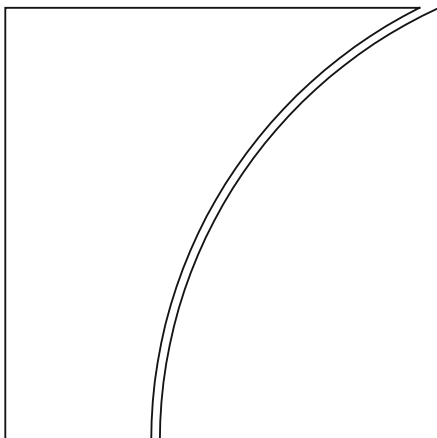


Basel Committee on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel large exposures regulations – Mexico

December 2023



Note that this report refers to the RCAP grades prior to October 2025. The grade 'materially non-compliant (MNC)', ie one notch above the lowest grade, has since been renamed to 'partially non-compliant (PNC)' for greater clarity

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Glossary

| | |
|---------|--|
| Banxico | Bank of Mexico (Banco de México) |
| BCBS | Basel Committee on Banking Supervision |
| BIS | Bank for International Settlements |
| C | Compliant (grade) |
| CEM | Current exposure method |
| CIU | Collective investment undertaking |
| CNBV | Comisión Nacional Bancaria y de Valores |
| D-SIB | Domestic systemically important bank |
| G-SIB | Global systemically important bank |
| LC | Largely compliant (grade) |
| LEX | Large exposures |
| LIC | Ley de Instituciones de Crédito (Credit Institutions Law) |
| MDB | Multilateral development banks |
| MFA | Mexican Financial Authorities (Banxico and CNBV) |
| MNC | Materially non-compliant (grade) |
| NC | Non-compliant (grade) |
| NDB | National development bank |
| PSE | Public sector entity |
| RBC | Risk-based capital requirements |
| RCAP | Regulatory Consistency Assessment Programme |
| RWA | Risk-weighted assets |
| SA-CCR | Standardised approach for counterparty credit risk |
| SHCP | Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit) |

Preface

The Basel Committee on Banking Supervision (Basel Committee) places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented in a full, timely and consistent manner by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel III framework.¹

This report presents the findings of an RCAP Assessment Team (Assessment Team) on the adoption of the Basel large exposures (LEX) framework in Mexico. The assessment focused on the completeness and consistency of the Mexican LEX regulations with the Basel LEX framework and relied on the information provided by the the Mexican Financial Authorities (MFA).

The Assessment Team was led by Mr Jonas Niemeyer, Senior Adviser at Sveriges Riksbank (Riksbank), and comprised four technical experts, from the European Banking Authority (EBA), the Indonesia Financial Services Authority (OJK), the Financial Stability Institute (FSI) and the US Office of the Comptroller of the Currency (OCC) (see Annex 1). The main counterparts for the assessment were the Bank of Mexico (Banxico) and the Comisión Nacional Bancaria y de Valores (CNBV), comprising the MFA. The work was coordinated by the Basel Committee Secretariat with support from staff from the Riksbank.

The assessment comprised: (i) a self-assessment by the MFA; (ii) an assessment phase; and (iii) a review phase including a technical review of the Assessment Team's findings by a separate RCAP Review Team and the Basel Committee. The assessment report ultimately reflects the view of the Basel Committee.

The Assessment Team acknowledges the cooperation received from Banxico and CNBV throughout the assessment process.

¹ See www.bis.org/bcbs/implementation.htm.

Executive summary

The Basel large exposures framework was adopted in Mexico as an amendment to the Banking Single Rulebook published on 17 April 2023 and in force on 1 October 2023 for D-SIBs and on 1 January 2024 for the remaining banks, over four and a half years after the Basel Committee's agreed implementation date of 1 January 2019. The framework is applied to all commercial banking institutions, including subsidiaries of foreign banks.

Overall, as of 30 September 2023, the large exposures regulations in Mexico are assessed as compliant with the Basel LEX framework. This is the highest possible grade. Each of the three grading components (scope and definitions; minimum requirements and transitional arrangements; and value of exposure) are also assessed as compliant. There are five findings identified across components and all are not material. In addition, there are two items identified for follow up (Annex 4) and two areas of superequivalence (Annex 5).

Response from the Mexican authorities

The National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores - CNBV) and the Bank of Mexico (Banco de México - Banxico) sincerely thank the Assessment Team, led by Mr Jonas Niemeyer, as well as the BCBS Secretariat members and support staff from the Sveriges Riksbank for their professional work on the present report. We appreciate the work of the Assessment Team to analyse in depth the Mexican regulation and its characteristics, resulting in a comprehensive comparison with the Basel standards, which ensured constructive and thorough discussions on the implementation of the Basel LEX framework in the Mexican financial system.

The Mexican Financial Authorities (MFA) welcome and share the assessment that the implementation of the large exposures standard in the Mexican Regulation is compliant with the Basel LEX framework. Although the completion of the LEX standard in Mexico experienced certain delays due to the Covid-19 pandemic, the MFA continued its work towards the adoption of the proposed regulation to implement a LEX rule aligned to the Basel LEX framework. While there are certain findings and observations, they were discussed at length during the assessment, and the MFA had the opportunity to explain in more detail the rationale of the regulation as well as to provide data to support their non-materiality.

We would like to take the opportunity to reiterate the commitment of the MFA to the work of the BCBS and the complete, timely and consistent implementation of its standards. We believe that the assessment of the implementation of international standards is a valuable exercise of accountability and transparency, which contributes to ensure consistency across jurisdictions, and we entirely support it.

1 Assessment context

1.1 Regulatory system

The regulation of the Mexican banking system is carried out by three main authorities: the CNBV, Banxico (the Mexican central bank) and the Ministry of Finance and Public Credit (SHCP) (the executive branch in charge of regulating financial institutions).² The main bank regulator in Mexico is the CNBV, which is an independent agency of SHCP, that regulates the organisation and operation of banking institutions. The supervision is carried out mainly by the CNBV as the primary supervisory authority over banking activity, while Banxico is directly involved in the supervision of those regulatory requirements that it issues on its own or jointly with the CNBV (such as liquidity regulations).

Regarding the large exposures regulation, the Credit Institutions Law (LIC), the main body of banking law, provides legal powers to CNBV to issue regulations on risk diversification and to set limits on exposures to a single person or to a group of persons that must be considered as a single obligor and that represent a common risk to the bank.

The provisions containing the Basel standards are mandated by law and implemented through regulation and are binding for all commercial banks. The 2015 RCAP assessment on the binding nature of regulatory documents in Mexico remains valid (see Annex 2).

1.2 Status of implementation of the large exposures framework

In Mexico, all commercial banking institutions, including subsidiaries of foreign bank institutions, are or will be subject to the regulation which implements the Basel III large exposures framework. This regulation requires that exposures to a single counterparty or group of connected counterparties either related by a control relationship or that are economically interdependent be subject to a limit of 25% of Tier 1 capital or, in the case of exposures between D-SIBs or G-SIBs, of 15% of Tier 1 capital (universal banking institutions and subsidiaries of foreign financial institutions all operate as locally incorporated banks and are subject to the provisions contained in the Banking Single Rulebook).

The large exposures framework was published in the Official Journal of the Federation on 17 April 2023 as an amendment to the Banking Single Rulebook. The framework is effective as of 1 October 2023 for D-SIBs and 1 January 2024 for the remaining banks. It is implemented for all banks in the financial system and contains a grandfathering provision for exposures that banks held before the adoption of the framework. Its adoption was postponed from 2020 due to the Covid-19 pandemic.

1.3 Scope of the assessment

The Assessment Team considered the large exposure limits applicable to a sample of banks in Mexico as of 30 September 2023. The assessment had two dimensions:

- a comparison of Mexican regulations with the Basel LEX framework to ascertain that all the required provisions have been adopted (*completeness* of the regulations); and
- whether there are any differences in substance between the Mexican regulations and the Basel LEX framework and, if so, their significance (*consistency* of the regulations).

² Regulations pertaining to specific sectors or institutions are typically issued by the corresponding supervisory agency. For example, banking regulations are issued by the CNBV and Banxico. However, the SHCP has the power to issue regulations related to financial groups, the establishment of subsidiaries of foreign financial institutions in Mexico, development banks, among others.

In its assessment, the Assessment Team considered all binding documents that effectively implement the Basel LEX framework in Mexico. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the resilience of the banking system in Mexico or the supervisory effectiveness of the MFA.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel LEX framework and the Mexican regulations. The evaluation was made using the sample banks outlined in Annex 3, representing around 72% of total banking assets in Mexico. This sample consists of six domestic systemically important banks (D-SIBs). Five out of these six banks are subsidiaries of foreign banks and therefore considered by the MFA as internationally active banks. These five banks comprise about 92% of the assets of all internationally active banks operating in Mexico. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and applied expert judgment as to whether the Mexican regulations meet the Basel LEX framework in letter and in spirit. The materiality assessment is summarised in Annex 3.

The Assessment Team noted that, in two areas, the Mexican rules go beyond the minimum Basel standards. Although these elements (listed in Annex 5) provide for a more rigorous implementation of the Basel framework, they have not been taken into account for the assessment of compliance.

The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the three key components of the Basel LEX framework and of the overall assessment of compliance. The four grades are compliant (C), largely compliant (LC), materially non-compliant (MNC) and non-compliant (NC).

2 Assessment findings

2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the LEX framework in Mexico to be compliant with the Basel LEX framework. This grade is based on the materiality assessment as summarised in Annex 3.

Assessment grades

Table 1

| Component of the Basel large exposures framework | Grade |
|--|-------|
| Overall grade | C |
| Scope and definitions | C |
| Minimum requirements and transitional arrangements | C |
| Value of exposures | C |

Assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

2.1.1 Scope and definitions

This component is assessed as compliant with the Basel standard.

The Assessment Team identified one finding that is considered not material. It relates to the treatment of exposures to "productive State companies". There is one observation on the immediacy of reporting LEX breaches.

2.1.2 Minimum requirements and transitional arrangements

This component is assessed as compliant with the Basel standard.

The Assessment Team identified one finding that is considered not material. It relates to the inclusion in the Mexican regulations of transitional arrangements with grandfathering provisions that cover all exposures drawn before the effective date of the new LEX regulations. The "existing" exposure(s) and the "new" exposure(s) to the same counterparty (or group of connected counterparties) are subject to two parallel computations and therefore are not aggregated to comply with a single LEX limit. Such grandfathering applies until the existing exposure is terminated or the related contracts are restructured or renewed. Finally, economic interdependence is not taken into account for any of the exposures subject to grandfathering.

There is one observation that the implementation date for the LEX framework in Mexico is October 2023 for D-SIBs and January 2024 for other banks, over four and a half years after the Basel Committee's agreed implementation date of January 2019.

2.1.3 Value of exposures

This component is assessed as compliant with the Basel standard.

The Assessment Team identified three not material findings, which relate to: (i) the absence of provision requiring banks to aggregate indirect exposures to the underlying of an option with other direct exposures to that counterparty; (ii) the absence of explicit provision in relation to considerations for regulatory arbitrage for small exposures of less than 0.25% of banks' capital base; and (iii) the existence of flexibility and optionality in the provision requiring banks to consider additional risk factors in collective investment undertaking (CIU), securitisation and other structures.

There are four observations. One observation relates to the exposure value for instruments that give rise to counterparty credit risk. Two observations relate to the calculation of the exposure value for trading book positions as a result of the lack of distinction between the trading book and the banking book in the Mexican regulation. Lastly, one observation relates to the calculation of the value of exposure for covered bonds as Mexican banks are not allowed to issue covered bonds under the Mexican securities market law.

2.2 Detailed assessment findings

2.2.1 Scope and definitions

| Section grade | Compliant |
|--------------------------------------|---|
| Basel paragraph number | 13, 61: Scope of counterparties and exemptions |
| Reference in the domestic regulation | Article 54 of the Banking Single Rulebook |
| Finding | The Basel LEX framework exempts exposures to sovereigns and their central banks. This exemption also applies to public sector entities (PSE) treated as sovereigns in accordance with the risk-based capital framework. These types of counterparties are exempted from the LEX limit, with no specific treatment required. |

| | |
|-------------|---|
| | <p>The Mexican regulation applies a LEX limit of 100% of the Tier 1 capital to exposures to “productive State companies”. There are two such entities in Mexico: the national electricity company and the national oil production company. These entities are “State-owned companies”, with their own legal personality and patrimony, technical, operational and managerial autonomy, while still benefitting from an implicit State guarantee. These companies are mainly funded via global markets but nonetheless are also large borrowers from Mexican banks. For capital purposes banks’ exposures to these companies are 20% risk-weighted.</p> <p>The MFA stated that although “productive State companies” do not have an explicit guarantee from the Federal Government, they are backed unconditionally by the government, which in the past has absorbed the liabilities from these companies. They could therefore be considered as PSEs under the Basel LEX framework.</p> <p>Based on the data provided by the MFA for the past five years, most banks have remained within the LEX threshold of 25% of Tier 1 capital during the whole period. Two banks that started with fairly high exposure to a single counterparty in 2018 have managed to lower that exposure in recent years to comply with the threshold of 25% of Tier 1 capital. As of December 2022, only one bank had single exposure slightly above the 25% threshold.</p> <p>This treatment does not fully reflect the Basel LEX framework in relation to sovereign exposures. The Mexican LEX limit of 100% of the Tier 1 capital to exposures to “productive State companies” is assessed as a deviation. However, banks are managing their exposure to these companies based on the 25% threshold, according to the data. As such, the deviation is assessed as not material.</p> |
| Materiality | Not material |

2.2.2 Minimum requirements and transitional arrangements

| Section grade | Compliant |
|--------------------------------------|--|
| Basel paragraph number | 93: Implementation date and transitional arrangements |
| Reference in the domestic regulation | Transitional Provisions of Resolution |
| Finding | <p>All aspects of the Basel LEX framework had to be implemented in full by 1 January 2019. Banks had to adjust their exposures to abide by the LEX limit by that date since no grandfathering will be arranged for existing exposures.</p> <p>The effective date of the Mexican LEX regulations is 1 October 2023 for the Mexican D-SIBs and 1 January 2024 for other Mexican banks. Furthermore, the Mexican regulations include transitional arrangements with grandfathering provisions that cover all exposures drawn before the effective date of the new regulations. Under these transitional arrangements, existing* exposures and new** exposures to the same counterparty (or group of connected counterparties) are subject to two parallel computations and therefore are not aggregated to comply with a single LEX limit. All existing* exposures are subject to the existing (prior to the new LEX framework) concentration risk framework (a maximum limit of 40% is set out in national regulations, based on the level of Tier 1 capital observed by the institution, and a maximum limit of 100% is set out for exposures to commercial banks). Only new** exposures drawn after the effective date of the LEX framework are subject to the 25% limit set by the framework. Such grandfathering applies until the existing exposures are terminated or the related contracts are restructured or renewed. Finally, economic interdependence is not taken into account for any of the exposures subject to grandfathering.</p> <p>The MFA stated that the reason for such transitional arrangements is that the Mexican Constitution does not allow laws to have retroactive effect.</p> <p>The grandfathering provisions cover all exposures already contracted (and also any that are contracted and drawn before the effective date of the new regulation) and without any limitation in time until the termination, renewal or restructuring of such exposures. Such provisions constitute a deviation from the Basel LEX framework.</p> |

| | |
|-------------|--|
| | <p>At the request of the Assessment Team, the MFA submitted various data sets, presenting the exposures as a percentage of Tier 1 for each of the six sample banks. These data sets cover all exposures greater than 5% of Tier 1 capital, aggregated in groups of connected counterparties by using both legal and economic interconnectedness (as the Basel standard would require) and broken down into asset classes (credits, derivatives and securities) as of December 2022 and April 2023. According to these data sets, all large exposures (except one, as mentioned previously in Section 2.2.1) exceeding 25% of Tier 1 are allocated to the counterparties that would have been exempted under the Basel LEX framework (ie federal government, foreign governments and other exempted exposures). The data analysis does not show any material impact of grandfathering for the sample banks. When the economic interconnectedness factor is applied to all counterparties exceeding 5% of the Tier 1 capital, it does not change the materiality assessment.</p> <p>Additionally, the MFA provided data sets with already contracted assets broken down by maturity (by year from 2023 to 2035), as evidence of the short contractual duration of the exposures covered by the grandfathering. According to these data, most of the large exposures (except the government and other securities exempted from the LEX limit) have maturities ending in 2023 or 2024.</p> <p>The MFA assured the Assessment Team that strong supervisory oversight had been set up to prevent any regulatory arbitrage or potential abuse of the grandfathering by banks with respect to exposures contracted between April 2023 and the dates of the phase-in of the new regulation. According to the MFA, no such case has been detected.</p> <p>Finally, the MFA stated that the Mexican framework contained additional incentives for careful monitoring and strict compliance with the LEX framework as any excess in the LEX exposure will be deducted from banks' capital for as long as it remains.</p> <p>Based on the data and the information provided, the impact of this deviation is assessed as not material.</p> <p>*Existing exposures = exposures drawn or contracted before the effective date of the LEX regulations.</p> <p>**New exposures = exposures drawn or contracted after the effective date of LEX regulations. Existing exposures become new (so subject to LEX requirements) if they are renewed or restructured after the effective date of the LEX regulations.</p> |
| Materiality | Not material |

2.2.3 Value of exposures

| Section grade | Compliant |
|--------------------------------------|---|
| Basel paragraph number | 49: Calculation of exposure value for trading book positions |
| Reference in the domestic regulation | This provision is not implemented in the Banking Single Rulebook. |
| Finding | <p>The Basel LEX framework requires banks to aggregate indirect exposures to the underlying of an option with other direct exposures to that counterparty. The calculation of the exposure value in case of long/short call/put options is set out in paragraph 49 of the Basel LEX framework. After aggregation, negative net exposures must be set to zero.</p> <p>The MFA stated that this aspect was not transposed in the Mexican regulations, given the limited use of trading book-type exposures (ie instruments that meet the specifications for trading book instruments set out in the Risk-based capital requirements (RBC25.2 to 25.13)³ intended for active trading or hedging).</p> |

³ See BCBS, *RBC25 – Boundary between the banking book and the trading book*, 27 March 2020, https://www.bis.org/basel_framework/chapter/RBC/25.htm?inforce=20230101&published=20200327

| | |
|--------------------------------------|---|
| | <p>When assessing the derivative exposure data for December 2022, received from the MFA, the average impact of netting (difference between gross and net positions) was 0.11% of Tier 1 capital across the sample banks.</p> <p>Against this backdrop, the finding is assessed as not material.</p> |
| Materiality | Not material |
| Basel paragraph number | 76: CIUs, securitisation and other structures (look-through approach) |
| Reference in the domestic regulation | Article 57 Bis 1 of the Banking Single Rulebook |
| Finding | <p>The Basel LEX framework contains a provision aiming to limit regulatory arbitrage when dealing with exposures of less than 0.25% of the eligible capital base. For this purpose paragraph 76 of the large exposures framework explicitly states that when the look-through approach (LTA) is not required according to paragraph 73 (for exposures less than 0.25% of eligible capital base), a bank must nevertheless be able to demonstrate that regulatory arbitrage considerations have not influenced the decision whether to look through or not – eg that the bank has not circumvented the large exposure limit by investing in several individually immaterial transactions with identical underlying assets.</p> <p>The Mexican regulation does not explicitly include such considerations for regulatory arbitrage for small exposures of less than 0.25% of the capital base.</p> <p>The MFA stated that potential regulatory arbitrage issues (if any) are treated under their banking supervision mandate.</p> <p>Additionally, the data provided by the MFA show that CIU and securitisation exposures are immaterial relative to the total assets of Mexican banks. Exposures to CIUs (presented monthly from 31 January 2016 to 30 April 2023) and to other structures represented on average 0.2% of banking assets (0.18% in April 2023, on a downward trend from July 2021). Risk-weighted assets (RWA) for securitisation exposures (presented monthly, from January 2013 to December 2022) represented a stable downward trend from a peak of 0.45% of total RWA in 2014 to 0.15% of total RWA in December 2022.</p> <p>Against this background, the deviation is assessed as not material.</p> |
| Materiality | Not material |
| Basel paragraph number | 80, 81, 82: CIUs, securitisation and other structures (additional risk factors) |
| Reference in the domestic regulation | Article 57 Bis 1 of the Banking Single Rulebook |
| Finding | <p>The Basel LEX framework requires banks to identify third parties that may constitute an additional risk factor inherent in a structure itself rather than in the underlying assets. Such a third party could be a risk factor for more than one structure that a bank invests in. Examples of roles played by third parties include originator, fund manager, liquidity provider and credit protection provider. The framework explicitly covers specific cases (implications), including assigning exposures to multiple third parties when those are considered as potential risk drivers.</p> <p>Article 57 Bis 1 of the Mexican regulation, when covering the additional risk factors (originators, liquidity providers or credit protection providers), uses the wording “the bank <u>may</u> identify” (and not “must” or “shall”, as in other parts of Article 57 Bis 1). In addition, the MFA pointed out that the Mexican regulation does not permit any reference to “specific cases”. Hence, it does not cover the relevant implications and assignment of exposures to multiple third parties which are explicitly mentioned in the Basel LEX framework.</p> <p>The MFA recognise that the wording of the last paragraph of Article 57 Bis 1 is more flexible than the text of the Basel LEX framework, however they claim it provides clear guideline for the identification of additional risk factors to both banks and supervisors. According to the MFA, the supervisory practice is to verify that this identification is carried out by banks. Consequently, as other risks not explicitly considered by the text of the Banking Single Rulebook might arise in the future, banks are still expected to do the relevant analysis to consider them.</p> <p>Against this background, the finding is assessed as not material.</p> |

| | |
|-------------|--------------|
| Materiality | Not material |
|-------------|--------------|

2.3 Observations

The following observations highlight certain special features of the regulatory implementation of the Basel LEX framework in Mexico. These are presented to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

2.3.1 Scope and definitions

| | |
|--------------------------------------|--|
| Basel paragraph number | 18: Minimum requirement – the large exposure limit |
| Reference in the domestic regulation | Article 60(4) of the Banking Single Rulebook |
| Observation | <p>The Basel LEX framework sets out that breaches of the LEX limits must remain an exception, be communicated immediately to the supervisor and be rapidly rectified.</p> <p>The Mexican regulation gives banks two business days to notify the authorities of a breach. In addition, it establishes incentives for immediate notification and rectification by indicating that any excess in the LEX exposure calculated by the bank will be deducted from its Tier 1 capital for as long as it remains.</p> <p>The MFA stated that the two-day period is the maximum time frame for banks to comply with this obligation, without being subject to any sanctions resulting from a delay and was introduced to provide legal clarity.</p> |

2.3.2 Minimum requirements and transitional arrangements

| | |
|--------------------------------------|---|
| Basel paragraph number | 93: Implementation date and transitional arrangements |
| Reference in the domestic regulation | Effective date |
| Observation | <p>The Basel LEX framework stipulates that all aspects of the LEX framework must be implemented in full by 1 January 2019.</p> <p>The Assessment Team observes that the implementation date for the LEX framework in Mexico is October 2023 for D-SIBs and January 2024 for other banks, over four and a half years after the Basel Committee's agreed implementation date of January 2019.</p> |

2.3.3 Value of exposures

| | |
|--------------------------------------|---|
| Basel paragraph number | 33: Definition of exposure value |
| Reference in the domestic regulation | This provision has not yet been implemented in the Banking Single Rulebook |
| Observation | <p>The Basel LEX framework sets out that the exposure value for instruments that give rise to counterparty credit risk and are not securities financing transactions must be the exposure at default according to the standardised approach for counterparty credit risk (SA-CCR). The SA-CCR is not implemented by the Mexican regulations. The current exposure method (CEM) is currently used to determine the counterparty credit risk of an exposure.</p> <p>An analysis of the exposure at default value for the SA-CCR and CEM using December 2022 data received from the MFA showed that the difference between the approaches is negligible.</p> <p>The MFA stated that the implementation of the SA-CCR is included in their regulatory agenda with a view to publishing the related regulation in mid-2024. The Assessment Team identified this topic as an item for follow-up (Annex 4) in future assessments for Mexico.</p> |

| | |
|--------------------------------------|---|
| Basel paragraph number | 44: Calculation of exposure value for trading book positions |
| Reference in the domestic regulation | This provision is not included in the Banking Single Rulebook |
| Observation | <p>The Basel LEX framework requires a bank to add any exposures to a single counterparty arising in the trading book to any other exposures to that counterparty that lie in the banking book to calculate its total exposure to that counterparty.</p> <p>The Mexican regulation does not incorporate a provision to aggregate trading and non-trading book positions as it does not make a distinction between the trading book and the banking book. Therefore, all positions are aggregated.</p> |
| Basel paragraph number | 58: Offsetting long and short positions in the trading book |
| Reference in the domestic regulation | This provision is not implemented in the Banking Single Rulebook |
| Observation | <p>The Basel LEX framework sets out that netting across the banking and trading books is not permitted.</p> <p>The Mexican regulation does not make a distinction between trading and banking books, and thus allows some netting of exposures that mirror the bank's balance sheet.</p> <p>The MFA stated all operations are determined by the net balance between positive and negative positions, considering the conditions required for such netting. After netting, only the positions that register a positive balance are included as exposure values. The applicable rules are contained in Article 2 Bis 2 and Annex 1-L of the Banking Single Rulebook.</p> <p>When assessing the derivative exposure data for December 2022, received from the MFA, the average impact of netting (difference between gross and net positions) was 0.11% of Tier 1 capital across the sample banks.</p> |
| Basel paragraph number | 68–71: Covered bonds |
| Reference in the domestic regulation | These provisions are not included in the Banking Single Rulebook |
| Observation | <p>The Mexican securities market law does not consider this type of instrument, so financial entities that operate in Mexico cannot issue covered bonds. However, Mexican banks could invest in covered bonds issued by foreign entities.</p> <p>As there is no regulation for covered bonds in Mexico, exposures to such bonds are treated in the same way as exposures to any other asset.</p> |

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

| | |
|-------------------|-------------------|
| Mr Jonas Niemeyer | Sveriges Riksbank |
|-------------------|-------------------|

Assessment Team members

| | |
|---------------------|--|
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| Mr Ángel López Contreras | Sveriges Riksbank |
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| Ms Yuka Kanai | Basel Committee Secretariat |
| Mr Olivier Prato | Basel Committee Secretariat |

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| Mr Jes Klausby | National Bank of Denmark |
| Ms Joanne Marsden | Basel Committee Secretariat |
| Ms Olatse Matshane | South African Reserve Bank |
| Mr Qi Xiang | National Financial Regulatory Administration |

Annex 2: List of Basel standards and implementing regulations issued by the Mexican authorities

The following Basel standards were used as the basis of this RCAP assessment:

- *Supervisory framework for measuring and controlling large exposures*, April 2014
- *Frequently asked questions on the supervisory framework for measuring and controlling large exposures*, September 2016

Table A.1 lists the regulations issued by the MFA to implement the LEX framework in Mexico. Previous RCAP assessments of Mexican implementation of the Basel standards considered the binding nature of regulatory documents in Mexico.⁴ This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous assessments' findings. Those assessments concluded that the types of instruments described in Table A.1 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

Overview of relevant large exposure regulations in Mexico

Table A.1

| Domestic regulations | Type, version and date |
|-----------------------|---|
| Mexican LEX framework | Amendment to the Banking Single Rulebook on 17 April 2023, Official Journal of the Federation |
| | |
| | |

Source: Banxico and CNBV.

⁴ See *RCAP Assessment of Basel III risk-based capital regulations in Mexico*, Section 1.1 and Annex 7, March 2015, www.bis.org/bcbs/publ/d315.pdf.

Annex 3: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings described in Section 2.2 and summarised in Table A.2. Assessment Teams evaluate the materiality of findings quantitatively where possible or using expert judgment when the impact cannot be quantified.

The materiality assessment for quantifiable gaps is based on the cumulative impact of the identified deviations on the reported LEX of banks in the RCAP sample. These banks are listed in Table A.3.

| Number of deviations by component | | | Table A.2 |
|--|--------------|----------------------|-----------|
| Component | Not material | Potentially material | Material |
| Scope and definitions | 1 | 0 | 0 |
| Minimum requirements and transitional arrangements | 1 | 0 | 0 |
| Value of exposures | 3 | 0 | 0 |

| RCAP sample banks | | Table A.3 |
|---|---|-----------|
| Banking group | Share of banks' assets in the total assets of the Mexican banking system (in per cent) end 2022 | |
| BBVA México S.A. | 22.0 | |
| Banco Santander (México) S.A. | 13.24 | |
| Banco Nacional de México S.A. (Citibanamex) | 11.68 | |
| Banco Mercantil del Norte S.A. | 12.16 | |
| HSBC México S.A. | 6.91 | |
| Scotiabank S.A. | 6.52 | |
| Total | 72.20 | |

For this purpose, banking assets are based on the measure of total exposures used in the leverage ratio, which includes both on- and off-balance sheet exposures.

Source: Banxico and CNBV.

Annex 4: Issues for follow-up RCAP assessments

Treatment of exposure to “productive State companies”

The Mexican regulation applies a LEX limit of 100% of Tier 1 Capital to exposures to “productive State companies”. This treatment does not fully reflect the Basel LEX framework in relation to sovereign exposures. Although the deviation is assessed as not material and Mexican banks are managing their exposures to “productive State companies” based on the 25% threshold, the Assessment Team suggests reviewing the materiality of this deviation in future assessments for Mexico.

Implementation of SA-CCR

The MFA stated that the implementation of the SA-CCR is included in their regulatory agenda with a view to publishing the related regulation in mid-2024, with no exact date for publication yet. The Assessment Team identified this topic as an item for follow-up in future assessments for Mexico.

Annex 5: Areas where Mexican rules are stricter than the Basel standards

In some areas, the Mexican authorities have adopted a stricter approach than the minimum standards prescribed by the Basel Committee. These are listed below for information. The stricter rules have not been taken into account as mitigants for the overall or component-level assessment of compliance.

- The Basel framework exempts all sovereign exposures from the LEX limit. The Mexican LEX framework does not exempt foreign sovereign exposures, which are therefore subject to the Basel LEX limit.
- The Mexican LEX framework sets the large exposure limit for D-SIBs at 15% of banks' Tier 1 capital at all times instead of the 25% limit specified in the Basel framework.