

# Mexico Banking Flash

## Enacting the Financial Reform: a first step in the right direction albeit with several aspects still to be defined

President Enrique Peña Nieto enacted the Financial Reform (Reform) yesterday, which was passed by legislators on November 26, 2013 and had been pending for its publication since then. The Reform comprises 13 decrees that will represent changes to 34 laws and rules, many coming into effect from tomorrow. In the July and September 2013 issues of *Banking Watch Mexico* the main points in the Reform were set out in detail. This flash highlights some of the more immediate points that will arise due to their enactment.<sup>1</sup>

- **Study of competition in the financial system by the Federal Economic Competition Commission (CFCE)**

The CFCE will have 180 calendar days starting from tomorrow to perform research into the competition conditions within the financial system and its markets. As a result of this investigation, the CFCE may, if applicable, come up with recommendations for the financial authorities to improve competition in the sector and carry out its other duties as granted to it by the Federal Law on Economic Competition.<sup>2</sup>

- **Joint regulation by the CNBV and Bank of Mexico on payment channels**

When the Reform comes into effect, the National Banking and Securities Commission (CNBV) will, alongside the Bank of Mexico, jointly regulate the terms and conditions whereby services linked to payment service networks (Redes), Exchange Rates and other fees charged directly or indirectly by banks, are provided. The CNBV will have 45 calendar days from tomorrow to establish an identification, review and inspection program for the Redes currently in operation. In addition, the CNBV and Bank of Mexico shall issue the respective secondary regulation within 60 calendar days. After this time period, the head of the CNBV and the Governor of Banxico shall jointly appear before the House of Representatives to provide statements on these new provisions.

- **Setting up the Financial Institutions Bureau**

This bureau will comprise relevant information for assessing Financial Institutions' (FI) performance in providing services. This information includes claims, enquiries, deletions or modifications of abusive clauses the FIs set, as well as recommendations, orders and fines that the financial authorities carry out. The bureau aims to be a communication tool to users of financial services. From tomorrow, the National Commission for the Protection and Defense of Users of Financial Services will have 180 calendar days to put the bureau into operation.

- **Other important immediate changes in development banking and mutual funds**

With regard to development banking, starting tomorrow the trusted workers at these institutions will be excluded from the application of the general working conditions at the respective institution and thus to come under the conditions set out in a new remuneration and retirement manual. Another immediate feature to take into account with the enactment of the Reform is that the SHCP (Ministry of Finance) shall, within 90 calendar days, perform an assessment of the subsidies, support, programs, funds and trusts managed and granted by federal government bodies, in order to provide an evaluation of the feasibility of these being channeled through a new single system of rural development and finance. Furthermore, from tomorrow the Financiera Rural (the Rural Finance Trust) will have a new name and be known as the Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero (the National Agricultural, Rural, Forestry and Fisheries Financial Trust).

Other FIs that will also see a name change are the Investment Companies which will now be known as Mutual Funds, although here the FIs will have 18 months to request authorization to change their company statutes.

In turn, higher fines from the financial authorities come into effect from tomorrow. New penalties are also categorized and the announcement of the imposition and status these have before a final resolution is reached is now permitted.

<sup>1</sup> Banking Watch Mexico July and December 2013 are available at the following links:

[http://www.bbvarsearch.com/KETD/fbin/mult/1307\\_BankingOutlookMexico\\_Jul13\\_tcm348-394768.pdf?ts=1412014](http://www.bbvarsearch.com/KETD/fbin/mult/1307_BankingOutlookMexico_Jul13_tcm348-394768.pdf?ts=1412014)

[http://www.bbvarsearch.com/KETD/fbin/mult/1312\\_SituacionBancaMexico\\_Dic13\\_tcm346-413074.pdf?ts=1012014](http://www.bbvarsearch.com/KETD/fbin/mult/1312_SituacionBancaMexico_Dic13_tcm346-413074.pdf?ts=1012014)

<sup>2</sup> These provisions include, for example, ordering measures to remove barriers to free and open competition and ordering the divestment of assets, rights, stocks or shares of the economic agents in the necessary proportion to avoid anticompetitive effects.

## Evaluation

As we have mention before, our general assessment of the Reform is that it could have a positive impact on banking and financial system penetration. Although the passing and enactment of the Reform is the first step to achieving higher credit penetration, several operational aspects in the secondary regulation remain to be defined. In some instances, defined terms are established for issuing secondary provisions, such as those from CONDUSEF, which will have one year to issue them. Nevertheless, there are other measures where there is still no certainty regarding the lines to be established nor the time period for them to be issued. Two very important ones are linked to the performance assessment that the SHCP will carry out on the degree of orientation and compliance of multiple banking institutions in supporting the country's "productive forces" and the higher capital and dividend distribution restrictions when the parent company of a bank faces liquidity or solvency problems ("ring-fencing"). In both instances, we believe that those rules could have foreseeable unfavorable consequences and take credit on highly unsustainable trajectories or discourage investment.

We will be monitoring the performance of the Reform closely, as the secondary regulation is put into place.

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