BANCO DE MÉXICO

June 1st 2016

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1534, RIN 7100-AE 48 — Single-Counterparty Credit Limits for Large Banking Organizations.

Dear Members of the Board of Governors of the Federal Reserve System:

The central bank of Mexico, *Banco de Mexico,* appreciates the opportunity to comment on the proposed rules that would establish single-counterparty credit limits for domestic and foreign bank holding companies with $50 billion or more on totai consolidated assets, as contemplated in section 165(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act).

We fully support efforts by the government of the United States of America and other countries and international bodies to strengthen prudential regulation pertaining to the global banking system. We remain committed to internationally coordinated reforms to strengthen the global financial system and address systemic risk issues through improved cooperation in areas such as credit limits on single counterparties. We also support the efforts of individual countries to implement additional reforms designed to strengthen their domestic banking systems.

We are concerned, however, about the potential negative effects that the proposed rules would have on foreign subsidiaries of U.S. covered companies or entities under such rules and the sovereign entities of the jurisdictions in which such subsidiaries are incorporated. Our main concerns are focused on the type of government exposures that would be subject to the single-counterparty credit limits that would apply to subsidiaries of U.S. covered companies and entities in Mexico in connection with the relationships such subsidiaries maintain with the Mexican government and its agencies and instrumentalities.

Under the proposed rules, covered companies and entities would be prohibited from maintaining credit exposures above the respective single-counterparty credit limits applicable to, *inter alia,* certain foreign sovereign entities and all of their agencies and instrumentalities, collectively, and to political subdivisions thereof.

Credit exposures of covered companies and entities would be calculated by consolidating all the credit exposures of its affiliates, including credit exposures booked at branches and subsidiaries established in foreign jurisdictions. In addition to intraday credit exposures, the proposed rules would exemptfrom such limits direct claims on, and claims directly and fully guaranteed as to principal and interest by, the U.S. government, its agencies and certain U.S. government-sponsored entities, and any transaction the Federal Reserve Board finds to be in the public interest and consistent with the purpose of the regulation. Also exempted would be exposures to foreign sovereign entities, including their respective central banks, and all of their agencies and instrumentalities (but not their political subdivisions, such as states, provinces, or municipalities), that are assigned a zero percent risk weight under the standardized approach of the risk-based capital rules issued by the Board of Governors of the Federal Reserve System under Regulation Q.

Furthermore, al] exposures of foreign banking organizations and their U.S. intermediate holding companies to their home-country sovereign entities would also be exempted from the limits irrespective of the risk weights assigned to such entities underthe U.S. risk-based capital rules, on the grounds that, as indicated in the supplementary information included in the proposed rules: "a foreign banking organization's U.S. operations may have exposures to its home country sovereign entity that are required by home country laws or are necessary to facilitate the normal course of business for the consolidated company. This proposed exemption would be in the public interest and consistent with the treatment of credit exposures of covered companies to the U.S. government."

Based on the foregoing, with respect to question 38 of the proposed rules (*Should the Board exempt any additional credit exposures from the limitations of the proposed rule? If so, please explain why.),* we consider that the rationale for exempting the exposures of foreign banking organizations and their U.S. intermediate holding companies to their home-country government should be also extended to exposures of the foreign subsidiaries of Un-covered companies and entities to the respective sovereign entities (including the central banks) of the jurisdictions in which such subsidiaries are incorporated, regardless of the risk weight assigned to such sovereign entities. Foreign subsidiaries of U.S. covered companies and entities need to bear these exposures as part of the transactions they need to carry

out, as banking institutions in a host-country, to manage their liquidity risk, have access to intra-day liquidity facilities provided by the central banks, pledge collateral at local central counterparties and manage asset-liability risks.

We also suggest that the rules clearly specify that each political subdivision of a foreign sovereign entity (including all of its agencies and instrumentalities) should be considered as a separate counterparty from other political subdivision, as is the case for the States of the U.S., as they carry different underlying risks. We also recommend that entities owned by a foreign government with their own revenue sources and without government guarantees are treated as different counterparties since each poses its own credit risk characteristics.

Lastly, we encourage U.S. authorities to develop a framework that recognizes the importance of banks' exposures to the central bank of the jurisdiction in which the institutions operate. That is, exposures from U.S. covered companies to their U.S. central banks, from foreign banking organizations and their U.S. intermediate holding companies to the central bank of their home-jurisdiction, and exposures of subsidiaries of any of these institutions to the central bank of the host country in which they are operating. They need to hold these exposures not only to carry out their day-to-day businesses, but also to allow the implementation of monetary policies of central banks in the jurisdictions where they operate. Thus, these central banks exposures should be differentiated from central government exposures and exempted from any limits.

We appreciate your consideration of the concerns described above. We look forward to continuing the work we have carried out together to build on the financial and economic partnership between Mexico and the United States, and we would be glad to discuss these matters further.

Respectfully,

Banco de Mexico

Luis Urrutia
General Counsel

Pascual O'Dogherty
Director General of Financial Stability