Repo Regulation Changes in Mexico Boost Tri-Party Utility

Regulatory shifts that modernize the country's repurchase agreement (repo) transaction ecosystem could help the local market develop. J.P. Morgan Securities Services provides insights into the reasons behind these changes and their impact on Mexican securities finance.

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Key takeaways

Regulatory easing to boost local repo market

Banco de México's Circulars 7/2024 and 13/2024 have relaxed rules for domestic repurchase agreement (repo) transactions, reducing legal barriers and aligning Mexican practices more closely with international standards to encourage transactions of on-shore securities repo.

Historical differences and restrictions

The regulation of repo transactions in Mexico have traditionally been more restrictive compared to global standards, requiring additional collateral and imposing term limits. These differences stem from local laws and regulations issued by Banco de México, which have limited the use of agents that provide additional services for the administration and custody of securities (Tri-Party Repo) and the execution of repo types such as open and evergreen repos.

The rise of Tri-Party

As regulators and market participants encourage the growth of Mexico's repo market, the emergence of Tri-Party repo could help Mexican financial institutions achieve economies of scale, reduce the inefficiencies of manual asset moves, and optimize collateral management.

What are the specific regulatory changes taking effect in Mexico with regard to repo?

On May 16, 2024, Banco de México issued Circular 7/2024, modifying the rules governing repurchase agreement (repo) transactions that Mexican financial institutions execute domestically. The amendment seeks to modernize regulations related to repos (called "reportos" in Mexico) and map them to international standards. In particular, the changes reduce legal barriers for repo transactions by allowing new transaction types in the market (such as open and evergreen) and new structures (such as Tri-Party). This, in turn, facilitates growth in the local market by encouraging on-shore repo transactions.

What is the reason for this legislative shift?

This regulatory change that expands repo types and options aims to cultivate the local repo market by eliminating a range of legal barriers. Even though Mexico counts itself just behind Brazil as the second-largest emerging market economy for daily repurchase agreements, some of these transactions are currently handled abroad under the contract called a Global Master Repurchase Agreement (GMRA).

When it comes to collateral, how have those legal barriers historically differentiated repo in Mexico from repo in other markets?

A standard repo transaction globally is defined according to foreign law as a collateralized contract between two financial entities, where one party sells securities (considered collateral) to another party at a predetermined price in exchange for cash, with the obligation to repurchase the securities later on, usually at a higher price.

Repo in Mexico, though, functions distinctly from repurchase transactions elsewhere. According to Mexico's Negotiable Instruments and Credit Transactions Law[1] from 1932, adopted by the Reporto Regulations issued by the Banco de México, the purchaser ("reportador") buys securities from a seller (reportado) as is typical, with the seller required to repurchase the securities on an agreed-upon later date in exchange for a payment of original price plus a premium. Yet because the securities the seller transfers are considered an instrument of the repo under Mexico's more restrictive laws, the seller may have to pledge additional cash or securities to secure the repo.

[1] *El Ley General de Títulos y Operaciones de Crédito*

What about changes to maximum term limits for repo in Mexico?

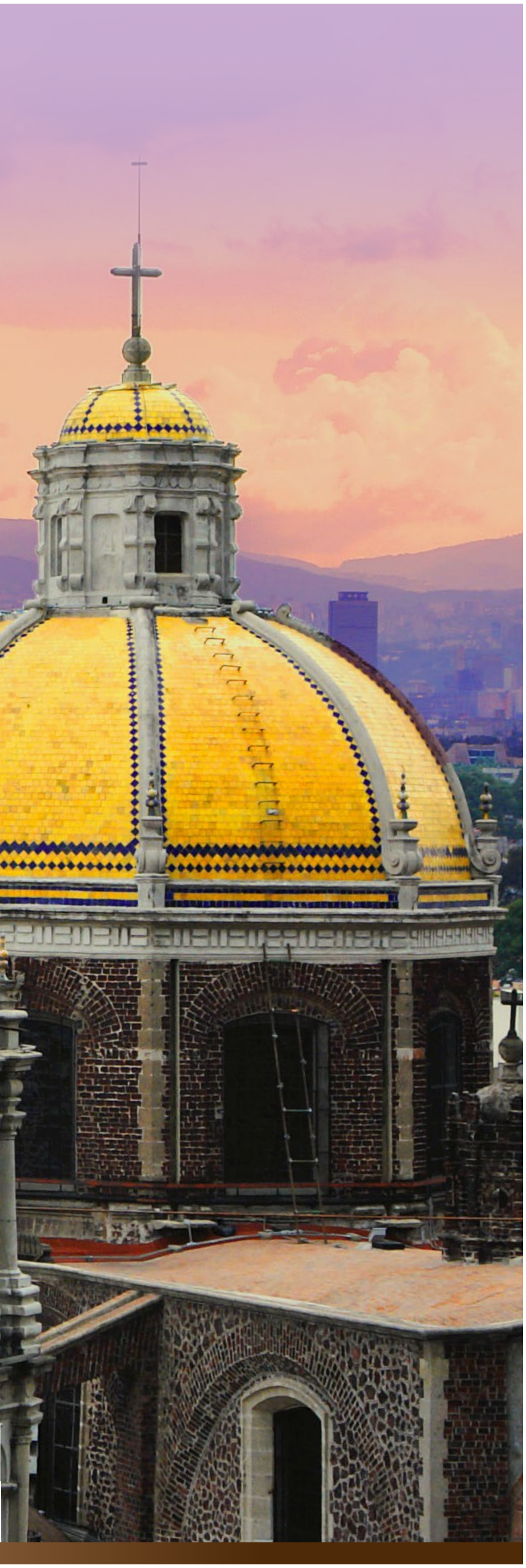
Beginning with their 1932 origin, repos in Mexico had a maximum term of 45 days, as they were designed primarily for liquidity. In Mexico, banks, broker-dealers, pensions funds, non-bank financial institutions, insurance companies, bonding companies, and mutual funds utilize repo transactions. Banco de México's Circular 3/2007, effective January 2007, ended this term limit of 45 days. The elimination of this time-frame restriction for financial entities and, more recently, for large corporations highlights the challenges Mexico has faced in using repo transactions for securities finance in addition to liquidity management. Some 98% of repo transactions in Mexico are overnight, according to Banco de México, meaning that repos focused on speculation, credit, or risk management are exceedingly rare.

How do Reporto Regulations hinder the implementation of repo agreements and Tri-party agent use in Mexico?

Repo transactions in Mexico are distinct from GMRA standards when it comes to margin delivery mechanics, delivery of securities, payment instructions, structure, and defined terms. That is because Reporto Regulations require Mexican financial entities engaging in repo transactions with a Mexican client to document the transactions using the Local Master Agreement for Securities Purchase and Repo Transactions,[2] approved by the Mexican Banks Association (ABM) and the Mexican Broker Dealers Association (AMIB). That means there have been no actual benefits to using Tri-party repo under the previous local repo contract regulatory framework given restrictions on collateral substitutions and the ban on open repos along with counterparty restrictions and limitations placed on the term and maturity of reportos based on underlying securities.

Given that Reporto Regulations allow the application of margin provisions in a manner similar to that provided in the GMRA, for example, when dealing with foreign financial institutions, there had been added incentive for banks to handle repo transactions through foreign branches.

[2] *El Contrato Marco para Operaciones de Compraventa de Valores y Reporto*



How does Circular 7/2024 change Reporto Regulations?

The changes help market participants entering into repo transactions to adhere to international standards as closely as possible while utilizing the Local Reporto Master Agreement. Here are the main results of this regulatory shift:

- Mexican financial entities are now able to substitute securities during the lifespan of a repo transaction.
- The term of a repo, including extensions, must finish at least one banking business day in advance of the maturity of the underlying securities. The agreement can allow for securities with a maturity date that is shorter than the repo's term if the securities are substituted at least one banking day in advance of the securities' maturity and if the repo agreement communicates clear specifications around the terms under which the seller can request and the buyer will accept a substitution, the simultaneous exchange process, and the characteristics of the eligible securities to be substituted.
- The use of custody and administration of securities (and Tri-party repo agents) are permitted for Mexican banks or foreign financial institutions that come from recognized markets by the participating authorities of the International Organization of Securities Commissions (IOSCO) or European Union (EU) member states.
- Mexican state-owned companies such as Petróleos Mexicanos (Pemex) and the Comisión Federal de Electricidad (CFE) are required to use the Local Reporto Master Agreement and exchange collateral in their repo transactions.
- Repos that have an execution date more than four banking business days since the trade date (also known as forward starting repo) are now classified as derivatives, necessitating special authorization from Banco de México.

What types of new repo transactions does Circular 7/2024 allow for in Mexico?

- **Open repo**, which has no predetermined termination date. Either market participant can end the repo agreement any banking business day with advance notice. That said, open repos must be settled (with the delivery of securities against payment) within 365 days of the agreement.
- **Evergreen repo**, which also does not have a fixed termination date but can be extended automatically. Either party can communicate its desire to end or extend the repo.

How can J.P. Morgan provide a solution?

The regulatory evolution of the repo market in Mexico allows for the securities transferred by the seller to be used as collateral in securities finance. A Mexican Schedule to the Collateral Management Service Agreement (JPM Tri-party legal agreement) for Repo was finalized in December 2025 to support local trades in compliance with the recently issued local regulation. The legislative changes allow for firms to rely on the collateral management carried out by the Tri-party Repo Agent, in which both counterparties employ a third-party agent to take the reins of collateral management.

J.P. Morgan's ability to act as a Tri-party Repo Agent can help Mexican firms navigate the new frontier of the domestic repo market that is emerging as a result of the regulatory changes:

Operational benefits and efficiencies

- Highly automated and scalable global platform to collateralize obligations across various trade types
- Time-tested engine for trade instruction, margin management, optimization, and comprehensive reporting
- Automated margin management, eligibility testing, and securities-for-securities substitutions
- Standardized legal and operating framework between all counterparties creating various efficiencies

Access to counterparties

- Access to liquidity providers and counterparties for various transaction types on a single program
- The capacity to add counterparties that are on the platform via our single Program Terms agreement
- The opportunity to explore alternative ways to invest cash across multiple counterparties with unique collateral preferences
- Efficient management of the collateral portfolio through customizable eligibility and optimization rules

Continuous repo settlement, netting, collateral reuse, and real-time view

- **Continuous settlement:** Continuous repo settlement and collateralization - cash and securities continuously processed throughout the day (with processing not limited to the end of the day)
- **Netting:** New and maturing repo trades across collateral accounts and that conform to eligibility schedules can be netted (meaning there is no need to pay the principal every day)
- **Reuse:** The ability to reuse collateral multiple times to unlock additional collateral value
- **Real-time view:** User interface showing a real time view of all repo trades, settlements, substitutions, and cash obligations

Collateral and Counterparty Risk & Default Management

- Third-party safekeeping of collateral and default processing
- Rigorous controls around collateral eligibility, reporting and account/asset segregation

As institutional investors in Mexico navigate the regulatory changes surrounding repo in Mexico, Tri-party repo agent use has become particularly advantageous. Do not hesitate to reach out to a J.P. Morgan Securities Services representative to adapt to Mexico's modernized repo ecosystem to achieve scale, reduce the inefficiencies of manual asset moves, and optimize collateral management.

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