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“DILIGITE JUSTITIAM QUI JUDICATIS TERRAM.” “Ye who judge the earth, give diligent love to justice”



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Reform Project to Banco de México - Mexico's Central Bank- Capacities.

By Julio Vargas

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Towards the end of 2020 and during the very complicated pandemic times, all of a sudden, Mexican Senate turned out to be in a hurry and urgency to pass modifications to laws regarding foreign currency remittances received in Mexican territory, which compromises Banco de México's (Mexico's Central Bank) constitutional autonomy and independence from the executive, administrative and judicial powers as well as its sovereignty.

“...cash dollars represent less than 1% of the total remittances, since 99% are received through electronic or wire transfers.”

According to the considerations stated in the bill, congress in his sole opinion saw a delicate and huge problem and risk for the banks operating in Mexico that receive remittances from abroad basically from Mexicans working and/or living in the USA, meaning migrants, many times in cash.

In these regards, Mexican banks are authorized to operate, receive, exchange and deposit of such remittances under many strong provisions and observing, with respect to accepting cash US currency certain limits with the intention to manage the dollars cash flow and when such limits are exceeded the banks in Mexico have to export or repatriate the cash surplus to an account operating in a foreign correspondent bank which most of the operating banks in Mexico have in the US, Canada and Spain. A very few of them, do not have accounts in foreign correspondent banks.

According to the senate, for the migrants means that such limits impedes them to change its cash dollars into Mexican currency. The surplus cash remittances that cannot be exported, according to government officials, become worthless in Mexico, limiting the survival possibilities of the migrants relatives living in Mexico. However, this cash dollars represent less than 1% of the total remittances, since 99% are received through electronic or wire transfers.

It is surprising that Mexican senate decided to review and tried urgently to pass such an unprecedented reform when, in general terms, actual foreign currency laws applicable to financial institutions, domestic and foreign, operating in Mexico who receive these remittances and rules applicable to our central bank in this regard, already provide for severe legal requirements to control, supervise and detect illegal money.

According to US financial authorities regarding money laundry reports, cash US currency introduced in Mexico possess a high risk of being associated with illegal activities, i.e. “drug” money, thus, limits are established to avoid its incorporation in the country's currency flow; also, actual legislation is very tough in order to prevent money laundering practices.

Therefore, the main core of the reform is to attempt to regulate and declare mandatory that those cash amounts that could not be exported, must be absorbed or acquired by the Mexican central bank, and increase the international reserves.

The bill was passed in a rush and approved by the Senate, however and fortunately the lower house of Representatives heard our central bank and other authorities and private sector entities who have had the chance to respond, correct and even contradict those general assumptions and declarations in the motives chapter of the bill, considering certain provisions and facts under which the central bank operates.

Among its many duties and capacities, our central bank administrates the international assets' reserves. Such reserves are used among other purposes, to assist and help to the stability of the Mexican currency, the peso, and to compensate the unbalanced amounts between income and outcome of foreign currencies in our country.

As mentioned in upper lines, according to the Mexican central bank, Banco de México, while some remittances are in fact received in cash by operating banks, turns out that only less than 1% are received in cash, 99% of the remittances are received through wire or electronic transfers. This means it is really not a relevant percentage of US cash dollars that are at risk, nor the migrants families income, and only a very short list of Mexican operating banks do not have a foreign correspondent bank. On the opposite side of these international export operations, there were 11 foreign banks that received and operate the exported dollars. In fact, until September 2020 only one bank with no correspondent bank abroad reported a surplus of more than 10 million US dollars.

Therefore, as it may be observed clearly, contrary of what is appreciated and established in the bill considerations is somehow strangely exaggerated since the "risk" of dollars that cannot be exported is, again, less than 1% of the total remittances received during 2020.

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The attempt to convert in a mandatory obligation to be imposed to the central bank to acquire such cash surplus compromises its autonomy based on its constitutional principle of existence and also its sovereign in the international community.

Mexican congress clearly forgot, oversaw, or worse, probably wasn't even aware that our autonomous central bank and Mexican authorities have established strict provisions and controls to those financial institutions providing cash currency services in Mexico by being the recipients of foreign currencies, mainly US dollars to impede and prevent the introduction of illegal monies into the system.

At the same time, those financial institutions operating in Mexico, in order to open an account in a foreign correspondent bank, based in the US or elsewhere, to operate such currency exports, among many other operations, implies the necessity to comply with strict measures and controls

established to such local banks that contribute to prevent money laundering. Still the risk when operating cash currency remains.

Thus, pretending that our central bank becomes involved in operating such cash currency by being obligated to absorb or acquire such coins and bills would imply absorbing at the same time the risk associated to such money and therefore it might become liable and conditioned to the same restrictions and supervision applicable to local banks.

Banco de Mexico, being a sovereign central bank complies with all international regulations and standards and provides rules and controls to reduce this type of exposure and guaranty its legal international reserves. Accessing to the very little cash currency described in this paper is an unnecessary backstep, that opens an unnecessary door to foreign jurisdictions to review money laundering compliance rules. Today our central bank has created severe mechanisms through which its access to foreign currencies is obtained through different means, mostly electronic transfers, instead of this type of risky cash allowing the central bank to easily buy and sell currencies in international markets and act as a regulator in domestic market, without being exposed by a minimal percentage of cash dollars.

In fact, senate seems to forget that the Mexican central bank acts as the financial agent of the federal government and has no need to expose itself to a foreign jurisdiction that may consider the central bank to be involved or expose to illegal money and subject to foreign jurisdiction for such purposes.

As I write this paper, unofficially yet, it appears that the bill has been modified taking into account central bank and private financial institutions comments and suggestions, for example Banco de México would not acquire such surplus, rather it may grant credit lines to a bank that does not have correspondent bank outside of Mexico to finance its surplus. It will also assist and help, in the process for the operating bank to open an account in a foreign bank.

Also, the cash surplus instead of being mandatorily acquire by the central bank it is suggested to be operated by Banco del Bienestar, a development bank wholly government owned, which will assist migrants to open remotely from abroad a bank account and send their US dollars, by opening bank accounts to the migrants remotely. According to government officials, migrants will have access to better exchange rates. The development bank will buy the US currency from the migrants.

The counterproposal even includes the possibility to private banks to open remotely accounts in the US correspondent banks for the migrants to deposit the US dollars. All these counterproposals are being studied during February of 2021.

Be noted that the government development bank has little to none experience with foreign remittances, and money laundering rules. Let us hope that in the process of opening accounts for migrants, the development bank is subject to the same strict national and international controls as the ones currently applicable to private banks.

Mexico may delay second doses of COVID-19 vaccine, allows private orders.

Mexico's government stated that the second round of doses of the Pfizer COVID-19 vaccine could be delayed and private companies will be allowed to purchase the drugs directly as the country struggles to keep rampant infections in check. Hugo Lopez-Gatell, the deputy health minister, said Mexico was considering delaying the administration of the second dose of the two-shot Pfizer Inc./BioNTech vaccine to patients to help get the first dose to those in need more quickly. www.reuters.com/article/health-coronavirus-mexico-vaccine/update-1-mexico-may-delay-second-pfizer-vaccine-doses-allows-private-orders-idUSL1N2JX157 22/01/2021.

Biden and AMLO agree to "stem the flow of irregular immigration" from Mexico to the U.S.

On his first day as President of the U.S., Joe Biden has already signed a series of executive orders on immigration and the bilateral relationship with Mexico, such as strengthening the DACA program to avoid deporting undocumented youth and halting the construction of the wall. In a few days, Biden is expected to send to the Congress his ambitious immigration reform plan, which among its clauses includes a path to citizenship to regularize more than 11 million undocumented immigrants. President of Mexico, Andrés Manuel López Obrador, and Biden, agreed to continue working together to "contain the flow of irregular immigration" from Mexico to the United States. www.eluniversal.com.mx/mundo/biden-y-amlo-pactan-contener-el-flujo-de-inmigracion-irregular-desde-mexico-hacia-eu 23/01/2021.

ILO: Pandemic cost workers \$3.7 billion in income in 2020.

Globally, the pandemic cost workers in 2020, the loss of 3.7 trillion dollars in income and the destruction of the equivalent of 255 million jobs; an impact four times greater than that caused by the global financial crisis of 2009, informed the International Labor Organization (ILO). The American continent, in particular Latin America, is the most affected, with a loss of 13.7%. In the case of Mexico, data from the National Occupation and Employment Survey (ENOE) revealed an annual increase of 24.4% in unemployment rates and 57.1% in available labor inactivity. By 2021, the organization projects that in the most pessimistic scenario as many as 130 million jobs could be lost in working hours: "The global economy still faces a high degree of uncertainty and there is a risk of a mixed recovery. The latest projections point to a persistent labor shortage in 2021". www.eleconomista.com.mx/empresas/OIT-Pandemia-costo-a-los-trabajadores-3.7-billones-de-dolares-en-ingresos-en-2020-20210125-0030.html 25/01/2021.

Putin agrees with Mexico the sending of 24 million doses against coronavirus.

Russia will send Mexico 24 million vaccines against the coronavirus in the next two months. This was announced by President Andrés Manuel López Obrador after a telephone call with his Russian counterpart, Vladimir Putin. The shortage of the Pfizer vaccine, with whom Mexico has a contract for more than 34 million doses, has forced Latin America to look for other options to continue with its vaccination campaign. The announcement was made even though the Russian vaccine has not yet been approved in Mexico, so it is expected that in the next few days the bureaucratic and sanitary process will be accelerated to allow its purchase and distribution. elpais.com/mexico/2021-01-25/putin-a-cuerda-con-mexico-el-envio-de-24-millones-de-vacunas-contra-el-coronavirus.html 25/01/2021.

Scanner that detects Covid-19 in people and surfaces; to be manufactured in Mexico.

Developed by specialists in the United States, Jordan and Mexico, the scanner promises 100% effectiveness in detecting the virus in people and objects in a matter of seconds. Although at first glance it looks like a laser scanner, the laser beam it emits, together with a software, analyzes in real time by refraction the existence of the Covid-19 protein spicule, where if it detects it, it will emit a warning sound. It seeks to be a device, first for authorities and companies that operate in areas of high concentration such as restaurants, public transport, airports or similar, to detect in real time if a person is infected or not. www.forbes.com.mx/tecnologia-crean-escaner-que-detecta-covid-19-personas-y-superficies-se-fabricara-en-mexico/ 26/01/2021.

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