# UMR Comes to Mexico

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J.P.Morgan

# Uncleared Margin Rules Come to Mexico

*The implementation of Uncleared Margin Rules (UMR) in Mexico aims to align with global best practices for mitigating counterparty risk within the derivatives market. J.P. Morgan Securities Services provides insights into the reasons behind these changes and their impact on the Mexican derivatives market.*

## Key takeaways

1. *Mexico's central bank requires entities involved in over-the-counter (OTC) derivative transactions to post regulatory Initial Margin (IM) in addition to the existing Variation Margin (VM) requirement.*

2. *The primary objectives are to enhance transparency and reduce systemic risk by managing counterparty risk within the Mexican derivatives market.*

3. *Phase 1 of this change was implemented at the end of 2024, affecting Mexican Financial Entities and investment funds. Phase 2, which includes development banks and non-financial entities, requires compliance by the end of the third quarter of 2025.*

### 1. What changes will UMR bring to Mexico?

Banco de México (Mexico's central bank) has introduced margin requirements for entities engaging in non-centrally cleared OTC derivative transactions. This requires the posting of regulatory Initial Margin (IM), which serves as collateral to protect counterparties in case of default. This measure enhances market protection by adding a layer of collateral for uncleared derivatives.

### 2. What are the specific regulatory changes?

Banco de México issued Circulars 2/2023, 6/2023, 17/2023, and 18/2023 to implement the new UMR rules, amending Circular 4/2012 governing Rules for Derivatives Transactions. These changes require Mexican Financial Entities to post regulatory IM for transactions with average total notional amounts of 20 billion Investment Units (known in Spanish as Unidades de Inversión, or UDIS), approximately $8 billion USD, or more. Additionally, there is an IM threshold of 125 million UDIS, or about $50 million USD, which must be considered for IM exchange between counterparties.

### 3. What is the timeline for these changes?

According to Circular 7/2023, Banco de México has required financial entities and investment funds to post regulatory IM as of December 31, 2024. Development banks and non-financial entities must comply by September 30, 2025.

**UMR Changes Live**
*as of Dec. 31, 2024 apply to*

**Mexican Financial Entities:**

- Banks
- Broker-dealers
- Mexican SOFOMs and Insurance Companies
- Investment Funds

## 4. Who is affected by these changes?

These rules impact Mexican Financial Entities, including banks, broker-dealers, Mexican multiple-purpose financial companies (known in Spanish as Sociedades Financieras de Objeto Múltiple, or SOFOMs), insurance companies, and investment funds. The changes will soon apply to development banks and non-financial institutions engaging in OTC derivatives transactions in Mexico.

Annually, all non-financial entities must communicate to Mexican Financial Entities the proper triggers for falling in scope – such as determining the average aggregated notional amount (AANA) or their counterparty concentration limits. They must also reveal whether they trade OTC derivatives transactions with hedge purposes or not.

It is incumbent upon market participants themselves to note whether they fall within scope of IM requirements.

## 5. What are the consequences for not adhering to UMR?

Mexican Financial Entities will not engage in new derivatives transactions with non-compliant counterparties. Non-compliance may result in substantial fines and sanctions, adversely affecting the entity's financial standing and reputation. This can lead to lost business opportunities, strained relationships, and limited market access and liquidity.

## 6. What are the operational challenges of UMR for Market Participants?

Calculating IM presents an operational challenge for market participants with the introduction of UMR. Additional logistical difficulties include negotiating documentation, establishing segregated custody accounts, and managing margin and custody services.

## 7. How Can J.P. Morgan Provide a Solution to This?

Outsourcing solutions to calculate daily margin amounts can help maintain compliance with UMR. IM requires both counterparties to post collateral on the same day in segregated accounts. To ease this burden, Mexican financial institutions can utilize Tri-Party margin custody services, employing a third-party agent for collateral management.

## 8. What can we expect ahead?

Mexican Financial Entities should anticipate a potentially lengthy onboarding process due to the need for legal agreement negotiations with each counterparty. This may involve renegotiating or updating a Credit Support Annex (CSA) and an International Swaps and Derivatives Association (ISDA) Master Agreement or a Local Master Derivatives Agreement that is known in Mexico as a Contrato Marco para Operaciones Financieras Derivadas. Additionally, implementing legal documentation for Tri-Party setups, including Account Control Agreements (ACAs) and eligibility schedules, is crucial. Partnering with entities that offer scalable global solutions can enhance operational efficiency, ensure regulatory compliance, and optimize margin services under new UMR parameters. A streamlined onboarding process with global legal documentation can reduce clerical burdens and expedite future business dealings.

**UMR Changes to Go Live**
*on Sept. 30, 2025 apply to*

- Development Banks
- Non-financial entities

**Contact your J.P. Morgan representative to learn more.**


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