RCAP jurisdictional assessments: self-reporting monitoring template for RCAP follow-up actions

Jurisdiction: Mexico

Status as of: 31 December 2017

With reference to RCAP report: Assessment of Basel III regulations and LCR regulations – Mexico (March 2015)

Part A[1]

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

Table A

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
Basel III paragraphs 136–150.	Mexico had not incorporated neither of the countercyclical capital buffer requirements — the national countercyclical buffer or the bank-specific countercyclical buffer — into its regulations at the time of this RCAP assessment. Nevertheless, its banking act gives the power to the CNBV to impose a countercyclical capital buffer requirement based on the provisions that the CNBV issues in the Official Gazette of the Federation. Basel III indicates an implementation date on 1 January 2019 for the countercyclical buffer regime, and as such the Assessment Team	General Provisions Applicable to Credit Institutions Article 2 Bis 117 p; Article 2 Bis 117 q, and Annex 1-T Bis 1. English version is not available.	Final rule was published on April 7, 2016 with the following considerations: The countercyclical capital buffer for credit exposures in Mexico was set up on 0%. Reciprocity principle is applied only for those jurisdictions that are Basel members. If during 2016 -2019 If the countercyclical buffer is set above 0%, banks will have a four-year period to fulfil the requirement

[1] To be completed only for those findings where action has been taken or initiated. Any plans for addressing other findings may be indicated in Part B.

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	recommends this issue to be highlighted for post-assessment follow-up.		
Basel II paragraphs 757–758	Although Mexico's domestic regulations on risk management and capital management have covered the broad expectations under Pillar 2, discussions with the CNBV and representatives from local banks indicated that to date there has not been a full and thorough implementation of Pillar 2. The Assessment Team recommends a post-assessment follow-up to identify whether and to what extent Mexico is actively implementing a Pillar 2 regime.	General Provisions Applicable to Credit Institutions: Article 1, Chapter VI BIS of Title One Bis (From Article 2 Bis 117 up to Article 2 Bis 117 d), Article 66, Article 67, Article 68, Article 69, Article 71, Article 74, Article 75, Article 76, Article 78, Article 80, Article 82, Article 83, Article 86 Bis, Article 86 Bis 2, Article 87, Annex 12-B, Annex 13, and Annex 13-A.	In addition to the stress testing process which is carried on annually with supervisory scenarios, in December 31, 2014 the CNBV published the Pillar 2 provisions (ICAAP) in order to require banks to implement an annual stress test under their own scenarios. Such scenarios are based upon the principles and assumptions considered in the Basel Accord. According to the transitional arrangements agreed during the RCAP, these outstanding Pillar 2 provisions are in force since July, 2016. Since December 2015, CNBV required banks to adopt the provisions in order to avoid deviations from the standard and implemented a revision process to assure the adequate implementation. As of December 2016, all Mexican banks have summited their ICAAPs to the CNBV. The results of these assessments have been discussed with the banks and supervisory actions are expected to be implemented during 2017. During 2017, the CNBV exercised its powers to require capital to certain banks under the ICAAP.
Minimum requirements to ensure loss absorbency at the point of non-viability (PON) – paragraphs 6–7	Because the Mexican capital framework is applied on a standalone basis, and regulatory capital instruments issued by financial subsidiaries are not counted in the regulatory capital of their parent organisations, the Mexican rules do not include the authority to trigger the write-down or conversion of an additional Tier 1 or Tier 2 capital instrument	General Provisions Applicable to Credit Institutions Article 2 Bis 6 and Annex English version is not available.	Final rule was published on December 27th, 2017 with the following considerations: The requirement for banks to list their equity in the stock exchange in order to allow them to recognise capital instruments for more than 127 million US Dlls in their regulatory capital was removed. Now, banks are able to

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	issued by a foreign subsidiary of a Mexican banking group. The Mexican capital framework also provides that non-Common Equity Tier 1 capital instruments may be included in a banking organisation's regulatory capital only if the instruments are convertible into common equity of the issuing bank that is listed with the National Registry of Securities, or, if the bank's common equity is not so listed, into the common equity of the bank's holding company that is listed with the National Registry of Securities. Although this additional requirement may limit the ability of certain Mexican banks to raise regulatory capital through the issuance of additional Tier 1 or Tier 2 capital instruments, the Assessment Team determined that this aspect of the Mexican requirements is more conservative than, and thus compliant with, the Basel III capital framework.		recognise capital instruments above 50% of their Core Tier 1 capital if their Core Tier 1 Ratio is at least 10% or if they commit to preserve the level of their Core capital in nominal terms if the said Ratio is below 10%. Mexican capital framework has been relaxed to allow Mexican banks to raise regulatory capital through the issuance of additional Tier 1 or Tier 2 capital instruments. However, the Mexican capital framework is still applied on a standalone basis.

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-LCR)

Table B

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Paragraphs 17 – 18.	Under Mexican regulations, a bank in Scenario II could technically fall below 100% and still be considered compliant with the LCR, meaning that, for this situation, the regulation cannot stipulate any formal corrective measures that the CNBV could apply to the bank. Whilst the team concluded that the scope for a bank to consistently breach the LCR within the Mexican LCR framework is – as a practical matter – unlikely to materialise, the team has listed the finding for a future follow-up assessment to review the Mexican authorities' experience with the approach taken and to re-evaluate the materiality of the finding.	Article 5, fraction V regarding to LCR Report and article 12 of General provisions on liquidity requirements for commercial banks.	As specified in the RCAP document, LCR regulations was amended to specify that it is not possible for banks to operate consistently slightly below the 100% LCR minimum required level and still be compliant. Particularly, local regulation requires banks classified in Scenario II on three or more occasions within the last six previous months, to be automatically classified into Scenario III. Based on this amendment, a consistently breach of the LCR is unlikely to materialise as the automatic placement in Scenario III will stop banks from systematically trying to operate with a lower HQLA buffer. Furthermore, a monthly breach report from bank to the CNBV, and Bank of Mexico would, as a practical matter, lead to remedial action, additionally to the LCR general provision. The CNBV could still impose measures against a bank that falls into Scenario II, particularly if it repeatedly remains in the same category (but without falling into Scenario III), due to insufficient internal controls. In this case, the CNBV could make use of its supervisory power to start an investigation into the bank's liquidity controls.
Annex 4 Illustrative Summary of the LCR, Cash Outflows.	To determine collateral flows associated with derivative trades, the Basel standard prescribes a look-back based on realised collateral flows over the past 24 months. Under the Mexican	Fraction III of the Annex 4, "Methodology for determine outflows and inflows in derivative transactions" of the General provisions on liquidity requirements for commercial banks.	The LBA in Mexico was based on the valuation changes of the derivatives portfolio rather than on the collateral flows. Which in turn implies that derivatives transaction outflows does not account for collaterals to hedge transactions.

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	regulations, the realised collateral flows are approximated by valuation changes in derivatives. The Assessment Team considers this consistent with the spirit of the Basel framework. However, the team considers that the topic should be reviewed in a future RCAP assessment to re-assess supervisory experiences and whether any issues have emerged in the banks' implementation of this rule.		This approach was more conservative than the Basel Standard because changes in collateral are lower than valuation changes. In this sense, and to avoid overestimating outflows for fully collateralised derivatives transactions, the existing rule was amended in December 2016 to calculate the contingent outflow of collateralised derivatives transactions as the largest absolute net 30-day collateral flow realised during the preceding 24 months.

Part B

Pillar 3: **Disclosure:** During 2018, CNBV will be implementing the Review to the disclosure framework