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Authorization of special accounting standards for credit institutions by the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores" or "CNBV*")

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On March 26, 2020, the National Banking and Securities Commission (CNBV) issued special accounting standards applicable to credit institutions as consequence of the Covid-19 contingency.

Details of the special accounting standards

On this year's March 24, the Asociación de Bancos de México, A.C. (Mexico Banks Association, hereinafter referred to as "ABM"), requested the CNBV to issue special accounting standards in order to support those clients who were unable to comply with their credit obligations. This, in view of the negative impact that the spread of Covid-19 could generate in several economic sectors.

In response to AMB's request, on March 25, the CNBV published a press release in which it informed that, with the purpose of mitigating the economic effects originated from the health contingency by Covid-19, it would issue special accounting standards, temporarily, which was made official on March 26 in a communication addressed to the ABM and each of the Mexican credit institutions.

Regarding the special accounting standards, the following is noteworthy:

- They are generally applicable to loans granted to natural persons and companies that were in full force and effect on February 28, 2020[1], except for those granted to related persons (*personas relacionadas*) in terms of Articles 73 and 73 Bis of the Credit Institutions Law (*Ley de Instituciones de Crédito*) or those that are located within the FIRA (a development trust of the Mexican Federal Government dedicated to the issuance of credits to the agricultural sector) "Permanent Support Program for Areas Affected by Natural Disasters" or any other support program.

[1] Credits for housing construction, as well as individual credits with mortgage guarantee, revolving and non revolving credits addressed to natural persons, such as: automobile credit, personal credits, payroll credit, credit card and microcredit; also included are commercial credits addressed to companies, individuals with business activity in its different modalities

- They allow the restructuring or renewal of credits to benefit the liquidity of the borrowers, by extending the payment of principal and interest for up to 6 months[2]; such credits will not be reported to the credit information companies (Mexican *sociedades de información crediticia*) as matured.

- They benefit the banks by: (i) not considering restructured or renewed loans as overdue portfolio (*cartera vencida*), (ii) not affecting the income statements through the creation of credit reserves, which also will not adversely affect the capitalization index of such institutions.

- They grant credit institutions 120 calendar days to restructure or renew their portfolio, starting on February 28, 2020.

- The standards defer the creation of preventive estimates for credit risks derived from removals, write-offs, bonuses or discounts if these have an impact on lower payments for the borrowers. If the amount of the write-offs, remissions, bonuses or discounts exceeds the balance of the estimate associated with the credit, the banks must incorporate the respective reserves up to the amount of the difference on the date they are granted or, in a straight line, in a period not exceeding fiscal year 2020.

- They specifically exempt from compliance with the requirements provided in Standard B-6 " Credit Portfolio", contained in Annex 33 of the General Provisions Applicable to Credit Institutions (*Disposiciones de cáracter general aplicables a las instituciones de crédito*) issued by the CNBV, in the case of loans with periodic payments of principal and revolving loans. This in order to facilitate restructuring or renewal of the portfolio.

- They prohibit credit institutions from: (i) making contractual amendments that explicitly or implicitly consider the capitalization of interest, or the collection of any type of commission as consequence of the restructuring; (ii) restricting, reducing or cancelling previously authorized or agreed credit lines; (iii) requesting additional guarantees or their replacement in the case of restructuring.

- They demand banks to disclose in the notes to the annual financial statements for fiscal years 2020 and 2021, as well as in any public communication of annual financial information for the aforementioned years and in the information for the quarters of 2020 and the first quarter of 2021, the impact of applying the special accounting standards.

  Likewise, the corresponding information must include, for the special accounting standard in question, as a minimum: (i) the mention of its application; (ii) details of the standard, as well as the rules that should have been observed in accordance with the accounting standards in force; (iii) the amounts that would have been recorded and disclosed in the balance sheet as well as in the income statement by type of portfolio, should this special standard not been enforced; and, (iv) details of the concepts and amounts by type of portfolio for which the accounting impact was made as a result of the application of this exception rule.

  For the payment of dividends, credit institutions shall subtract from their gains, the amounts resulting from the calculation of the description in numeral (iii) above.

- They provide that the credit institutions must file to the CNBV, the general conditions of the support programs for the borrowers, as well as a detailed report of the credits contrasting the original conditions with the benefits granted.

For purposes of supporting the recovery of borrowers, the CNBV encourages credit institutions to ensure that the benefits originated from these standards represent real support for debtors, such as total or partial write-offs of interest or deferral of redemption of the principal of the debt.

The special accounting standards issued are a regulatory facility and are therefore freely adopted by the credit institutions; should they decide not to adopt them, they must fully comply with the accounting standards in full force, and the obligations arising therefrom.

[2] Such period shall be calculated from the date on which the credit originally would have matured.

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