

COMPILED TEXT of Circular 8/2010 issued on February 23 and its amendments made public through Circular 9/2010 dated February 24 2010 and Circular 13/2010 dated April 14 2010.

CIRCULAR 8/2010

Mexico City, Federal District as of February 23, 2010.

TO CREDIT INSTITUTIONS:

REFERENCE: AUCTIONS FOR THE TRANSACTION OF U.S. DOLLARS PUT OPTIONS

The Bank of Mexico, on grounds of articles 28 of the Political Constitution of the United Mexican States, paragraphs sixth and seventh; 7th section X, 8th first paragraph, 14 first paragraph and 24 of the Law of the Bank of Mexico; 22 of the Transparency and Financial Services Arrangement Law, as well as articles 8th paragraph third and sixth, 10, 17 section I and 19 section IX of the Internal Regulations of the Bank of Mexico, which provide the attribution of this Central Bank, through the Directorate of Central Bank Regulations and the Directorate of Operations, respectively, to issue provisions, Single Article of the Order for Assignment of Administrative Units of the Bank of Mexico, sections I and IV, in compliance with the resolution of the Foreign Exchange Commission disclosed through press release of February 22 2010, which determined the convenience of increasing the level of international reserves of the Bank, without altering the current exchange regime, has decided to carry out auctions through which the institutions may sell U.S. Dollars to this Central Bank, in accordance with the following:

“APPLICABLE RULES FOR THE AUCTIONS OF US DOLLARS PUT OPTIONS”

Definitions

For the sake of convenience and in connection with both, singular and plural, for purposes of these Rules it shall be understood as:

Only Account: the deposit account in Mexican currency that the Bank of Mexico keeps for commercial banks and development banks in terms of the provisions of Circulars 2019/95 and 1/2006, respectively;

Business Day: the days of the week, except Saturdays, Sundays and the days when credit institutions close their offices and branches for business, in terms of the general provisions issued to such end, by the National Banking and Securities Commission;

Dollars: the legal currency of the United States of America;

Exercise Date: any Business Day on which the right arising from a Put Option is exercised during the Term;

Settlement Date: the second Business Day following the Exercise Date;

Amount of reference: the amount in Dollars offered in the corresponding auction, which any institution receiving an allocation may, in the aggregate, sell to the Bank of Mexico and that shall be disclosed in the relevant call;

Put Option: the agreement whereby, through the payment of a Premium, an institution acquires the right to sell Dollars to the Bank of Mexico in exchange for Mexican currency, during the Term, at the Exercise Exchange Rate;

Term: the period of time between the first Business Day of the immediately following month to the date of an auction and the last Business Day of the same month, during which the rights arising from a Put Option allocated in said auction may be exercised;

Premium: the amount in Mexican currency that institutions are willing to pay to the Bank of Mexico to enter into a Put Option;

Exercise Exchange Rate: the exchange rate to settle obligations denominated in foreign currency payable in Mexico, that the Bank of Mexico publishes in the Official Gazette of the Federation on the Business Day when the right resulting from a Put Option is exercised, and

Maximum Sale

Exchange Rate: the arithmetic average of the exchange rates that the Bank of Mexico has determined, according to applicable Provisions to determine the exchange rate to pay obligations denominated in foreign currency payable in Mexico, twenty Business Days before the date when the right arising from a put option is intended to be exercised.

2. **CALL TO TENDER BIDS**

The Bank of Mexico shall make public the calls on the date each auction of Dollars Put Options is made, through the Exchange Auction System of the Bank of Mexico (SUBCAM-BANXICO).

The auctions of Dollars Put Options shall take place on the last Business Day of every month with exception of December, when they shall be carried out on the penultimate Business Day of the month. The foregoing, except for the cases when the Bank of Mexico releases other date in particular.

The calls shall contain, among other characteristics of the auction, the Amount of Reference, the type of auction to be carried out, the deadline for holding the auction and the time schedule for the tendering of bids.

3. **TYPE OF AUCTIONS**

Auctions shall be:

- a) Traditional Auctions: those where the institutions submit their bids without having any information on the other bids submitted. The institutions receive information from the other participants until the results of the auction are made public, or
- b) Interactive auctions: those in which the institutions submit their bids and have the possibility to know the marginal price of the auction allocation.

Both types of auctions shall be carried out on the basis of an allocation at a multiple price, that is to say, the amount of Dollars tendered shall be allocated starting from the best bid for the Bank of Mexico and the bids resulting with allocation shall be handled at the price requested.

4. **BIDS**

The bids shall be submitted for one million Dollars or any multiple thereof. When tendering the bids, the institutions shall indicate the amount of the Premium expressed per each one thousand Dollars. The Premium shall be always positive.

Each bidder shall submit one or more bids per auction, without the amount of each bid to exceed the Amount of Reference. The bids received exceeding the aforementioned amount shall not be considered in the relevant auction. The bids shall be submitted through the SUBCAM-BANXICO or through any other electronic, data processing or telecommunication means authorized to such end by the Bank of Mexico on the date and time indicated in the relevant call.

The access keys, identification and, as the case may be, operation passwords established for the use of electronic, data processing or telecommunication means shall substitute the autographic signature for one of an electronic nature, hence the documentary or technical certifications, where they appear, shall have the same effects as those granted by the laws to the documents subscribed by the parties and, as a consequence, they shall have equal proving value.

5. EFFECTS OF THE BIDS

The bids submitted to the Bank of Mexico shall be effective in the broadest terms as is legally applicable, and they shall imply the acceptance of the bidder to comply with each and every one of these Rules and the terms and conditions established in the call where the Bank of Mexico releases the particular characteristics of the auctions of Dollars Put Options.

Every bid shall be mandatory for the bidder representing it and it shall be irrevocable as well.

The institutions irrevocably authorize the Bank of Mexico, because of the single fact of tendering a bid, in the event that such bids receive allocations, to charge on the Business Day following the day of the corresponding allocation, against their Single Account an amount for up to the sum corresponding to the relevant Premium.

The Bank of Mexico reserves the right to leave without effects any bids received if they fail to comply with these Rules, they are incomplete or otherwise incorrect.

The Bank of Mexico reserves the right to reject any bid or to declare the auction void in whole or in part, if in its opinion, such bids based on their particular characteristics, could render inconvenient effects to the exchange market, the sound development of the financial market in general, or if it considers they are not consistent with the prevailing conditions in the market, or if it detects a collusion between the participants.

Furthermore, in the event an institution has applied for a Dollars Put Option and it fails to deliver on the Settlement Date the total amount of corresponding Dollars or if it otherwise fails to comply with the provisions of these Rules, the Bank of Mexico may suspend, for the time it deems convenient, the reception of bids from such institution in the auctions carried out by the Bank of Mexico on its own account, or the execution of exchange transactions or derivative financial transactions.

6. ALLOCATION

The allocation shall be carried out in accordance with the descending order of the Premium corresponding to the relevant bids, without exceeding the Amount of Reference. In the event that the total value of the bids exceeds such Amount of Reference, only bids which accumulated amount equal said amount shall be accepted.

If there is a tie among several bids at the place where the Amount of Reference is reached, resulting in an excess of such amount, the allocation shall be made on a *pro rata* basis of the amount requested in the bids tied, concerning traditional auctions and in accordance with the order in which such bids have been received when dealing with interactive bids.

Likewise, in the event that during the period encompassed between the tender of the bids and the moment the result of the bids is released, there are failures in the systems, the auction shall be declared void and the Bank of Mexico shall announce a new auction on the same Business Day through the same means or through any others the Bank may disclose to the institutions.

In the event that no allocation of the totality of the Amount of Reference has been made in an auction, the Bank of Mexico shall make on the same day a call for a new auction for the remaining amount. The time schedules and the type of auctions shall be released by the Bank of Mexico in the corresponding call.

7. RESULTS OF THE AUCTIONS

The outcome of the auctions shall be available through SUBCAM-BANXICO within ten minutes after the expiration of the term for the tendering of the bids in each auction.

8. EXERCISE OF THE PUT OPTIONS

The institution that has received an allocation may sell Dollars to the Bank of Mexico on any Business Day during the Term, until the amount allocated is exhausted, in amounts of one million Dollars or any multiples thereof. Only Dollars may be sold to

the Bank of Mexico in the exercise of the Put Option when the Exercise Exchange Rate is equal or less than the Maximum Sale Exchange Rate.

The Bank of Mexico through any electronic, data processing or telecommunication means it may indicate, shall disclose to the institutions on every Business Day the Maximum Sale Exchange Rate.

In order to enforce the right arising from a Put Option, the institutions shall contact the Domestic Foreign Exchange Operations Subdivision of the Bank of Mexico by telephone or by any other electronic, data processing or telecommunication means expressly accepted by the Bank of Mexico, between 9:00:00 and 13:00:00 hours of the Exercise Date, indicating the amount of Dollars they wish to sell. The foregoing, in the understanding that the institutions must confirm the Bank of Mexico the transaction at no later than 14:30:00 hours of the same Business Day, by a SWIFT message or through the delivery of a communication in accordance with the sample attached to these Rules. The SWIFT message must include the information contained in the aforementioned sample.

The institutions enforcing the right arising from a Put Option shall make, on the corresponding Settlement Date, the delivery of the Dollars subject to the transaction through: i) their deposit in the account indicated to such end by the Bank of Mexico, or ii) authorizing the Bank of Mexico to charge the account in Dollars it keeps for them, the corresponding amount. Then again, on the Settlement Date, which should be a day in which banks are opened for business in the U.S.A.; once the institutions have delivered the Dollars in accordance with any of the aforementioned methods, the Bank of Mexico shall deposit the amount of the exchange value of such Dollars in the Single Account it keeps for them.

In the event that any institution fails to deposit the total amount of the corresponding Dollars in the aforementioned account or fails to have sufficient funds in the account kept by the Bank of Mexico to carry out the delivery of the Dollars in the amount requested, the Dollars buying and selling transaction shall be carried out in the amount actually delivered.

In the case referred in the preceding paragraph, the institution shall pay the Bank liquidated damages in the amount in Mexican currency equal to 0.1 by the thousand of the undelivered amount of Dollars per each Business Day the noncompliance lasts.

The exchange rate published by the Bank of Mexico in the Official Gazette of the Federation on the date the calculation is made shall be used in order to calculate the equivalent in Mexican currency of the undelivered Dollars.

Such liquidated damages shall be charged in Mexican currency to the Single Account that the Bank of Mexico keeps for the defaulting institution, every Business Day the default occurs.

9. GENERAL PROVISIONS

In the event that due to an act of God or force majeure event no bids could be submitted through the SUBCAM-BANXICO, the corresponding calls or the results of the auctions could not be disclosed in terms of these Rules, the Bank of Mexico shall disclose to the institutions, the applicable procedure for the performance of such auctions or for the disclosure of such calls or the relevant results, as the case may be.

The credit institutions that may have obtained the allocation in the auctions referred to in these Rules may enter into with their clients any Dollars Put Option agreements for up to the amount of their current rights. The institutions shall enter into the aforementioned transactions in the same terms and conditions, except for the Prime, as the Put Options that the Bank of Mexico has allocated to them.

(added by Circular 13/2010)

The Put Options, as well as the transactions referred in the preceding paragraph shall not be taken into account to determine the exchange risk positions of the commercial and development banks, provided in items M.61 of Circular 2019/95 and BD.4 of Circular 1/2006, respectively, nor for the Liabilities and Investment Admission Regimes contained in items M.13 of the same Circular 2019/95. Notwithstanding the foregoing, the sales and purchases of foreign currency entered into by reason of such agreements and of the aforementioned transactions shall comply with such provisions.

(Modified by Circular 13/2010)

The “Rules for commercial banks, Securities Firms, mutual funds, Investment Companies and Limited Scope Financial Institutions shall abide by in the execution of derivative transactions” contained in Circular 4/2006 dated December 18 2006 and item BD.72 of Circular 1/2006 addressed to the development banks, shall neither be applicable to the Auctions of Dollars Put Options nor to the transactions entered in terms of the second paragraph of this item.

(Amended by Circulars 9/2010 and 13/2010)

Exhibit

**SAMPLE OF CONFIRMATION OF THE EXERCISE OF US DOLLARS PUT
OPTION IN ACCORDANCE WITH THE “RULES FOR THE AUCTIONS OF US
DOLLARS PUT OPTIONS”**

(Letterhead of the credit institution)

Mexico City _____, 20____.

THE BANK OF MEXICO

International Transactions Procedures Management Office
Avenida 5 de mayo No. 6, First Floor,
Col. Centro, C. P. 06559, Mexico City

Mexico City, _____20____.

(NAME OF THE INSTITUTION) confirms the sale of US Dollars to this Central Bank as a result of the exercise of the rights of the US Dollars Put Option that was allocated to it in the auction of US Dollars Put Options dated __ ____, 20____; agreed today with (NAME OF THE EMPLOYEE OF THE DOMESTIC FOREIGN EXCHANGE OPERATIONS SUBDIVISION with whom the exercise of the rights of the US Dollars Put Option was agreed upon) in the following terms:

Exercise Date:

Settlement Date:

Amount of US Dollars to be sold to Bank of Mexico

Exercise Exchange Rate:

OPTION 1* [for the settlement of the aforementioned transaction, in accordance with provision number 8. of the “RULES FOR THE AUCTIONS OF US DOLLARS PUT OPTIONS” disclosed through Circular 8/2010 dated February 23 2010, (NAME OF THE INSTITUTION) shall deposit on the Settlement Date, the aforementioned US Dollars amount, in the account that Bank of Mexico instructs.]

OPTION 2* [For the settlement of the aforementioned transaction, in accordance with the provision number 8. of the “RULES FOR THE AUCTIONS OF US DOLLARS PUT OPTIONS” disclosed through Circular 8/2010 dated February 23 2010 (NAME OF THE INSTITUTION) authorizes and instructs the Bank of Mexico to charge on the Settlement Date, the aforementioned US Dollars amount, in the account number: _____ denominated in such currency that it keeps for us)

Furthermore, such Central Bank is hereby authorized and instructed in an irrevocable manner to make the charges, if any, that may correspond, to the Single Account in Mexican currency that it keeps for us, for the payment of the liquidated damages that my principal must cover in terms of the provisions of the aforementioned Rules.

Sincerely Yours

(Name, signature and position of the officer(s) of the Institution with powers for acts of administration)

Cc. Domestic Foreign Exchange Operations Subdivision of the Bank of Mexico

** Option One shall be used when the US Dollars delivery is made through the deposit to the account the Bank of Mexico instructs and OPTION 2 when the US Dollars delivery is made against the account in such currency that the Bank of Mexico keeps for that institution.*

Note: An original and a copy are to be delivered to the International Transaction Management .

TRANSITORY RULES

FIRST. These Rules shall become effective on February 24 2010.

SECOND. On the date these Rules become effective Circular-Telefax 71/96 of August 1 1996 shall be superseded.