



Regulatory framework and approach

- According to Article 21 of the Bank of Mexico Law, FX policy is designed by the Exchange Commission, which is composed of officials from the central bank (including the Governor) and the ministry of finance. Policy implementation relies on the central bank (www.banxico.org.mx). The Bank of Mexico also designs and implements monetary policy to ensure price stability.
- Foreign investors are exempt from withholding tax in government securities (Article 196 of the Income Tax Law). However, interest income generated from investing in any other instrument placed among investors is subject to 4.9% tax (Article 195 of the Income Tax Law).
- Regarding investors from countries with which Mexico has a double taxation treaty, there is no withholding tax on TIE swaps or derivative transactions involving sovereign debt instruments in markets recognized by Mexder (Mexico's derivative exchange). A 4.9% withholding tax must be paid by foreign banks and foreign investors obtaining interest income from credit instruments. There is no withholding tax for foreigners when dealing in derivatives linked to FX.
- Regarding investors from countries with which Mexico does not have a double taxation treaty, there is a 10% withholding tax for financing entities, pension/retirement funds and foreign investment funds registered with the Ministry of Finance. This rate is also applied to foreign individuals and corporations. Additionally, the tax rate for credit investments is 10% instead of 4.9%.
- Regarding tax havens, the withholding tax for registered foreign pension/investment funds changes to a minimum of 10%, while that for individuals and companies rises to 40%. Also, there is no withholding tax on TIE swaps or derivative transactions involving sovereign debt instruments in markets recognized by Mexder.
- MXN transactions can be settled in CLS.

MXN products

FX spot

Regulatory: No restrictions. The Mexican peso trades in the forward market as a deliverable contract and hence no fixing is required for settlement. Nevertheless, for various purposes the Central Bank of Mexico does publish a daily fixing known as the FIX (Bloomberg ticker: MXFT Index, Reuters USDMXNFX2=. Also available in Reuters are T+0 and T+1 fixings USDMXNFX=, USDMXNFX1=). The FIX is based on a market-participant survey of the prevailing T+2 settlement USD/MXN rates. The FIX is published daily every Mexican business day, at 12pm. The FIX is used, for example, as the metric to trigger rule-based FX market interventions undertaken by Banxico, and has also been used as a reference rate for various onshore contracts, but has no relevance for settling FX market transactions themselves.

Liquidity: Very Good
Avg. Ticket size: USD 20-25mn normally, with tickets for as large as USD 150mn
Bid/ask spread: MXN 0.005 - 0.01
Avg. daily volume: USD 8bn [around 30% onshore]
Ref. source: Reuters Page <MXN=>
Daily hours: Major activity between 8:00am to 15:30pm NY, although the market is open 24 hours

FX forward/swap market/long-dated FX forward

Regulatory: No restrictions; uniquely in LatAm FX forwards are deliverable
Liquidity: Good up to 2Y normally, with a curve out to 5Y
Avg. ticket size: USD 20mn
Avg. daily volume: USD 2bn recently
Bid/ask spread: 5bp in USD (offshore market)
Ref. source: MXNFWD=DBNY, Bloomberg: DBLM1<GO>