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Department: DGOBC
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11th Meeting of the Working Group on Alternative Reference Rates in Mexico (GTTR) February 1st, 2024



Uso Público

Información de acceso público.

Topics

1 Introduction

2 Actions regarding the basis generated by swap conversion

3 Funding TIE First Survey

4 Final comments

Introduction



On December 6th, the tenth session of the Working Group on Alternative Reference Rates in Mexico (GTTR) was held. The main topic of that session was the analysis of actions to address the **mismatch problem (basis) that some market participants will face** once the swaps conversion is carried out in clearing houses.^{1/} In addition, **the Funding TIE First (TIE de Fondeo Primero) initiative was presented.**^{2/}



Additionally, at that meeting a survey was conducted to determine potential commitments regarding the **Funding TIE First** initiative. In general terms, most institutions are willing to adopt the initiative.



This presentation will establish the actions that Banco de México will take to address the mismatch problem (basis), and the results of the Funding TIE First survey will be presented.

1/ If a market participant has a bilateral IRS contract linked to 28-day TIE that is not settled through a clearing house, and the risk of said contract is hedged with a swap that settles through a clearing house, a basis will be created with the conversion of contracts to Funding TIE OIS in the clearing houses.

2/ TIE de Fondeo Primero is a voluntary initiative with the objective of promoting the use of this reference rate in different markets.

Topics

1 Introduction

2 Actions regarding the basis generated by swap conversion

3 Funding TIIE First Survey

4 Final Comments

Actions to take in order to facilitate the swaps conversion

Modification of the swaps delivered in the conversion
(Involves an action on the part of the cameras)

- ✓ With the support of the three clearing houses (LCH, CME and Asigna), **the conversion of swaps will be carried out in November 2024.**^{1/}
- ✓ We are working with the clearing houses so that in the conversion the Forward Starting Swaps that are delivered (linked to Funding TIIE), begin one year after the conversion, in such a way that additional capital costs are minimized and that in most of 2025 there will still be swaps linked to 28-day TIIE (avoiding the basis for one more year).

Temporary extension to operate new swap contracts linked to 28-day TIIE
(Involves a change to Banxico regulation)

- ✓ Swap contracts linked to 28-day TIIE may be operated until December 31st, 2025, as long as the expiration date of the contract is less than or equal to this date.
- ✓ New contracts operated during 2025, which expire after December 31st, 2025, must be OIS linked to Funding TIIE.

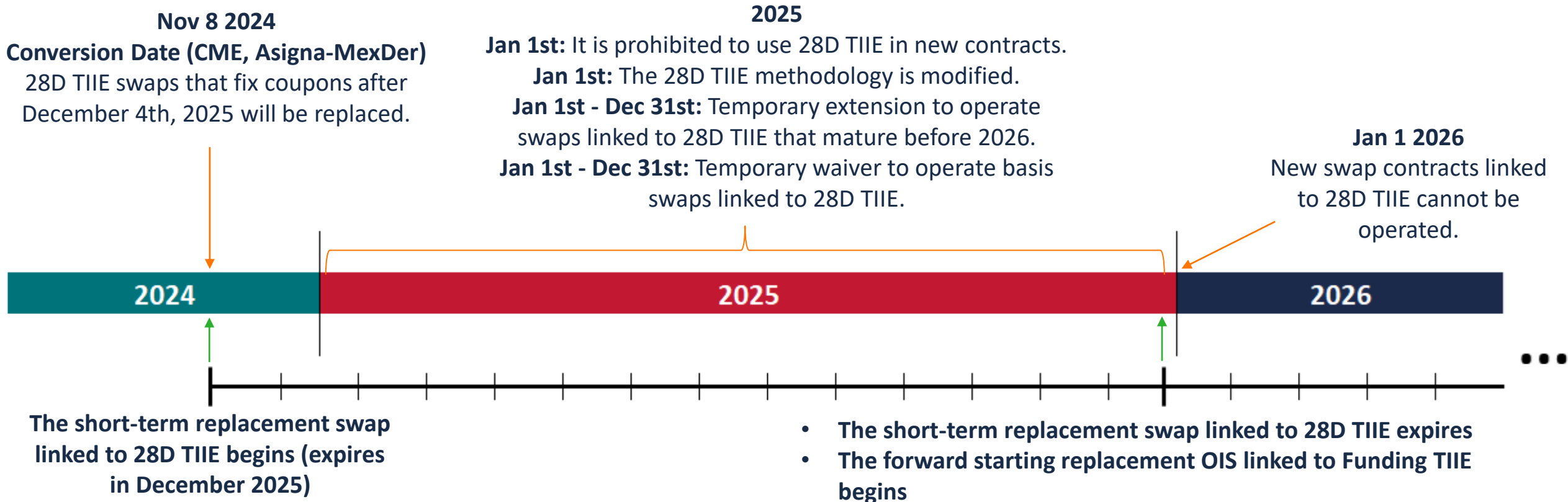
Temporary waiver to operate basis swaps after December 31st, 2024 where one leg is 28-day TIIE
(Involves a change to Banxico regulation)

- ✓ This waiver will allow any institution or corporation to have time to cover its basis. This waiver will be valid until December 2025.
- ✓ These contracts may have maturities even longer than December 31st, 2025.

^{1/} Each of these clearing houses has remained in constant communication with its clients, market participants and Banco de México, to inform about the conversion process that each will adopt. The details of each of the conversion processes will be published by the respective clearing house.

Timeline

- Below is an example of a timeline with the most important dates for the Conversion of Swaps in clearing houses:



Topics

1 Introduction

2 Actions regarding the basis generated by swap conversion

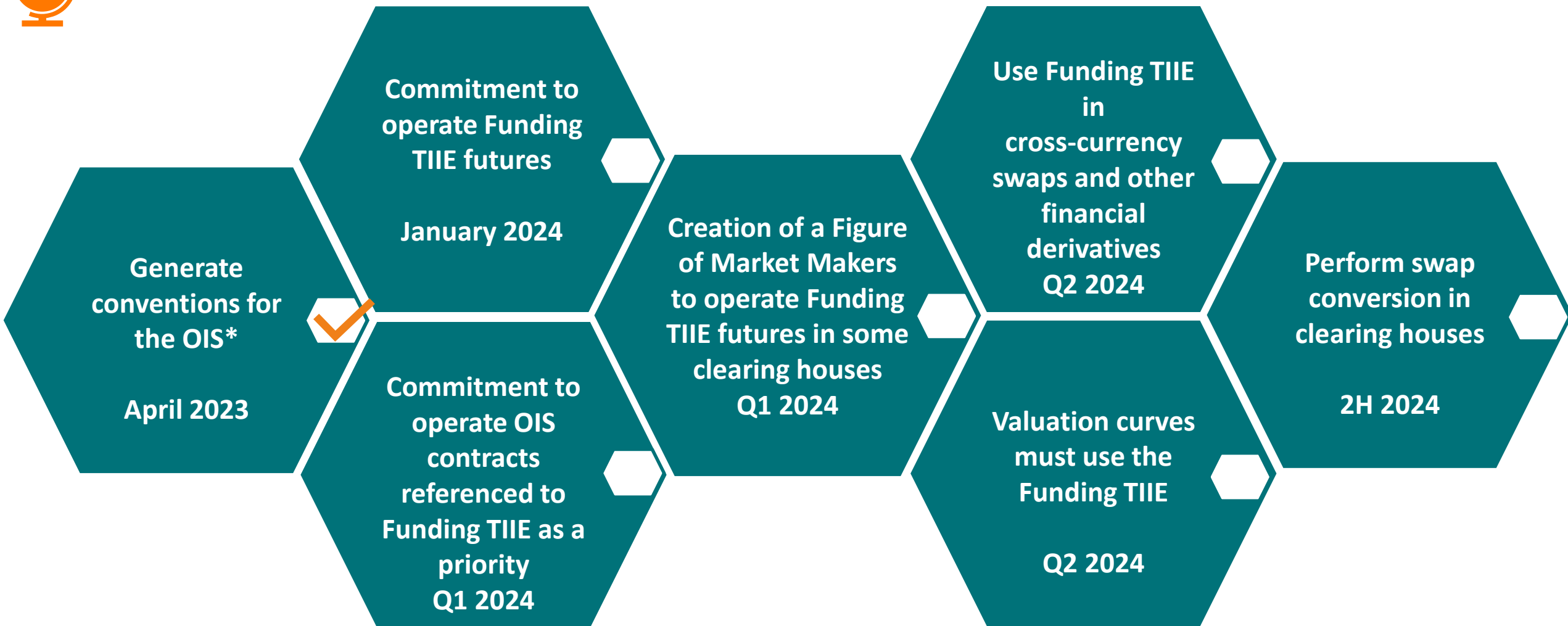
3 Funding TIE First Survey

4 Final Comments

Funding TIE First in the derivatives market



For the derivatives market, it is sought to achieve the following commitments:



*In April, 2023 was determined within the GTTR the conventions for OIS contracts and they were established in the Circular 4/2012 as a standardized swap starting from January 1st, 2025.
Q = quarter, H = semester.

Funding TIE First in other markets



Funding TIE First actions in other markets include:



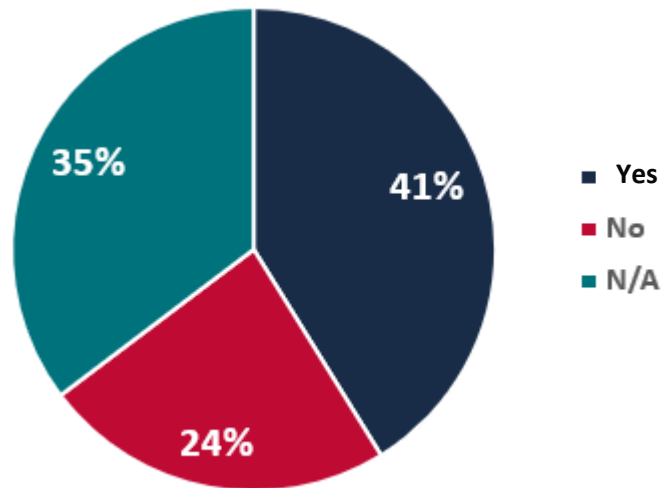
* In August, 2023 was determined within the GTTR the conventions for debt issuance.
Q = quarter, H = semester.

Funding TIE First Survey: Funding TIE Futures Trading

The Funding TIE First survey was responded to by 17 ABM (Association of Mexican Banks by its Spanish acronym) institutions. Most institutions will adopt the commitment. Participants who will not adhere to the commitment to operate futures in the proposed times mainly comment that their systems are not yet ready or that they do not operate this type of instruments.

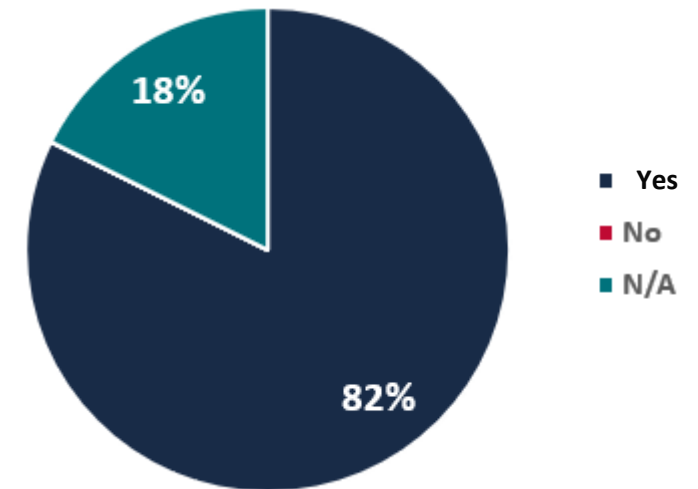
Will your institution adopt the commitment to operate Funding TIE futures?

Percentage



Does your institution agree that, in some clearing houses, a figure of Market Makers is created to operate Funding TIE futures?

Percentage

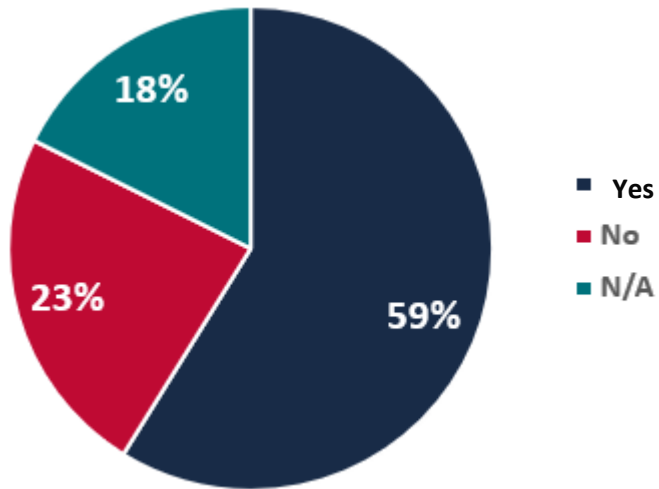


1/ The percentages were calculated considering the 17 institutions that sent their response through the ABM.

Funding TIE First Survey: Funding TIE Swaps Trading

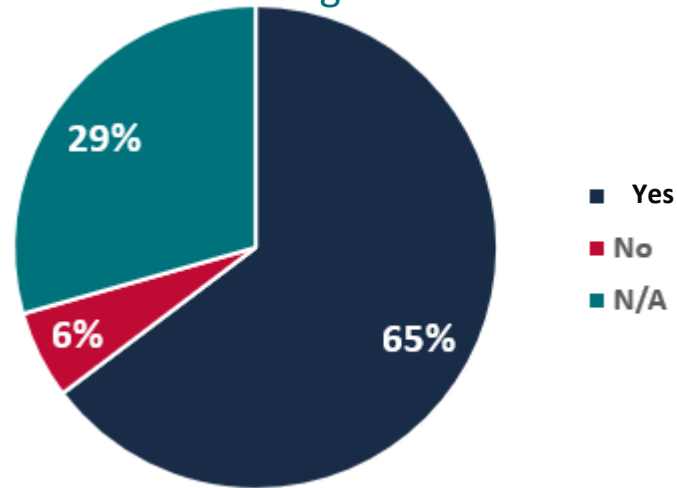
Will your institution adopt the commitment to operate OIS contracts referenced to Funding TIE as a priority?

Percentage



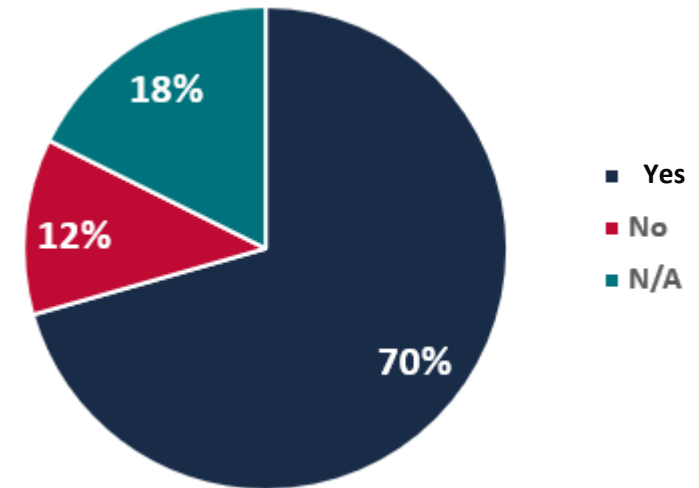
Will your institution make a commitment to perform the conversion of clearing house swaps?

Percentage



Will your institution adopt the commitment to use Funding TIE in cross-currency swaps and other financial derivatives?

Percentage

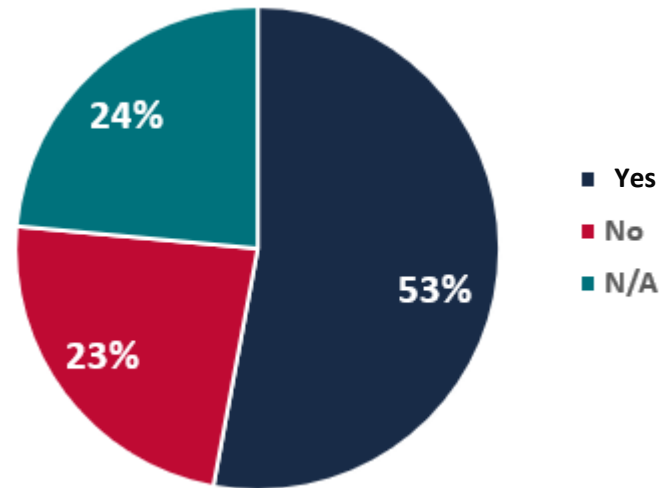


1/ The percentages were calculated considering the 17 institutions that sent their response through the ABM.

Funding TIE First Survey: Valuation Curves

Will your institution adopt the commitment to use the Funding TIE in the valuation curves?

Percentage

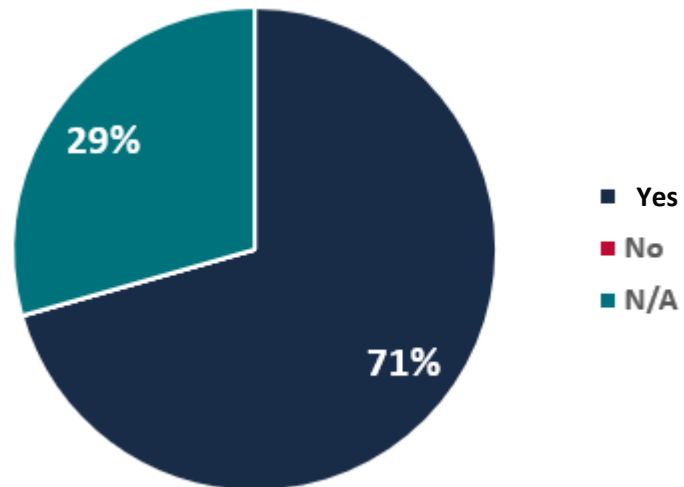


1/ The percentages were calculated considering the 17 institutions that sent their response through the ABM.

Funding TIE First Survey: Debt Issuance and Banking Products

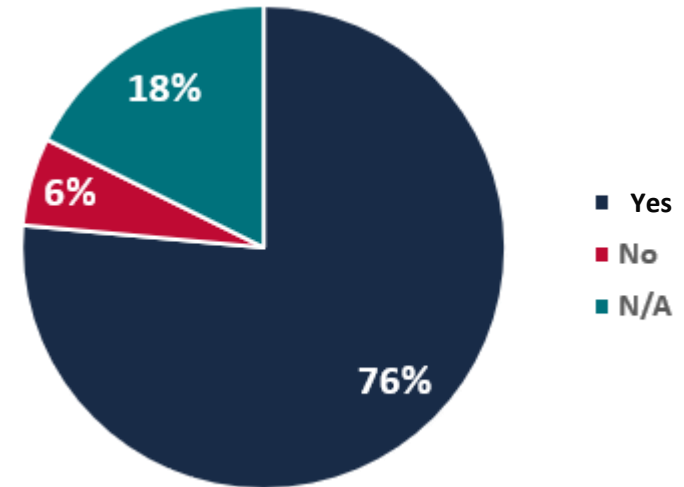
Will your institution adopt the commitment to issue debt linked to Funding TIE?

Percentage



Will your institution adopt the commitment to grant credits referenced to Funding TIE or Funding TIE compounded in advance?

Percentage



1/ The percentages were calculated considering the 17 institutions that sent their response through the ABM.

Topics

1 Introduction

2 Actions regarding the basis generated by swap conversion

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4 Final Comments

Final Comments

- As of January 1st, the use of 91- and 182-day TIE in new contracts was prohibited and the methodology of these rates was changed to be used in current contracts.
- You are reminded that on December 13th, the modifications to Circulars 3/2012 and 14/2007 were published in the Official Gazette of the Federation (DOF), in which the Funding TIE Compounded in Advance were added as reference rates for active and passive operations. Therefore, they can legally be used in new operations.



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