

Press Release

September 30, 2020

Establishment of the Working Group on Alternative Reference Rates in Mexico

In order to foster the sound development of the financial system and following the recommendations by the Financial Stability Board (FSB), the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO) regarding the characteristics that risk-free reference rates must have, on January 15, 2020, Banco de México announced its decision to publish a new reference rate known as the Overnight TIIE Funding Rate.¹ Banco de México first published the Overnight TIIE Funding Rate on January 16 of this year together with historical data of this rate available since January 2006.

This new reference rate reflects the funding market conditions of repo transactions denominated in Mexican pesos, settled by banks and brokerage firms secured by debt instruments issued by the Federal Government, the Mexican Bank Savings Protection Institute (IPAB, for its acronym in Spanish), and the central bank.

By being determined on the basis of daily observed repo transactions settled by banks and brokerage firms in the market, the Overnight TIIE Funding Rate fully complies with international standards to be considered as a near risk-free reference rate (RFR). For this reason, Banco de México is promoting the development of the new overnight TIIE funding rate in order for it to be a benchmark in the money market.

¹ The FSB recommends that reference rates comply with the principles established by the IOSCO. These principles seek to provide legitimacy to the determination of such rates by addressing relevant aspects, such as governance, estimation methodology, accountability, and quality of reference rates. For more information, refer to: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>.

In this regard, representatives from the public and private sectors of the Mexican fixed-income market held a first meeting on September 29, with the purpose of creating and establishing the Working Group on Alternative Reference Rates in Mexico (GTTR, for its acronym in Spanish).

This Working Group has been established as a representative forum that includes market professionals from the Mexican fixed-income market and is sponsored by Banco de México. The purpose of the Working Group is to promote the adoption of more robust interest rate benchmarks according to the global principles of best practices. The Working Group also aims at encouraging the adoption of these reference rates in the different financial instruments of the money, fixed-income and derivatives markets, as well as in various banking instruments frequently used by households and entities of the public and private sectors.

The Group is made up of representatives of banks, brokerage houses, inter-dealer electronic and voice brokers, stock exchanges, financial authorities, non-banking financial entities and corporates, among others, with relevant activity in the local fixed-income market.

The establishment of the Working Group on Alternative Reference Rates in Mexico (GTTR, for its acronym in Spanish), complies with the central bank's objectives set forth in Banco de México's Organic Law, such as promoting the healthy development of the financial system and fostering the proper functioning of the payment systems.

