# FSB- G20 - MONITORING PROGRESS – Mexico September 2010 [For Publication in March 2011]

| # | | G20/FSB RECOMMENDATIONS | | DEAD-LINE | PROGRESS TO DATE<br><br>Explanatory notes:<br><br>In addition to information on progress to date, specifying steps taken, please address the following questions:<br><br>1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction?<br><br>2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results?<br><br>Also, please provide links to the relevant documents that are published. | PLANNED NEXT STEPS<br><br>Explanatory notes:<br><br>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)<br><br>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?<br><br>What are the key challenges that your jurisdiction faces in implementing the recommendations? |
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| **I. Building high quality capital and mitigating procyclicality** | | | | | | |
| 1 | (Pitts) | Basel II Adoption | All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011. | By 2011 | Since 2008, Mexico has adopted into its regulatory framework the Basel II guidelines, however, Pillars 2 and 3 remain partially implemented.<br>Implementation of operational risks, using of a Basic Indicator Approach, was completed on January 2011. Capital requirements for operational risk were built over a 36 months period (starting on January 2008),1/36th of the total requirement were monthly provisioned. | Work in progress remains to achieve full implementation of:<br>- Credit Risk: Full implementation of the standardized approach and use of IRB models.<br>- Market Risk: progress is underway to implement the use of internal models.<br>Full implementation will be included together with the adoption of Basel III requirements. |

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| 2 | (FSB 2009)<br><br>(Tor) | Basel II trading book revision | Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at least doubling by end-2010.<br><br>We welcomed the BCBS agreement on a coordinated start date not later than 31 December 2011 for all elements of the revised trading book rules. | By end-2011 | Regulatory capital requirements already consider market risk exposures in the banking and trading books, thus providing enhanced prudential capacity to the capital base. | The National Banking and Securities Commission (CNBV) is undertaking the counterparty assessment for credit risks based on the proposal of the BCBS. |
| 3 | (Pitts) | Build-up of capital by banks to support lending | We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending. | Ongoing | As at January 2011, the average Total Capital Ratio (TCR) of the banking system was 17.0% and all banking institutions registered a level above 10%. The minimum regulatory TCR is 8%, and the capital regulatory framework comprises a successive stage mechanism of prompt corrective actions, depending on the TCR level for each banking institution. When the TCR falls below 8%, the banking institution is subject to a conditioned operation status which includes the presentation of a capital restoration plan and the suspension of dividend and compensation or extraordinary bonuses payment to the management as well as the deferral of interests and principal payments. | TCR for all individual banking institutions in Mexico exceeds 10%. While there is expected no significant impact, the authorities are working on the implementation of the new buffers into the regulatory framework. These requirements will be adopted together with the Basel III requirements. |
| 4 | (FSF 2009) | Basel II – Pillar 2 enhancement | 1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement. | End-2009 and ongoing | The financial regulatory authorities have partially implemented BCBS Pillar 2 guidelines. However, since 2008, the CNBV has conducted regular stress testing scenarios based on inertial and case sensitive analyses. The CNBV is following the BCBS recommendations for stress testing to enhance the capital requirements sufficiency. | The CNBV is conducting preliminary impact assessments based on the adoption of the new capital requirements. Once the BCBS defines the standards for liquidity and leverage, the CNBV will update its stress testing. |

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| 5 | (Lon) | Supplementation of Basel II by simple, transparent, non-risk based measure | Supplement risk-based capital requirements with a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system. | Ongoing | Current regulation for capital requirements includes off-balance sheet exposures. | Authorities are following the BCBS proposals for strengthening global capital and liquidity requirements. |
| 6 | (Pitts)<br><br>(Tor) | Development of international rules to improve quantity & quality of bank capital | We commit to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012.<br><br>We agreed that all members will adopt the new standards and these will be phased in over a timeframe that is consistent with sustained recovery and limits market disruption, with the aim of implementation by end-2012, and a transition horizon informed by the macroeconomic impact assessment of the FSB and BCBS. | End-2010, implement over a timeframe that is consistent with sustained recovery and limits market disruption | Financial authorities are evaluating the BCBS proposal for strengthening the global capital and liquidity regulations. As at January 2011, the average Total Capital Ratio (TCR) of the banking system was 17.0% and the Tier 1 ratio was 15.0%. In addition, all banking institutions registered a level above 10%. | Financial authorities are working on the implementation of the Basel III guidelines into the regulatory framework. |
| 7 | (FSF 2008) | Monitoring of banks' implementation of the updated guidance | II.10 National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices. | Ongoing | Financial authorities are working in the development of proposals to strengthen the liquidity regulation. | Once the BCBS defines the standards for liquidity and leverage, financial authorities will evaluate the most adequate manner to incorporate these into the regulatory framework. |

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| 8 | (Lon) | Development of liquidity framework | The BCBS and national authorities should develop and agree by 2010 a global framework for promoting stronger liquidity buffers at financial institutions, including cross-border institutions. | By 2010 | As at January 2011, the average Total Capital Ratio (TCR) of the banking system was 17.0% from which Tier 1 ratio was 15.0%, and all banking institutions registered a level above 10%.<br>The Central Bank (Banco de México) provides regular monitoring of liquidity, including updated BCBS liquidity requirements. | Once the BCBS defines the standards for liquidity and leverage, financial authorities will evaluate the most adequate manner to incorporate these into the regulatory framework. |
| 9 | (FSB 2009) | Enhancement of supervision of banks' operation in foreign currency funding markets | Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets. | Ongoing | Banco de Mexicois responsible to issue the regulation for foreign currency exposures, covering three areas of analysis: a requirement of liquid assets to cover net cash outflows during a 60 day period, a limit to the net open position, and a limit to net outflows for the medium and long term. As a result, national banking institutions have significantly lowered their exposure to foreign currency. | Financial authorities are evaluating the most effective manner to incorporate the requirement of foreign currency liquid assets into the liquidity framework and will also determine how to strengthen supervision on foreign currency funding markets. |
| 10 | (FSF 2008) | Strengthening of regulatory and capital framework for monolines | II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit. | Ongoing | Monoliners in Mexico are not allowed to engage on structured credit activities. As a result, during the crisis these entities did not face solvency problems and neither are signs that indicate potential problems. | No further changes are expected to the capital requirement for monoliners, due to their stable position and their restriction to issue structured credit instruments. |
| **II. Strengthening accounting standards** | | | | | | |
| 11 | (WAP) | Consistent application of high-quality accounting standards | Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards. | Ongoing | Effective on January 1, 2012, all listed companies will be required to present their financial information accordingly to IFRS, as issued by the IASB, however, early implementation is allowed.<br>Financial authorities are monitoring the development of international accounting standards and have submitted comments when necessary. | With respect to the banking sector, financial authorities will evaluate the best manner to incorporate the high quality standards into the regulatory framework once the international accounting standard setters define them. |

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| 12 | (FSF 2009) | The use of valuation reserves or adjustments by accounting standard setters and supervisors | 3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak. | End-2009 | Current accounting rules require financial institutions to adapt fair value on some trading book activities. Financial authorities are following the development of international accounting standards in this respect. | Once the high quality standards are defined, financial authorities will evaluate the best manner to incorporate them into the regulatory framework. |
| 13 | (FSF 2009) | Dampening of dynamics associated with FVA. | 3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements. | End-2009 | Financial authorities are following the development of international accounting standards in this respect. | Once the international accounting standards on FVA are defined, financial authorities will evaluate the best manner to incorporate them into the regulatory framework. |
| 14 | (FSF 2008) | Enhanced disclosure of securitised products | III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their underlying assets. | Ongoing | On September 2008, the regulatory framework was amended to include disclosure guidance on securitizations prospectus. Additionally it was established that annual, quarterly and monthly reports should integrate sufficient information of the securitization underlying assets. | Financial authorities are constantly evaluating the perimeter of the regulatory framework, following international recommendations on structured products disclosure and promote increased levels of transparency. |

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| **III. Reforming compensation practices to support financial stability** | | | | | | |
| 15 | (Lon)<br><br><br><br><br><br><br>(Pitts)<br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br>(Tor) | Implementation of FSB/FSF compensation principles | National supervisors should ensure significant progress in the implementation of FSF sound practice principles for compensation by financial institutions by the 2009 remuneration round.<br><br>We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately.<br><br>We encouraged all countries and financial institutions to fully implement the FSB principles and standards by year-end, We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of 2011. | End-2010 | On November 2010, the CNBV amended the operational rules for banking and brokerage firms to address the implementation of compensation and remunerations practices based on the principles and standards of implementation of the FSB. These rules establish a 90 days period for the board of these institutions to develop and have approved a compensation committee that will be responsible for the implementation, maintenance, evaluation and supervision of compensation practices and their alignment with the risks taken. | |

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| 16 | (Pitts) | Supervisory review of firms' compensation policies etc. | Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. | Ongoing | The operational rules for banking and brokerage firms consider corrective measures, including additional capital requirements for institutions that fail to implement sound compensation regimes. In addition, these rules establish that banking and brokerage firms should inform the CNBV on their compensation regimes and on any further amendments to them. | |
| **IV. Improving OTC derivatives markets** | | | | | | |
| 17 | (Lon) | Development of action plan on the standardization of CDS markets (eg CCP) | We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009. | Autumn 2009 | The amendment to the Securities Market Law in 2009, establishes that securities issuers must inform the CNBV and to the stock market authorities, their exposure on financial derivative instruments, including, the underlying assets, the notional or reference value and the terms of payment for such exposure at the time of information disclosure. Also, issuers must detail possible contingencies and their impact to the financial position. | Financial authorities are evaluating the regulatory proposals assessed by other countries to better address this recommendation. |

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| 18 | (Pitts) | Trading of all standardized OTC derivatives on exchanges etc. | All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements. | By end-2012 at the latest | There is work underway to analyze which OTC derivative contracts are subject to be standardized and whether it is feasible to trade those contracts on a regulated exchange or any other regulated trading platform, as well as to be cleared and settled through a central counterparty.<br>According to data from the central bank, most commonly negotiated by domestic financial institutions are OTC derivative contracts on interest rate swaps, with foreign financial institutions as counterparties. These contracts are traded with basic ISDA standards, which may facilitate their standardization. However, the CNBV is continuing to examine whether other type of contracts should also be standardized.<br>Finally, there is a project to create a trade derivatives repository. Currently, financial authorities and market participants are evaluating the most effective way to implement this project. | Financial authorities are evaluating the regulatory proposals assessed by other countries to better address this recommendation. |

| V. Addressing cross-border resolutions and systemically important financial institutions | | | | | | |
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| 19 | (Pitts) | Consistent, consolidated supervision and regulation of SIFIs | All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards. | Ongoing | The banking law in Mexico was amended in 2006 to include a banking resolution process for insolvent institutions. As part of this process, the banking law sets the establishment of a Financial Stability Council, chaired by the Ministry of Finance and with the participation of the central bank, the banking supervisor and the deposit insurance agency (IPAB), to assess the systemic importance from the failure of the insolvent banking institution. In case that the Financial Stability Committee determines a potential systemic risk from the failure of the banking institution, it would proceed to determine the most effective method for the bank resolution based on a cost analysis and prevent any further disruption in the functioning of the financial system. | • Methods for banking resolution are subject to review periodically to adapt best practices.<br>• Work is underway to identify and bring within the perimeter of regulation other entities that may pose a systemic risk to the financial system.<br>• Financial authorities are following the works carried out at the FSB workstreams for resolution and bail in.<br>• Authorities have worked on a judiciary process of bank resolution, based on a comprehensible set of stages for an orderly process of bankruptcy. The aim is to provide a legal framework for financial crisis management in line with international standards and to provide a resolution scheme for insolvent banking institutions, for the use of the deposit insurance agency. The proposal will also enhance local subsidiaries protection from the potential deterioration of the holding´s financial condition or from other subsidiaries in the group or other non-financial firms related to the parent group.<br>The proposal also includes a framework to facilitate banks´ access to a liquidity facility provided by the central bank to overcome liquidity strain during stressed periods. |

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| 20 | (Pitts) | Development of resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future | We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements. | October 2010 | According to the Law to regulate financial groups, holdings´ are responsible for the failure of their subsidiaries on a jointly and unlimitedly manner. Such responsibility is framed under a unique agreement of responsibilities signed between the holding and its subsidiaries. | Further steps include the evaluation of the FSB and BCBS proposals on cross-border banking resolution in order to adapt these components into the regulatory framework. |

| VI. Strengthening adherence to international supervisory and regulatory standards. | | | | | | |
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| 21 | (Lon) | Adherence to international prudential regulatory and supervisory standards | We call on all jurisdictions to adhere to the international standards in prudential, tax and AML/CFT areas.<br><br>We are committed to strengthened adherence to international prudential regulatory and supervisory standards. | Ongoing | As a member of FATF, Mexico has adopted the recommendations to its regulatory framework. However, since the revaluation of FATF to Mexico during 2008, the authorities are currently amending diverse regulations to increase its compliance to international standards.<br>In this respect, financial authorities are undertaking a comprehensive reform to the AML/CFT regulatory framework to enhance prevention of illicit transactions. Such reform includes the standardization of AML/CFT frameworks for different financial entities and prevents regulatory arbitrage from undertaking similar activities.<br>The regulatory framework already considers the new banking schemes and products (mobile banking, prepaid cards, etc.) and defines specific treatments for financial services and products aimed to increase the level of financial inclusion.<br>In addition, with the technical assistance of international bodies, the CNBV developed a supervisory methodology for AML/CFT, moving from a legal revision of compliance, to a risk based supervision, focused on in-site visits to review products and services identified for posing higher risks. During 2010 there were conducted several tests to verify the functionality of the new supervisory methodology. | While the AML/CFT regulatory framework has been implemented for most financial entities, during 2011 the authorities plan to complete the list. Remaining entities include mutual funds and other regional and small sized saving and loans.<br>During 2011, the new methodology is planned to be implemented on an institutional basis for which no changes to the legal framework are required. |
| 22 | (Lon) | Periodic peer reviews | FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports. | Ongoing | On July 28 2010, the President of Mexico signed the decree for the establishment of the Financial System Stability Council. The Council is led by the Minister of Finance and includes the participation of the heads of the financial authorities.<br>The peer review process for Mexico was concluded in September 2010. | Authorities will continue evaluating developments of international financial standards to maintain financial stability, enhanced openness and transparency in the financial sector. |

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| 23 | (WAP) | Undertaking of FSAP | All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems. | Ongoing | The Mexican Financial System has undergone the FSAP process twice, first time on 2000 and then on 2006. The results from the IMF/WB reviews were made public. | The IMF / World Bank conduct regular visits as a follow up on the progress of the financial system policies. |
| 24 | (FSF 2008) | Additional steps to check the implementation of int'l guidance | V.11 National supervisors will, as part of their regular supervision, take additional steps to check the implementation of guidance issued by international committees. | Ongoing | Through the participation in international fora, financial authorities are constantly updating the regulatory and supervisory frameworks, as well as adapting best practices set by the standard setting bodies. | |
| **VII. Other issues** | | | | | | |
| **Developing macroprudential frameworks and tools, realigning and ensuring an adequate balance between macroprudential and microprudential supervision** | | | | | | |
| 25 | (Lon) | Amendment of regulatory systems to take account of macro-prudential risks | Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of systemic risk. | Ongoing | The Financial System Stability Council was established by presidential decree (July 28, 2010) to identify risks that may disrupt the functioning of the financial system, assess the macro prudential policies to mitigate their impact and identify the vulnerabilities of the financial system and the economy that may eventually have a significant impact on the development of the financial system.<br>Accordingly, the Financial System Stability Council is comprised by the financial authorities and supported by working groups developed to conduct periodical analysis and research and to identify best practices. | The Financial System Stability Council has the mandate to monitor continuously the development of quantitative and qualitative indicators to identify potential systemic risks. |

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| 26 | (Lon) | Powers for gathering relevant information by national regulators | Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions. | Ongoing | In accordance to their respective mandates, financial authorities included in the Financial System Stability Council posses powers for obtaining the required information from their regulated / supervised institutions, markets and instruments. | The Financial System Stability Council will evaluate continuously that the information provided by the market is sufficient to identify potential systemic risks. In addition, the Committee will follow the developments and best practices at an international level to achieve consistency. |
| 27 | (Lon) | Review of the boundaries of the regulatory framework | We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level. | Ongoing | According to each financial authority's mandate, this is responsible to determine the boundaries of the regulatory framework to promote the development of the market, based on good practices and consistently with the international approach. The review of the boundaries is made on an ongoing basis. | Based on the assessment works from the Financial System Stability Council to identify those risks threatening the financial stability, the Council may require financial authorities to revise and redefine the boundaries of the regulatory framework, to limit risks arising from the development and further innovations in the financial markets, and ensure that systemic risks are properly mitigated. |
| 28 | (FSF 2009) | Use of macro-prudential tools | 3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macroprudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macroprudential (system-wide) level. On leverage ratios for banks, work by the BCBS to supplement the risk based capital requirement with a simple, non-risk based leverage measure is welcome. Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions. | End-2009 and ongoing | There is work ongoing within the Financial System Stability Council to design metrics and quantitative indicators (including a simple, non-risk based leverage measure) to identify systemic risks. Such works include the assessment of micro and macro prudential indicators to identify and to assess risks building up across the financial system,. | Works in the Financial System Stability Council will be refined once the BCBS defines the standards for liquidity and leverage. |

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| 29 | (WAP) | Monitoring of asset price changes | Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system. | Ongoing | The Financial System Stability Council is working on the development of macro prudential indicators to monitor the evolution of asset prices and their implications. | Further enhancements to macro-prudential tools to identify relevant changes in asset prices. |
| 30 | (FSF 2008) | Supervisory resources and expertise to oversee the risks of financial innovation | V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks. | Ongoing | Financial authorities ensure that the required specialization and professionalization of their personnel copes with innovations and developments in the financial markets through permanent participation on international fora and periodic training. Also, through regular on-site visits, supervisors identify, evaluate, assess and prevent risks derived from financial innovation and ensure appropriate risk mitigation. | Supervisors are required to undergo periodic training to cope with financial innovation. |

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| 31 | (FSF 2008) | Supervisory communication with firms' boards and senior management | V.2 Supervisors and regulators should formally communicate to firms' boards and senior management at an early stage their concerns about risk exposures and the quality of risk management and the need for firms to take responsive action. Those supervisors who do not already do so should adopt this practice. | Ongoing | There is regular communication between the regulatory and supervisory side with the board and senior management on specific purposes when aspects of concern are raised during on-site supervisory visits.<br>Furthermore, the regulatory framework for capital requirements comprises a successive stage mechanism of prompt corrective actions (depending on the Total Capital Ratio) that determines that in case that the total capital ratio falls below 10%, the board of the banking institution will be notified immediately. Throughout the stages, the board and the senior management would be notified and required to submit information in accordance to the following:<br>I. (CAR>10%) No measures are addressed.<br>II. (10%<CAR<8%): informative purposes for the banking institution's Board.<br>III. (8%<CAR<7%): the banking institution operation is subject to a conditioned status. Additional measures include the presentation of a capital restoring plan and actions to suspend dividends, compensation payments or extraordinary bonuses to the management and the deferral of interests and principal payments.<br>IV. (7%<CAR<4%): II, III plus, the substitution of the management. The banking supervisor (CNBV) may establish corrective actions to reduce the risk exposure to unusual operations.<br>V. (4%<CAR<0%): II, III, IV plus, the triggering of the liquidation procedure of the banking institution<br>b) A banking resolution procedure in the event of a further deterioration of the banking institution bellow regulatory minimum (CAR<8) | Financial authorities will continue enhancing communication with board and senior management with respect to the quality of their risk management practices and planned contingent actions. |

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| 32 | (FSF 2008) | Improved cooperation between supervisors and central banks | V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain. | Ongoing | With the establishment of the Financial System Stability Council, the authorities strengthened the information exchange mechanisms implemented to identify ex ante the vulnerabilities affecting financial stability and also to ensure that during stress periods, the required information flows expeditiously.<br>Other cooperation mechanisms include:<br>• On October, 2008, the CNBV and the Central Bank signed a MoU for information exchange and joint on-site inspections.<br>• The National Insurance and Sureties Commission (CNSF) and the IAIS signed an information exchange agreement (Multilateral Memorandum of Understanding, MMoU), additionally, the CNSF signed this year MoUs with other national authorities and is negotiating other MoUs for this purpose.<br>• The CNBV has established bilateral information exchange mechanisms with other national supervisors. | Further steps include enhancing the cross-border information exchange mechanisms with other national authorities. |
| **Hedge funds** | | | | | | |
| 33 | (Lon) | Registration of hedge funds | Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management. | End-2009 | Currently, there is no specific regulatory framework for hedge funds. The CNBV monitors the development of international regulatory standards in this area. | Financial authorities will assess the need to enhance the regulatory perimeter if needed. |

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| 34 | (Lon) | Effective oversight of cross-border funds | We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures that implement these principles by the end of 2009. | End-2009 | Currently, there is no specific regulatory framework for hedge funds. The CNBV monitors the development of international regulatory standards in this area. | Financial authorities will assess the need to enhance the regulatory perimeter if needed. |
| 35 | (Lon) | Effective management of counter-party risk associated with hedge funds | Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures. | Ongoing | Currently, there is no specific regulatory framework for hedge funds. The CNBV monitors the development of international regulatory standards in this area. | Financial authorities will assess the need to enhance the regulatory perimeter if needed. |
| 36 | (FSF 2008) | Guidance on the management of exposures to leveraged counterparties | II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties | Ongoing | The regulatory framework establishes limits on the exposure of banking institutions to their counterparties. Additionally, supervisors monitor risks associated with bank´s main counterparties and continuously analyze risks associated with leveraged counterparties. | The banking supervisor is strengthening the regulatory framework for capital adequacy and credit risks based on Basel II, Pillar 1. |

| Credit rating agencies | | | | | | |
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| 37 | (Lon) | Registration of CRAs etc. | All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals. | End-2009 | According to the Securities Market Law, Credit Rating Agencies require authorization from the CNBV. This process comprises the registry of the firm's legal incorporation information and correspondingly, information from the shareholders, from the members of the board and from the main directors. Also, requires a business plan document, the operative manuals (including the description of the processes and the output scales of ratings, as well as the policies for publishing the ratings), the code of conduct and the compliance of the board and the directives to the international standards. Additional information that authorities shall consider relevant might be requested. | Following IOSCOs recommendations, the CNBV will issue the new rules for CRAs which will contain the amendments to the Code of Conduct and several rules that are considered adequate for strengthening market discipline. |
| 38 | (Lon) | CRA practices and procedures etc. | National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO. | End-2009 | The CNBV has authority to issue additional requirements beyond the CRAs code of conduct. The Securities Market Law empowers the CNBV to modify where appropriate the operating rules. | The CNBV is in the consultation process for reviewing and discussing a new set of rules aimed to improve transparency within the rating process, enhance the procedures for rating structured products and reduce CRAs' potential conflicts of interest. |

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| 39 | (FSB 2009) | Globally compatible solutions to conflicting compliance obligations for CRAs | Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010. | As early as possible in 2010 | The CNBV is currently working in the new regulatory framework to improve the quality and integrity of the credit rating process and avoid conflicts of interest, taking into consideration avoiding regulatory asymmetries with other regulations. | Financial authorities will evaluate on a continuous basis the regulatory developments in order to maintain the best regulatory approach towards CRAs. |
| 40 | (FSF 2008) | Review of roles of ratings in regulations and supervisory rules | IV. 8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation. | Ongoing | The CNBV is currently reviewing the impact of CRA ratings in the regulatory frameworks for different market participants. | The CNBV will continue to assess the impact of ratings within the financial regulation in order to identify and avoid potential over-reliance on CRAs ratings. |
| **Supervisory colleges** | | | | | | |
| 41 | (Lon) | Supervisory colleges | To establish the remaining supervisory colleges for significant cross-border firms by June 2009. | June 2009 | The CNBV participates in the supervisory colleges of large cross-border financial firms that have a significant presence in Mexico. Similarly, the insurance supervisor has taken part in the colleges established for the same purposes. | The CNBV will seek to participate in other colleges of global institutions with significant presence in the Mexican financial system. |
| 42 | (FSF 2008) | Supervisory exchange of information and coordination | V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels. | Ongoing | The law empowers CNBV to exchange information with foreign counterparts based on bilateral MOUs. These MOUs cover not only banking but also securities market activities and provide, among other things, for the exchange of public and non-public information, surveillance visits, and the provision of technical assistance. The establishment of supervisory colleges, in which Mexico participates, for the largest foreign-owned financial institutions, has helped reinforce this collaboration and this is expected to improve further | The CNBV will strengthen the cooperation arrangements in line with the development of international best practice benchmarks. |

| Crisis management | | | | | | |
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| 43 | (Lon) | Implementation of FSF principles for cross-border crisis management | To implement the FSF principles for cross-border crisis management immediately. Home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually. | Immediate | The CNBV participates in the crisis management colleges and contributes to the work on the review of living wills for a number of global financial institutions. In addition, Banco de Mexico and the CNBV collaborate in the cross-border crisis management teams for two large international banks with subsidiaries in Mexico. Furthermore, the banking supervisor has implemented rules for prudential risk management and has strengthened the oversight to complement the global supervision. | The CNBV is planning to further strengthen cooperation mechanisms through these colleges. |
| 44 | (Pitts) | Development of contingency and resolution plans by SIFIs and the establishment of crisis management groups etc. | Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress. | End-2010 | Since the amendment to the banking law in 2006, the legal framework for banking resolution was enhanced to establish parameters to assess the financial condition of a troubled bank, identify the context and the estimated costs for every viable alternative of resolution method and underpin the decision process by the implementation of an orderly resolution process that involves and clearly sets responsibilities for all relevant authorities. | Financial authorities are preparing an amendment to the banking law to enhance the resolution processes by retaining the methods introduced in 2006 and providing additional powers to conduct P&A transactions, including partial deposit transfers. |

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| 45 | (Tor)<br><br>(WAP)<br><br>(FSF 2008) | Implementation of BCBS recommendations on the cross-border bank resolution | We endorsed and have committed to implement our domestic resolution powers and tools in a manner that preserves financial stability and are committed to implement the ten key recommendations on cross-border bank resolution issued by the BCBS in March 2010.<br><br>National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions.<br><br>VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks. | Ongoing | The regulatory framework includes a banking resolution process and an early warning mechanism for identifying and dealing with insolvent banks. Building on such regime the authorities are including the lessons from the financial crisis. (Refer to #19 for further comments) | The regulatory agenda for the present year includes a bankruptcy procedure proposal for banking institutions. (Refer to #19 for further comments) |
| 46 | (FSF 2008) | Review of national deposit insurance arrangements | VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed. | Ongoing | The legal framework for deposit insurance arrangements in Mexico complies with the Core Principles for Effective Deposit Insurance Systems of the IADI. The deposit insurance agency (IPAB), is member of the IADI. | In light of further developments on the IADI principles, the authorities would evaluate the best form to adapt them into the regulatory framework. |

| Risk management | | | | | | |
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| 47 | (WAP) | Development of enhanced guidance for banks' risk management practices | Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management. | Ongoing | The CNBV has implemented prudential rules for risk management which banks should comply with and simultaneously, has reinforced the oversight of risk management practices conducted by a specialized team to complement the global supervision on financial intermediaries. Additionally, the banking supervisor is working on the development of internal methodologies to estimate expected losses and to loan-loss provisioning banks´ credit portfolio.<br>The banking supervisor also conducts regular stress testing to identify potential risks on banks. In order to reduce the operational and legal risks involved on securities trading activities, the CNBV has enhanced the oversight on internal controls processes of banks. | Further steps include the development of methodologies to oversee corporate governance and internal controls for risk management taking into account BCBS recommendations |

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| 48 | (Pitts) | Robust, transparent stress test | We commit to conduct robust, transparent stress tests as needed. | Ongoing | The CNBV efforts are conducted in three frontlines:<br>I) Development of a new agenda for risk management supervision which stresses the risk governance of banks and incorporates lessons from the recent crisis, such as the need for a prompt and clear communication with the bank and for the systemic risk measurement of a bank's portfolio.<br>II) Building up of a stress test exercise for banks involved on traditional activities. This exercise has allowed for high level discussions on the bank's need for capital requirements on the forthcoming two years.<br>III) Developing a risk based framework for macroeconomic stress testing that allows the analysis of risk at the individual institution level and at the systemic level, taking into account distress dependence amongst institutions and how such dependencies change as functions of different macroeconomic and financial risk factors. This framework will eventually be intended to account for second round effects, allowing to analyse the effect of shocks going from the financial system to the real economy. | Financial authorities will conduct regular assessments to verify the adequacy and effectiveness of stress testings and asses the need for stronger coordination between the central bank and the prudential regulator on the design of stress tests. |
| 49 | (Pitts) | Efforts to deal with impaired assets and raise additional capital | Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed. | Ongoing | Accounting standards in Mexico require that financial institutions disclosure of impairment and fair value losses on financial assets and financial liabilities. Furthermore, the banking supervisor is allowed to require when needed, additional information from financial institutions | |

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| 50 | (FSB 2009) | Implementation of BCBS/IOSCO measures for securitisation | During 2010, supervisors and regulators will:<br>• implement the measures decided by the Basel Committee to strengthen the capital requirement of securitisation and establish clear rules for banks' management and disclosure;<br>• implement IOSCO's proposals to strengthen practices in securitisation markets. | During 2010 | The regulatory agenda includes the improvement of securitization schemes to achieve increased levels of transparency and disclosure; sounder practices for risk management, and; improved liquidity of markets. The proposal would be addressed to reduce the complexity of financial products, increase the transparency requirements and the alignment of incentives among market participants.<br>While the proposal is approved, the CNBV is conducting on-site visits to review whether there is a reasonable basis for the recommendation and sale of complex instruments to retail clients and the purchase of such instruments on behalf of them in discretionary accounts. | |
| 51 | (Lon) | Improvement in the risk management of securitisation | The BCBS and authorities should take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements by 2010. | By 2010 | In June 2009, the CNBV established the transparency rules for the issuance of debt securities instruments of financial entities | The CNBV will amend the operational normative for banking institutions to strengthen securitizations disclosure of underlying assets and weighting of credit ratings. Also, the CNBV is planning to include rules for due diligence processes and quantitative retention requirements for securitizations. Special emphasis will be given to re-securitizations. Such improvements to the operational normative do not require legislative approval and may take place within the existing regulatory and supervisory powers. |

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| 52 | (Pitts) | Retainment of a part of the risk of the underlying assets by securitisation sponsors or originators | Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently. | Ongoing | The CNBV has taken the steps towards the strengthening of prudential standards for:<br>• The development of a regulatory framework for structured notes and the compliance of due diligence processes for sophisticated products;<br>• Modifications to the VaR methodology and the inclusion of a credit quality index.<br>• Strengthening of preventive measures for risk management.<br>• On-site authorization processes on risk management. | Financial authorities will assess international best practices and evaluate their suitability into the regulation |
| 53 | (WAP) | Enhanced risk disclosures by financial institutions | Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate. | Ongoing | Current prudential regulation require financial institutions to disclose qualitative and quantitative information on credit, liquidity, market and operational (legal and technological) risk exposures and their risk management procedures, including: policies, methodologies, VAR, descriptive statistics on credit risk and expected losses and any other relevant information.<br>Similarly, accounting standards require financial institutions to disclose impairment and fair value losses on financial assets and financial liabilities (taking into account materiality in the case of interim financial reporting). Furthermore, the CNBV is allowed to require when needed additional information to financial institutions. | The CNBV is constantly reviewing international developments on risk management practices and disclosure to amend the prudential regulation and accounting standards accordingly. |
| 54 | (FSF 2008) | Strengthening of supervisory requirements or best practices fir investment in structured products | II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products. | Ongoing | The Securities Market Law prevents on a series of aspects which securitizations should comply with. As such, it requires enhanced levels of transparency on the referred instruments. Financial authorities are constantly reviewing and monitoring that these requirements keep the pace with international best practices. | The CNBV plans to include in the regulation specific requirements on due diligence procedures applicable to fund managers when purchasing complex instruments. Also, the CNBV plans to issue new regulation regarding business conduct rules in relation the offering of investment services |

| **Others** | | | | | | |
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| 55 | (Pitts) | Development of cooperative and coordinated exit strategies | We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures. | Ongoing | The Ministry of Finance and the Central Bank of Mexico implemented a series of measures to restore confidence and provide liquidity to support an orderly functioning of the markets. While these measures resulted positive to overcome the effects of the crisis, their implementation were temporary and have concluded. Among the main measures there were:<br>• The flexibility on rules for bank liquidity counters, making guarantees required to collateralize liquidity loans more flexible by accepting high rated corporate notes, monetary deposits and unrated banking notes. Additionally, the Central Bank provided interest rate swaps mechanisms and installed a program for repurchasing federal certificates.<br>• The established mechanisms to support the refinancing of debt instruments issued by corporate firms and by non-bank intermediaries.<br>• Other measures implemented to support the development of the housing sector, including the purchase of mortgage backed securities; the installation of credit facilities and bridge loans to finance constructions, and; a facility to guarantee mortgage backed securitizations rolled over. | While support measures addressed to the financial sector have ended, the financial authorities will evaluate the experience of other economies, to adapt best practices on contingent situations. |

**Origin of recommendations**:

Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)
Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)
Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)
WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)
FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)
FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)
FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)