



## Minutes

June 11, 2024

### Twentieth meeting of the Mexican Foreign Exchange Committee

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Mexico City, Tuesday, June 11, 2024

Location: The meeting was held by videoconference at 4:00 p.m., Mexico City time.

Host: Bank of Mexico.

Attendees:

#### Members

**Gerardo Israel García López** – President, Bank of Mexico.

**José Andrés Jiménez Guerra**, Bank of Mexico.

**Alejandro Faesi Puente**, Grupo Financiero Banorte, S.A.B. de C.V.

**Alfredo Puig Franco**, Vector Casa de Bolsa.

**Allan Muñoz Parra**, Coca-Cola FEMSA, S.A.B. de C.V.

**Eduardo Gómez Macías**, Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero, S.A. de C.V.

**Eduardo Riba Aspe**, Enlace Int, S.A. de C.V.

**Gilberto Romero Galindo**, Banco Ve por Más, S.A., Institución de Banca Múltiple, Grupo Financiero Ve Por Más.

**Guillermo Andrés Moreno Arias**, Afore Sura, S.A. de C.V.

**Leonardo Franco Villa Reynolds**, Afore XXI-Banorte, S.A. de C.V.

**Luis Antonio Betancourt Barrios**, Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México.

**Luis Eugenio Alvarado Mejía**, Asociación de Bancos de México (ABM).

**Manuel Alejandro Meza Piza**, BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México.

**María del Carmen Bonilla Rodríguez**, Ministry of Finance and Public Credit.

**Mayte Rico Fernández**, HSBC Global Asset Management (México), S.A. de C.V., Sociedad Operadora de Fondos de Inversión.

**Pedro Oscar Arroyo Espinoza**, Monex Grupo Financiero, S.A. de C.V.

**Sergio Méndez Centeno**, BlackRock México.

**Tomás Acosta Álvarez**, CitiBanamex Afore, S.A. de C.V., Integrante del Grupo Financiero CitiBanamex.

**Uso Público**

Información de acceso público.



**Xavier Ormaechea Jáuregui**, Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat.

### **Guests**

**Sara Gabriela Castellanos Pascacio**, Bank of Mexico.

**Pilar María Figueredo Díaz**, Bank of Mexico.

**Roberto Santiago García Verdú**, Bank of Mexico.

**Luis Murray Arriaga**, Bank of Mexico.

**Carlos Miguel Vélez Martínez**, Bank of Mexico.

**Diego Rafael Toledo Polis**, Bank of Mexico.

**Laura Odilia Rojas Barrera**, Bank of Mexico.

**Mariel Padilla Lujano**, Bank of Mexico.

**Héctor Kevin Colín Farías**, Bank of Mexico.

### **AGENDA**

#### 1. Welcome

The President of the Committee welcomed all attendees of the twentieth meeting of the Mexican Foreign Exchange Committee (MFXC).

#### 2. Developments in global and local FX markets

Developments in global and local foreign exchange markets were discussed, where factors behind the recent dynamics of the Mexican peso and the outlook towards the currency's positioning were highlighted.

In this regard, Committee members noted that recent dynamics have mainly responded to the materialization of an unexpected idiosyncratic event which generated a positioning adjustment towards the Mexican currency. In this sense, it was mentioned that the lack of clarity around the government transition process has been reflected in higher levels of volatility, a deterioration in the Mexican peso's trading conditions and a mismatch in supply/demand activity.

On the other hand, it was highlighted that positioning in the FX options market prior to the local elections reflected a predominance of volatility selling strategies in the USD/MXN exchange rate. Committee members indicated that hedging flows of said positioning exacerbated the depreciation movement of the Mexican currency, causing higher levels of implied volatility as well.



Committee members also emphasized that the current environment has generated greater attention towards Bank of Mexico's reaction function, given the recent exchange rate dynamics.

Regarding the outlook for the Mexican currency, it was mentioned that the country's fundamental profile continues to be solid; however, recent developments warrant a higher risk premium. In this regard, Committee members indicated that the main concerns focus on the possible impact to the Mexican Federal Government's checks and balances, the country's institutional framework and rule of law, as well as a potential deterioration of the Mexican economy's fundamentals.

Given the outstanding positioning in the Mexican peso and the latent local and global risks, it was highlighted that market participants consider the risk balance to be tilted upwards for the USD/MXN exchange rate.

Finally, Committee members agreed that the global environment continues to be challenging, specifically pointing out the evolution of the United States Federal Reserve's monetary policy expectations and risks related to the electoral processes that will take place during the second half of this year.

### 3. Financial markets' conjuncture

Potential implications of accelerated settlement schemes for local financial markets were analyzed. Firstly, it was indicated that since the end of May 2024, Mexico aligned with the international markets of the United States and Canada, reducing the settlement period for national securities and those listed in the SIC to t+1.

On the other hand, it was mentioned that the change towards a t+1 settlement scheme implied technological challenges with regards to transactions' confirmation and settlement processes. However, it was emphasized that the transition within capital markets was adequate and without any setbacks. On the other hand, it was highlighted that Investment Fund Operators have discretion over the liquidation schemes (t+1, t+2 or t+3), depending on the information prospectus to the investing public.

### 4. FX Global Code and Global Foreign Exchange Committee (GFXC)

A briefing was given to the Committee members on the GFXC meeting held on November 30 and December 1, 2023. At said meeting, the GFXC Chair, Gerardo García, informed Committee members about the updated number of Statements of Commitment contained in the Global Index of Public Registers, which showed an



annual increase of 8% to reach 1,290 entries. The GFXC Chair further commented that some central banks from emerging market countries had expressed interest in learning more about the Code and its adherence process.

In addition, during the meeting, the planned updates to the GFXC website were announced and an agreement was formalized so that any additional modifications, including the translation of the Proportionality Self-Assessment Tool, would be funded by the interested jurisdiction. It was also reported that the updated GFXC Terms of Reference were published on December 5, 2023, reflecting agreed-upon membership criteria changes and an adjustment to the frequency of the review of the Terms of Reference, which went from annual to biennial.

The Proportionality Self-Assessment Tool was briefly discussed. In particular, it was highlighted that GFXC members agreed that it would be useful to gain an insight into which market participants are using the tool. Additionally, local FX Committees were asked to continue promoting the tool and seek feedback as to where it could be further enhanced.

Next, an update was provided on the activities of the Motivation for Adherence Working Group. In this regard, it was commented that the use of social media and the participation in events with the industry have been used as means to increase visibility of the Code. Furthermore, it was mentioned that a number of financial certification providers, such as the CFA Institute, have agreed to incorporate the Code in their education programs. In addition, this Working Group continued its engagement with rating agencies to explore the possibility of recognizing the Code within their Environmental, Social, and Governance assessment criteria.

Turning to a different topic, it was reported that the International Swaps and Derivatives Association (ISDA) participated in the last GFXC meeting. During the meeting, ISDA representatives provided an overview of the work they are carrying out to update the FX and Currency Options Definitions, which are expected to be implemented towards the end of 2027. On a separate note, ISDA representatives also pointed out they identified two possible solutions for the price adjustment related to unexpected holidays: either changing the settlement amount if a holiday is announced after the trade date, or providing a separate settlement payment reflecting potential differences in settlement amounts.

Moving forward, it was explained that, when discussing the steps to follow for the FX Global Code Review scheduled for this year, the GFXC Chair reminded Committee members of the criteria for determining which topics to focus on. Of particular



relevance is that there should be a high bar for making changes to the Code, since most market participants consider that the Code remains appropriate for its intended purpose.

Committee members were also updated on the new approach for collecting FX settlement data. It was highlighted that this new approach involves collecting data from a global perspective. Central banks will be responsible for collecting data for entities headquartered in their jurisdiction, while the GFXC would be responsible for the data aggregation and its publication. Central banks that are ready to implement this approach will be able to do so starting with the April 2024 survey round.

Moreover, some recent developments were discussed. Firstly, the appointment of Stuart Simmons from QIC as GFXC Co-Vice Chair was commented. The BIS Markets Committee's recommendations were also pointed out with respect to the topics that should be a priority for the GFXC going forward. Next, the establishment of the Settlement Risk Working Group and the FX Data Working Group was commented on. These groups are currently working on proposals to modify the Code as part of the Code Review scheduled for this year. It was also mentioned that the Settlement Risk Working Group is expected to analyze the implications for the FX market of the implementation of t+1 securities settlement and that the FX Data Working Group will evaluate the need to develop benchmarks for FX swaps.

To conclude this section, it was reported that as part of the Code Review, GFXC members will discuss the relevance of expanding the Glossary and including links to the Guidance Papers on pre-hedging and last look.

Finally, the preliminary agenda for the next GFXC meeting, which will be held at the European Central Bank premises in Frankfurt, Germany on July 1-2, 2024, was presented.

#### 5. Mexican Foreign Exchange Committee (MFXC)

It was briefly mentioned that the list of institutions adhering to the FX Global Code of Conduct in Mexico did not change from the last meeting.

#### 6. Any other business

Finally, it was proposed that the next meeting of the Committee be held in November 2024, and it was informed that the meeting is planned to be held in person, either at Bank of Mexico's facilities, or those of Committee members.