BANCO DE MEXICO

GOBERNADOR

Ref.: ACC/2012C-043
April 26th, 2012

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies.

Docket No. 1438, RIN 7100–AD–86.

Banco de México appreciates the opportunity to comment on the proposed rules[1] implementing sections 165 and 166 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act), commonly known as "Regulation YY."

We fully support efforts by the U.S. and other countries and international bodies to strengthen the prudential regulation pertaining to the global banking system. Mexico is an active participant in such efforts through the G-20, the Financial Stability Board, the Bank for International Settlements and the Basel Committee on Banking Supervision. We remain committed to internationally coordinated reforms to strengthen the global financial system and address issues of systemic risk through improved cooperation in areas such as heightened capital and liquidity standards. 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 of the proposal on the relationships that U.S. "covered companies" have with sovereign governments, including the Mexican government. In particular, we are concerned about the indirect negative effects on Mexican subsidiaries of U.S. banks and the relationships they maintain with Mexican counterparties, including the Mexican government.

Our main concerns relate to the Single-Counterparty Credit Limits and the Liquidity Requirements, given the definition of exposure to sovereigns and the characteristics of the highly liquid assets that covered companies will have to hold as part of the suggested regulation. We urge the U.S. regulatory authorities to revisit their proposed approach to

[1] Federal Register / Vol. 77, No. 3 / Thursday, January 5, 2012/ Proposed Rules.

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implementing section 165 of the Act, and to modify that approach in the manner we describe below.

The Single-Counterparty Credit Limits prohibit covered companies from maintaining a credit exposure to any unaffiliated "company" exceeding certain limits. The Federal Reserve Board's proposed rules would modify the statutory language to include sovereign governments and their political subdivisions as counterparties to which the Single-Counterparty Credit Limits would apply.

The covered company's credit exposure would be calculated by consolidating all the credit exposures of its affiliates, including credit exposures booked at branches and subsidiaries established in foreign jurisdictions. As proposed, in addition to intraday credit exposure, the rule would only exempt from the 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.

While we understand the rationale for establishing the Single-Counterparty Credit Limits, we strongly believe that foreign sovereign and central bank credit exposures should receive the same treatment as U.S. sovereign exposures and be exempt from the limits when such exposures are booked in a covered company's subsidiaries established in the jurisdiction of issuance of the sovereign and central bank exposures.

In addition, the aggregation methodology described in the rule fails to differentiate between a foreign sovereign, its political subdivisions and related entities. We recommend that the definition of counterparty should differentiate between types of credit exposures, as it does in the case of the United States. The definition of sovereign counterparties should distinguish between local political subdivisions or entities, on one hand, and the federal or central governments, on the other, since these credit risk exposures are different and are supported from different resources. Also, exposures to entities owned by a foreign sovereign but with their own income source and without government guarantees should be classified in a different counterparty category since they pose different risk characteristics.

The suggested definition of highly liquid assets under the Liquidity Requirements should also be revised. The proposed rules may compromise the ability of Mexican subsidiaries of U.S. covered companies to manage their risks appropriately. In many economies, including Mexico, government securities are not only the most liquid assets but are also the safest assets available. We suggest that sovereign debt of the jurisdiction where a

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non-U.S. subsidiary of a U.S. covered company is incorporated should be deemed a highly liquid asset for liquidity purposes when such debt is registered on the accounts of the subsidiary. This suggestion is in accordance with internationally agreed reforms such as Basel III in which global banks' foreign subsidiaries manage and maintain liquidity requirements using sovereign and central bank securities issued in the jurisdiction of incorporation.

We appreciate your consideration of our concerns regarding the proposed "Regulation YY". We look forward to continuing to work together to build a financial and economic partnership between Mexico and the United States and we would be more than happy to discuss these matters with you further.

Yours truly,

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