

Mexico Banking Flash

The Ministry of Finance (SHCP) has published amendments to the Single Banking Circular ("Circular Única de Bancos", or CUB) to establish new rules for rating the commercial credit portfolio

On June 24, 2013 the SHCP published a Ruling in the Official Gazette of the Federation with amendments to the "Rules for Rating the Credit Portfolio of Multiple Banking Institutions, referred to in Article 76 of the Credit Institutions Act" and the "Rules for the Rating of the Credit Portfolio of National Credit Companies, Development Banking Institutions, referred too in Article 76 of the Credit Institutions Act". The purpose of these amendments is to ensure that the regulations of Mexico, in accordance with the recommendations issued by the Basel Committee in the field of estimating the credit reserves of credit institutions, allows losses to be identified before time, by means of including a larger amount of credit information, and so that the aforesaid estimate of reserves is based on methodologies that reflect the expected loss.

- **The commercial credit portfolio will be rated and provisions shall be allocated in accordance with an expected loss model, estimating the losses of the following 12 months with the credit information which best anticipates them**

The new methodology based on the expected loss model takes the following factors into account: probability of default, loss given default, and exposure at default. It also divides the aforesaid credit portfolio into different groups, and different variables are applied to each group to estimate the probability of default.

- **A number of references are also updated to ensure consistency between the regulatory capitalization framework and the credit rating framework**

The most significant updates include those made to recognize shareholdings granted to federal and municipal bodies as admissible guarantees in federal income, both for the purposes of credit risk capital and for the rating of the portfolio.

- **Most of new standards will come into force on June 25, 2013**

With regard to section IV of article 110 of the Single Banking Circular (CUB), the deadline of June 30, 2014 is established for institutions to have established 100 per cent of the reserves arising from the use of methodologies applicable to the Financial Entities portfolio in accordance with this Ruling; while for the portfolio of natural persons with business activity and legal entities other than the Federal and Municipal Authorities, Projects with Own Source of Payment and Fiduciaries which Act as Trusts, and Credit Schemes Commonly Known as "Structured", all of which are included in section V of article 110 of the CUB, the deadline of December 31, 2013 is established.

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