

Treasury Management in Mexico



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Mexico Overview

Mexico is a major North American country located between the U.S. and Central/South America.

The unit of currency is the Mexican peso (MXP). It is divided into 100 cents and commonly referred to as the Peso. The Mexican peso is freely traded.

Banco de Mexico is the central bank and regulates all financial institutions in the country. Central bank reporting requirements have minimal impact on cash management activity and the regulatory environment is open.

There are four clearing systems in Mexico that relate to cash and treasury management.

1. The high value system (Sistema de Pagos Electronicos de Uso Ampliado or SPEUA) is an inter bank Real Time Net Settlement (RTNS) system for amounts greater than MXP 50,000 owned and administered by the Banco de Mexico.
2. The check clearing system (Centro de Computo Bancario or CECOBAN) is a traditional check clearing house owned and operated by all Mexican banks. It is a net settlement system which passes value on a next day basis through the SIAC to the bank's Peso account at Banco de Mexico.)
3. There is a local U.S. dollar check clearing system operated by CECOBAN with settlement through accounts with Bank of America.
4. The Pago Interbancario is a private clearing system similar to an ACH where member banks settle mutual obligations on a next day basis. It is normally utilized for amounts less than MXP 50,000.

Resident corporations in Mexico are taxed on their worldwide income from all sources. Nonresident corporations are subject to profits tax on income earned from carrying on business in Mexico. Corporations are deemed to be resident in Mexico if they are established under Mexican law. Resident and nonresident corporations in Mexico are taxed only by the federal government. For 1999, corporate taxable income is subject to federal corporate income tax at a rate of 34%.

Treasury Management

The Maquiladora Program offered by the Mexican government provides for the temporary duty-free importation of certain items used in manufacturing/assembling goods for export. Along with certain other benefits this makes a Maquiladora type factory useful for U.S. manufacturers. The resulting cross border movement of goods between Mexico and the U.S. generates the need for various treasury management services provided by international banks. The Maquiladora Program is not restricted to U.S. companies or U.S./Mexican trade.

All common treasury management techniques are permitted in Mexico including leading/lagging, re-invoicing, sweeping, and cash concentration. Multilateral netting is permitted without restriction. Pooling of Mexican pesos is

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Associations

[AmCham](#) and [US-Mexico Chamber](#)

Banks

[Bancomer](#), [Citibank](#), [Banamex](#), and [BSCH](#)

News

[The News](#) and [FT Survey](#)

Specialist Sites

[Garcia Gonzalez](#), [SECOFI](#), [MaqGuide](#), [Maquila Information](#), and [Tijuana - Maquiladora](#)



[International Treasurer](#)
The International Society of Treasury and Financial Risk Management

not permitted.

Mexico's developing economy and payment systems are the source of the two major treasury issues: fear of devaluation and check fraud. Forward rate agreements exist to hedge devaluation risk but the most common tools are local borrowing, movement of idle cash to U.S. dollars, and strict control on inventories and receivables.

Multiple MXP accounts can be held to facilitate accounting objectives or as part of an overall treasury strategy. Sweeping (zero balancing) and concentration are permitted and possible but are not offered by all banks.

Accounts

The basic MXP operating account is referred to as a current account and may be held by resident or non-resident corporations. Interest, known as Cuenta Productiva is paid on current accounts maintained by corporations. Overdrafts are permitted with the amount and rate determined by each bank. Deposit accounts paying a higher rate of interest are available to resident and non-resident corporations in MXP only and typically require a minimum balance.

Resident and non-resident corporations may hold accounts in Mexico denominated in currencies other than the Mexican peso with the principal foreign currency held being the U.S. dollar.

There are a number of short term investment options for resident and non-resident corporations. Interest bearing current accounts are permitted with more sophisticated banks offering overnight sweep services into higher yielding money market accounts. Bankers Acceptances are the most common short term investment with common maturities from 7 to 28 days.

Overdrafts, called Sobregiro are permitted but since they are very expensive they are used as a safety net by cash managers who wish to minimize their MXP holdings. Bank finance continues to be a major source of funding although intercompany loans and commercial paper are of increasing importance.

Payments and Receipts

Cash and checks are widely used in retail settlements. The use of electronic systems such as SPEUA are increasing for high value payments but the acceptance rate for electronic payments is still quite low.

Lockbox type arrangements are permitted but not in general use. Private courier systems maintained by sellers and a relatively inefficient postal system are the principal reasons that lockbox arrangements are not common business practice.

Controlled disbursement is not possible because there is no effective way to ensure timely notification of and arrange cover for check presentments. Zero balance arrangements, where the excess position in an MXP account is invested or hedged on a daily basis offer cash managers the functional equivalent of controlled disbursement.

Technology and Marketplace

Mexico has a highly developed telephone system which links the nation through microwave radio links. The service is acceptable for business and government purposes but not well extended to the general population. Most banks offer electronic banking including balance reporting and transaction

initiation. Lack of multibank reporting dictates the use of multiple software versions to support multiple bank cash management solutions.

Mexico's size, commitment to private ownership, geographic location, and charter membership in the North American Free Trade Agreement (NAFTA) make it a desirable banking market. Local banks such as Banorte, Bancomer, and Banamex have large retail networks and offer cash management services to domestic and international companies. Strategic alliances, such as that between Bancomer and Wachovia are a trend worth noting. Since reopening to foreign banks in 1995 there have been many new entrants to the market. Regional banks such as Bank One can be competitive in bilateral deals with the U.S. All of the major international cash management banks have operations in Mexico with particularly strong profiles maintained by Citibank - in many respects an indigenous bank - along with BBV and BSCH.

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