

# Total Annual Return (TAR)



BANCO DE MÉXICO



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# I. Background

The Law for the Transparency and Regulation of Financial Services (LTOSF, for its acronym in Spanish) states that Banco de México must establish the TAR calculation formula, components and methodology as well as the transaction types and amounts it will apply to.



# I. Background

## **TAR definition (LTOSF):**

The Total Annual Return is expressed as an annual percentage, which for informative and comparative purposes, incorporates capitalized nominal interest generated by debt transactions less applicable commissions. Banks and popular savings companies (popular savings and savings and loan companies) must comply with these provisions.



## II. Transaction types and amounts

The TAR must be calculated for debt transactions involving amounts below the equivalent of 400,000 UDIs, as follows:

- a) Deposits withdrawable with prior notice, deposits withdrawable on preset days, savings and fixed-term deposits as well as loans documented in promissory notes with a yield to maturity, and
- b) Any other debt transaction which includes the words “saving” or “investment” in its name, related publicity or propaganda, or which leads the public to assume that it is a savings or investment product.



### III. Formulas for calculating the TAR

General:

The TAR is the numerical value of variable  $i$ , which satisfies the following equation:

$$\sum_{j=1}^M \frac{D_j}{(1+i)^{t_j}} = \sum_{k=1}^N \frac{C_k}{(1+i)^{s_k}}$$

Simplified:

As for the most common debt transactions (no commission), the simplified formula is:

$$GAT = \left(1 + \frac{r}{m}\right)^m - 1$$



## IV. Public information

When institutions have to include the TAR in accordance with applicable CONDUSEF provisions they must:

- a) Place the acronymn “TAR” before the corresponding value;
- b) State the TAR in percentile terms rounded to two decimals;
- c) Show only the value, so no highs or lows must be mentioned, and
- d) Include the phrase “Before taxes”, immediately after the percentage corresponding to the TAR.



## IV. Public information

Furthermore, in publicity and propaganda containing the TAR, institutions must :

- e) Mention the investment range the TAR is applicable to and, regarding transactions, the corresponding period, and
- f) Indicate how long the offer lasts.

In the case of offers institutions make to certain individuals, they must specify the TAR, the investment amount range, the offer term and, in the case of transactions, the corresponding period.