

Amendments to repurchase agreements regulation published by Banco de México (Banxico)

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On June 2, 2020, the following Rule, related to repurchase agreements, was published in the Federal Official Gazette:

Rule 19/2020. This Rule is addressed to credit institutions, broker dealers, mutual funds, specialized investment companies of retirement funds, general deposit warehouses, insurance institutions, bond companies, regulated multiple purpose financial companies that maintain estate ties with a credit institution, and the National Finance for Agricultural, Rural, Forestry and Fishing Development, in their repurchase agreements (repurchase or repo transactions).

This new regulation updates the existing regulation on the matter, in line with the recommendations of the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS). Therefore, it modifies the *Rules to which credit institutions must be subject; broker dealers; investment companies; specialized investment companies of retirement funds, and the Financiera Rural*¹, in their repurchase transactions, in the following aspects:

- (i) Strengthens the method for calculating adjustment factors that seek to guarantee the net exposure of repurchase transactions in order to avoid procyclicality, and contribute to improving liquidity, security, depth and development of the markets. In this sense:
 - a) Repurchase agreements must be made considering the market price of the securities or certificates of deposit, less the adjustment factors determined according to the aforementioned method; as well as being executed under the single framework agreement agreed jointly by the ABM (as per the acronym in Spanish of *Asociación de Bancos de México*) and AMIB (as per the acronym in Spanish of *Asociación Mexicana de Instituciones Bursátiles*). Banxico must annually approve both the methodology and the adjustment factors.
 - b) financial institutions, to determine the adjustment factors, must at least consider a historical period of five years, use an expected loss measure, consider the credit risk of the securities or certificates of deposit and incorporate, as the case may be, an additional charge to the adjustment factor.

¹ Which last amendment was made by means of Rule 33/2010, dated November 10, 2010.

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- (ii) Includes insurance and bond institutions, regulated multiple purpose financial companies that maintain estate ties with a credit institution and general deposit warehouses² as entities that may carry out repo transactions.
 - (iii) The certificates of deposit issued by general deposit warehouses are added as titles subject to repurchase transactions.
 - (iv) It foresees that credit institutions and broker dealers can carry out repo transactions on behalf of third parties, provided that the respective client grants them a mandate or commission.
 - (v) Enters into force on June 3, 2020. As an exception to the foregoing:
 - a) the ABM and the AMIB will have up to twelve months from that date, to file for approval of Banxico, the adjustment factors and the methodology which are amended with this Rule, and
 - b) the general deposit warehouses will have a term of twelve months to have the methodology and adjustment factors, as well as the single framework agreement, referred to in the Rule.

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² Classified in Level IV, in terms of the Law of Organizations and Ancillary Activities of Credit, that have the valid operational certification opinion issued by the Trusts Established in Relation to Agriculture (as per its acronym in Spanish, FIRA).