVE TRANSACTIONS (CIRCULARS 6/2016 AND 7/2016)

The rules for the execution of derivative transactions were amended to: i) establish the criteria for determining the derivative transactions that will be considered as standardized. Those standardized transactions which shall be negotiated through electronic exchanges and platforms, and netted and settled in entities acting as central counterparties; ii) the possibility for entities that due to the low exposure that their standardized derivative transactions represent to the financial system at large, may be exempted from the requirements referred to in the preceding subsection;² iii) the possibility for entities to carry out their standardized derivative transactions “by block”, implemented by electronic exchanges and platforms pursuant to the applicable regulation, and iv) the procedure that foreign institutions acting as central counterparties shall follow to be recognized as such by Banco de México.⁸

Further clarifications regarding the hypotheses and dates in which would enter into force the requirements for the execution and settlement of standardized transactions, established in the aforementioned “Rules for the execution of derivative transactions”.⁹

DEMAND ACCOUNTS IN DOLLARS (CIRCULARS 5/2016 AND 12/2016)

The Provisions applicable to the Transactions by Credit Institutions and the Agriculture, Rural, Forestry and Fisheries Sectors Development Bank, provided for in Circular 3/2012 were amended, to establish the obligation for the credit institutions offering demand deposit accounts in Dollars with or without checkbook, payable in

² Those requirements are: being negotiated through electronic exchanges and platforms and netted and settled in central counterparties.

the Mexican Republic to entities, to allow them to deposit and withdraw Dollars from said accounts, through a national electronic payment system in Dollars.

In addition, with the purpose of establishing the mechanisms that allow the liquidity management in SPID, Banco de México developed the functionality that allow the participants in the aforementioned system to keep an account in Banco de México Accountholders' Attention System (SIAC-Banxico) exclusively for the operation of SPID. Likewise, the schedules, conditions and the inflow and outflow of resources through accounts exclusive for this purpose with correspondents in the United States of America were determined.¹⁰

It was deemed appropriate to clarify that only the credit institutions participating in an electronic payment system allowing the execution of transfers in Dollars, whose internal rules are authorized by Banco de México, or that are administered by Banco de México itself pursuant to the Payment Systems Law, may offer and carry out deposits or withdrawals from the deposit accounts with or without checkbook in Dollars, through electronic transfers of any kind.¹¹

4. ISSUED JOINTLY WITH OTHER AUTHORITIES.

GENERAL PROVISIONS ON THE LIQUIDITY REQUIREMENTS FOR THE COMMERCIAL BANKS

The National Banking and Securities Commission and Banco de México modified the methodology established in Annex 4 to the aforementioned Provisions so as to acknowledge more precisely the liquidity risk of the transactions with derivative instruments executed by commercial banks through the calculation made pursuant to the method designated as contingent cash outflow for transactions with derivative financial instruments (known in the global market as the Look Back Approach method), so that said institutions may maintain a level of liquid assets in accordance with their requirement practices on guarantees and business models.¹²

¹ [Circular 9/2016](#), addressed to credit institutions, issued on May 10, 2016, published in the Official Gazette of the Federation on May 12, 2016.

² [Circular 3/2016](#), addressed to credit institutions that offer money deposit accounts in foreign currency to entities with residence in national territory, dated March 9, 2016, published in the Official Gazette of the Federation on March 11, 2016.

³ [Circular 4/2016](#), addressed to SPID participants, issued on March 9, 2016, published in the Official Gazette of the Federation on March 11, 2016.

⁴ [Circular 11/2016](#), addressed to SPID participants, issued on October 28, 2016, published in the Official Gazette of the Federation on November 3, 2016.

⁵ [Circular 1/2016](#), addressed to credit institutions and Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural), dated January 20, 2016, published in the Official Gazette of the Federation on January 26, 2016.

⁶ [Circular 2/2016](#), addressed to credit institutions and the Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural), dated February 4, 2016, published in the Official Gazette of the Federation on February 9, 2016.

⁷ [Circular 8/2016](#), addressed to credit institutions and regulated multiple purpose financial companies dated April 6, 2016, published in the Official Gazette of the Federation on April 11, 2016.

⁸ [Circular 6/2016](#), addressed to credit institutions, stock exchanges, investment funds, multiple purpose financial institutions with economic ties with a commercial bank, general deposit warehouses and Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural), dated March 28, 2016, published in the Official Gazette of the Federation on March 31, 2016.

⁹ [Circular 7/2016](#), addressed to credit institutions, stock exchanges, investment funds, multiple purpose financial institutions with economic ties with a commercial bank, general deposit warehouses and Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural), dated March 28, 2016, published in the Official Gazette of the Federation on March 31, 2016.

¹⁰ [Circular 5/2016](#), addressed to credit institutions and Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural), dated March 9, 2016, published in the Official Gazette of the Federation on March 11, 2016.

¹¹ [Circular 12/2016](#), addressed to credit institutions and Agriculture, Rural, Forestry and Fisheries Sectors Development Bank (Financiera Rural), dated Friday, October 28, 2016, published in the Official Gazette of the Federation on Thursday, November 3, 2016.

¹² [Resolution](#) amending the General Provisions on the liquidity requirements for the commercial banks, dated December 20, 2016, published in the Official Gazette of the Federation on December 28, 2016.