

## Working Group on Alternative Reference Rates in Mexico

### Terms of Reference

The Bank of Mexico, based on articles 2nd and 3rd, fraction I of its Law; 8, 10, 12, 19 Bis subparagraph IX, of the Banco de México Internal Regulations, has resolved to issue the following.

#### **ARTICLE 1. OBJECTIVE**

The Working Group on Alternative Reference Rates in Mexico (GTTR, the “Working Group”) is established as a discussion forum for financial markets participants under the leadership and coordination of the Bank of Mexico. The Working Group has the purpose of advocating and promoting the adoption of the Overnight TIIE Funding Rate as a reference rate in Mexico. In particular, the Working Group will seek to broaden the usage of this new rate as reference or benchmark across different financial instruments in money markets, fixed income markets, and the derivatives market. In addition, instruments related to the real economy, such as loans and credits could also be considered in the long run to use this rate.

#### **ARTICLE 2. FUNCTIONS**

The Working Group will determine the necessary work-plan to meet the aforementioned objectives. Therefore, it will have the following functions:

- Communicate to market participants any developments or events concerning alternative reference rates in Mexico or internationally;
- Promote the adoption of the Overnight TIIE Funding Rate by engaging in the participation or establishment of forums, meetings or conferences, by publishing relevant material, among others, as a follow-up of its development;
- Identify best practices for the Overnight TIIE Funding Rate in financial contracts (derivatives, loans and floating rate securities), and seek their implementation in the Mexican market;
- Collaborate and advance coordination actions with other similar groups in other jurisdictions.

#### **ARTICLE 3. MEMBERSHIP**

The Working Group shall be composed of at least 30 members, of which 6 shall be permanent and the rest shall be non-permanent members, pursuant to the following:

- I. The following Bank of Mexico’s public officers will be permanent members:

- a. The Director General of Central Bank Operations (DGOBC), the Director of Domestic Operations (DON), the Director of Operations Support (DAO), the Domestic Operations Division Manager (GON), the Deputy Manager of Market Operations (SOM) and a Research Specialist associated to DAO;
- II. Those individuals appointed by Bank of Mexico in accordance with the provisions set in the following article will be non-permanent members.

#### **ARTICLE 4. NON-PERMANENT MEMBERS**

Bank of Mexico shall take into consideration the following criteria: market participation and influence, experience and knowledge in money, fixed income and derivatives markets, and the impact they may have in regards to the adoption and use of the new reference rate. Bank of Mexico will seek to ensure that key actors from the financial markets are properly represented at the Working Group in order to incorporate different perspectives to promote and develop the use of the new reference rate in Mexico and in global markets.

The Working Group may include, but may not be limited to, officials, executives or senior directors with responsibilities that are relevant for the Working Group and that have broad experience in financial markets. These individuals should represent banks, brokerage firms, industry associations, pension funds, investment funds, financial authorities, price vendors, electronic trading platforms, exchanges and corporate entities, among others.

Non-permanent members will serve a one-year term that may be renewed indefinitely for an equal period of time. Notwithstanding the foregoing, the Bank of Mexico will assess on an annual basis the attendance, participation and contributions of each non-permanent member in order to determine if members comply with the conditions set to be part of the Working Group. Bank of Mexico can revoke, at any time, any non-permanent appointment as it deems fit.

#### **ARTICLE 5. MEMBER RESPONSIBILITIES**

Members of the Working Group shall contribute to its activities with the purpose of safeguarding the interests of financial markets rather than private interests of the institutions they represent, as applicable.

Non-permanent members are expected to:

- Express in writing their consent to comply with these Terms of Reference;
- Voluntarily allocate, whenever they deem it appropriate, the time and resources needed to the performance of the relevant functions of the Working Group;
- Ensure the support and backup to the Working Group activities from the institution that they represent;

- Actively participate and attend the meetings in person, except in exceptional circumstances in which case, they may propose an alternate to attend the session. The latter will have to be authorized by the Co-Chairs in accordance with Article 7;
- Sign a document whereby they commit to preserve absolute confidentiality regarding all the information that they may receive by virtue of the performance of their duties in the institution that they represent, as well as concerning their participation and that of other members in the deliberations taking place in this or other collegiate bodies as mentioned in these Terms of Reference. To treat information in accordance with the obligations of reserve, confidentiality, secrecy, or analogous that must be observed according pursuant to the applicable legal provisions to the information subject to client confidentiality, whether in general or in connection with fiduciary, stock exchange or other analogous transactions, or, pursuant to any special confidentiality or withholding dispositions that it may correspond, as appropriate;
- Acknowledge the public nature that the minutes and agendas of the Working Group sessions will have, in the best interest of financial markets in Mexico in general, and;
- Comply with the rules and regulations applicable to antitrust matters in the Working Group's sessions and to abstain from any conduct that would prejudice the compliance with said regulations.

Each non-permanent member shall notify the Secretariat who will act as alternate.

In any case, both the non-permanent member and the alternate shall work in the same financial institution and must comply with the obligations and responsibilities established for the Working Group members in these Terms of Reference.

#### **ARTICLE 6. SUB-WORKING GROUPS**

The Working Group may establish and be assisted by sub-working groups for the performance of its duties as it deems necessary.

The aforementioned sub-working groups shall be integrated by a Bank of Mexico representative and other individuals designated by consensus of the Working Group members.

Additionally, whenever the Working Group deems it applicable, it may invite non-members to participate in these sub groups. Those individuals must comply with the same obligations and responsibilities set out to the non-permanent members set in article 5 hereof.

#### **ARTICLE 7. GOVERNANCE**

##### Co-Chairmanship

The Working Group will be presided by two Co-Chairs.

The Co-Chairs shall be responsible for exercising guidance and coordinating the discussions and the activities of the Working Group and its subgroups. Likewise, they must coordinate all public communication assisted by the Secretariat. Likewise, the Co-Chairs will determine when and where the Working Group's sessions will take place.

The first Co-Chair will be the Director General of Central Bank Operations of the Bank of Mexico and, in his absence, the Director of Domestic Operations will take his place.

The second Co-Chair will be a representative from the private sector and will be designated by the Bank of Mexico from a non-permanent member of the Working Group. This Co-Chair term will be of one year with the possibility of indefinite renewals for equal periods of time.

### Secretariat

The Domestic Operations Division Manager and the Deputy Manager of Market Operations, both of them from Bank of Mexico shall serve as the Secretary and Assistant Secretary for the Working Group, in that order. The Secretariat will have the following responsibilities:

- I. To prepare the agenda for the meetings and send invitations for the Working Group's sessions at least 15 working days prior to the date of the meetings;
- II. To record and register the minutes of the Working Group's sessions. In this context, the Secretariat shall prepare and submit, for consideration of all members present at the meeting, a draft of the proceedings that took place in the meeting. Working Group members shall express their approval or, as applicable, their remarks in writing. The Secretariat will be responsible for assessing the relevance of such remarks, and if considered appropriate, carry out the corresponding amendments;
- III. To publish, with the approval of the Co-Chairs, the final version of the minutes in the Working Group's website;
- IV. To collect the proposals presented by Working Group members, if any, to prepare a draft agenda for extraordinary sessions, which should be submitted to the Co-Chairs for approval;
- V. To manage and preserve the information concerning the Working Group and the subgroups;
- VI. The information in possession of the Secretariat, shall be treated accordingly as per the applicable laws and regulations on matters of transparency and public government information, and;
- VII. Any other inherent to such function.

For the performance of their duties, the Secretariat shall be assisted by the staff of the Directorate General of Legal Affairs of the Bank of Mexico.

## **ARTICLE 8. SESSIONS**

The Working Group's sessions shall be held in person, at least three times per year and shall follow the agenda as previously approved by the Co-Chairs. Nonetheless, members can suggest relevant topics that could be addressed in the meeting.

The sessions will take place at the Bank of Mexico's premises, unless the Co-Chairs determine to celebrate a session on another location given a particular consideration.

Working Group members shall recuse themselves from participating in the deliberations and voting in the event of existence of a legal obstacle or conflict of interest, whether personal or institutional.

In each session, the Secretary shall record the attendance of the members.

The dates for the meetings shall be disclosed by the Secretariat in advance.

Decisions and agreements shall be taken by consensus. However, issues presented may be voted and approved by a simple majority if the Co-Chairmen deem it necessary. Each member will have one vote and the Co-Chairman from Banco de México shall have the casting vote.

#### **ARTICLE 9. GUESTS**

The Co-Chairs may authorize the attendance of any person as a guest if that individual can contribute to the advancement of the Working Group's objectives and may attend the Working Group's sessions only for addressing the items on the agenda for which they were invited to. In any event, those guests must observe the obligations and responsibilities established articles 5, 10 and 11 hereof.

#### **ARTICLE 10. PUBLICATIONS**

The Working Group may draft reports and publish them. In addition, it may issue recommendations to market participants aiming to achieve its objectives. These recommendations should be agreed by consensus among the members. All discussions shall will be registered in the minutes.

Participation by members and guests is subject to all applicable codes of conduct and external communications policies in place at their institutions.

#### **ARTICLE 11. TRANSPARENCY**

Transparency should be key in the operation and work of the Working Group so as to provide the opportunity for the broadest possible engagement in the Working Group's work, to support legitimacy of any conclusions or recommendations and to ensure proper information dissemination to all market participants.

Additionally, regarding the information that the members of the Working Group or guests shall provide to the Working Group through the Secretariat, said members or guests must indicate at the time of the disclosure - pursuant to the provisions in articles 116 of the General Law on Transparency

and Access to Public Information, and 113 of the Federal Law on Transparency and Access to Public Information currently in force in Mexico, which information should be deemed confidential in accordance with the aforementioned Statutes. For said purposes, the Working Group's members or guests shall clearly identify the information subject to (confidential) classification, as well as the privacy legal protection applicable to the relevant information and the legal grounds for the claims of legal protection. Additionally, pursuant to articles 4, second paragraph and 113 to 115 of the General Law on Transparency and Access to Public Information and articles 3 and 110 to 112 of the Federal Law on Transparency and Access to Public Information currently in force, the Working Group's members or guests according to their best judgment may indicate which information meets the conditions that may justify its withholding as prescribed in said Statutes. The Secretariat may take into account those indications in order to classify (for confidentiality purposes) said information according to the rules and regulations applicable to this matter.

With reference to the provisions in the preceding paragraph, according to the provisions of article 6, fourth paragraph, section A, subsection I, of the Political Constitution of the United Mexican States; as well as to the laws cited in such paragraph, the information that the Bank of Mexico may receive shall be deemed public, except for that information that meets the conditions established in the aforementioned statutes for it to be classified as confidential or to withhold it, as appropriate.

#### **ARTICLE 12. CONTACT INFORMATION**

For the purpose of exchanging communications and any other considerations, the contact information for the Working Group is as follows:

Alternative Mexican Reference Rates Working Group  
Av. 5 de Mayo 6  
2nd Floor  
Col. Centro, Z.C. 06000  
Mexico City  
[secretariado.gttr@banxico.org.mx](mailto:secretariado.gttr@banxico.org.mx)

#### **ARTICLE 13. GENERAL PROVISIONS**

These Terms of Reference may be reviewed and updated by the Bank of Mexico whenever it deems appropriate.

The opinions, comments or statements made by any member or participant of the Bank of Mexico are of an individual nature and shall not reflect the point of view or perspective of the central bank at any time.