

December 20, 2022

**Transition from TIIE with tenors greater than one business day (28, 91 and 182 days) to the Overnight TIIE Funding Rate (TIIE de Fondo).<sup>1</sup>**

Whereas in January 2020 the methodology for determining the Interbank Equilibrium Interbank Interest Rate in local currency (*Tasa de Interés Interbancario de Equilibrio* TIIE rate) with maturities longer than one business day (28, 91 and 182 days) was strengthened in order to comply with international standards of governance, accountability and quality of information; the methodology for the calculation of said rate for the tenors listed therein is not based on transactions observed in the money market in Mexico, but rather on quotations that Banco de México receives from financial institutions interested in participating in the determination of this rate for its different maturities, and therefore, this rate does not currently meet the new international criteria for reference rates.

In order to continue fostering the sound development of the Mexican financial system, and taking into consideration the recommendations of the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) regarding the characteristics that reference rates shall have<sup>2</sup>, in January 2020, Banco de México also began to determine and publish the Overnight TIIE Funding Rate (*TIIE de Fondo* in Spanish) which bears the overall characteristics recommended by the aforementioned international organizations. Since then, Banco de México has continued to promote the use and development of the Overnight TIIE Funding Rate aiming to consolidate it as a key reference rate in the money market in Mexico.

Pursuant to the above, and after a careful analysis conducted by Banco de México with support of financial market participants in our country, Banco de México has deemed necessary to prohibit the use of TIIE rates with tenors greater than one business day as references for new contracts entered into by financial entities regulated by this Central Bank.

In this context, Banco de México will carry out the following actions:

1. The use of the 91 and 182-day tenor TIEs as reference rates for new contracts entered into by the financial entities regulated by Banco de México shall be prohibited from January 1, 2024, and onwards.
2. The use of the 28-day TIIE as reference for new contracts entered into by the financial entities regulated by Banco de México shall be prohibited from January 1, 2025, and onwards.

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<sup>1</sup> This document is provided for the reader's convenience and for informational purposes only. The translation was made from the official Spanish version: <https://www.banxico.org.mx/publicaciones-y-prensa/miscelaneos/%7B82FBF3BA-B398-F999-B9CF-C3C521598D5D%7D.pdf>.

<sup>2</sup> The FSB recommends that reference or benchmark rates must comply with the principles established by IOSCO, which aim to give legitimacy to the determination of benchmark rates, addressing relevant aspects such as governance, calculation methodology, accountability and quality of the benchmark rate. For more information, please visit: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>.

3. As from the aforementioned dates the financial entities regulated by Banco de México must refrain from using the TIIE with tenors greater than one business day in new transactions or contracts; therefore, said institutions must use as a reference the Overnight TIIE Funding Rate or any other rate in accordance with the requirements prescribed by Banco de México in its regulations.
4. This Central Bank will modify the methodology used for the calculation of the TIIE with tenors greater than one business day in order for such rates to be based on market transactions as detailed below. This change in methodology is made with the purpose of ensuring that legally binding contracts referenced to TIIE with tenors greater than one business day that are still active on the dates indicated in paragraphs 1 and 2 above do not require any adjustment through any legal amendment for their fulfillment.

The new methodology for calculating the TIIE with tenors greater than one business day will be established in the "Provisions applicable to the operations of credit institutions, regulated multiple purpose financial companies that maintain equity links with credit institutions and with the National Financial Institution of Agricultural, Rural, Forestry and Fisheries Development" (*Disposiciones aplicables a las operaciones de las instituciones de crédito, las sociedades financieras de objeto múltiple reguladas que mantengan vínculos patrimoniales con instituciones de crédito y la Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero*), contained in Circular 3/2012 of Banco de México. Said new methodology will consider the Overnight TIIE Funding Rate of the day prior to the reference day being determined, compounded by the number of days of the corresponding term, plus a historical spread adjustment.<sup>3</sup> This spread will be fixed and will be calculated as the historical median of the last five years (November 2017 - October 2022) of the daily differences between the TIIE with tenors greater than one business day and the Overnight TIIE Funding Rate compounded by the number of days of the respective term. This spread will be twenty-four basis points for all tenors.

Banco de México will also amend the "General provisions referred to in article 4 of the Transparency and Financial Services Arrangement Law regarding interest rates" (*Disposiciones de carácter general a que se refiere el artículo 4o. de la Ley para la Transparencia y Ordenamiento de Servicios financieros en materia de tasas de interés*), contained in Circular 14/2007 of Banco de México, in order to establish the aforementioned adjustments regarding the restrictions on the use of TIIE with tenors greater than one business day as reference rates.

Furthermore, Banco de México will also amend the "Rules for the execution of derivative transactions" (*Reglas para la realización de operaciones derivadas*), contained in Circular 4/2012 of Banco de México, in order to recognize the adjustments made to the TIIE as applicable to standardized derivative transactions. These modifications will be carried out at a future date since the current provision allows the development and use of financial derivatives linked to the Overnight TIIE Funding Rate. On this matter, this Central Bank will continue to promote the adoption

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<sup>3</sup> When Banco de México makes a monetary policy decision on the day prior to the determination of the reference rate, the TIIE with tenors greater than one business day will be adjusted in the same magnitude in order to incorporate the corresponding movement in the monetary policy rate.



of the Overnight TIE Funding Rate in derivative transactions, including, but not limited to, fixed interest rate swaps referenced to said reference rate.

In light of the above, Banco de México submits for public consultation the draft provisions to modify the "Provisions applicable to the operations of credit institutions, regulated multiple purpose financial companies that maintain equity links with credit institutions and the National Financial Institution of Agricultural, Rural, Forestry and Fisheries Development " and the "General provisions referred to in Article 4 of the Transparency and Financial Services Arrangement Law regarding interest rates", contained in Banco de México Circulars 3/2012 and 14/2007, respectively. The draft provisions and their respective consultation plans are available to the public on Banco de México's website, through the following link<sup>4</sup>:

<https://www.banxico.org.mx/ConsultaRegulacionWeb/>

This Central Bank will receive comments on these draft provisions from the general public, only through the abovementioned website, until January 30, 2023 at 6:00 p.m. (Mexico City time).

Finally, Banco de México strongly encourages all market participants, as of this date, to use the Overnight TIE Funding Rate as a reference rate for new contracts in accordance with the global accepted best practice principles. The former, in order to facilitate an orderly and timely transition of reference rates in Mexico.

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<sup>4</sup> Available only in Spanish.