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Initiative to amend and derogate the Retirement Savings System Law.

On January 23, 2019, in the Parliamentary Gazette, the Federal Executive Branch initiative (the "**Initiative**") was published, by which it is proposed to amend and derogate various provisions of the Retirement Savings System Law (**LSAR** per its Spanish acronym).

The Initiative aims to extend the current Pension Funds Managers' (**AFORES** per its Spanish acronym) investing options, and to promote superior returns of the assets that are part of the Retirement Savings System (**SAR** per its Spanish acronym), for the benefit of workers, with the purpose of boosting the development and growth of small and medium companies.

The Initiative deems necessary to modify the AFORES' current investment regime, proposing that the investment regime rules issued by the National Retirement Savings System Commission (**CONSAR** per its Spanish acronym), will require the prior Secretary of Finance and Public Credit (**SHCP** per its Spanish acronym) opinion, substituting the opinion of the National Banking and Securities Commission. Although CONSAR's Governing Board will be in charge of issuing the investment regime rules, the SHCP will participate as a consulting entity, increasing SHCP's participation in the definition of such rules.

With the purpose of increasing returns for the workers, and reducing the corporate costs and initial expenses incurred in connection with the management and investment activities of the AFORES, the Initiative proposes that AFORES cease to operate as Investment Companies Specializing in Retirement Funds (**SIEFORES** per its Spanish acronym), and operate instead as Investment Funds Specializing in Retirement Funds (**FIEFORES** per its Spanish acronym), eliminating the traditional requirement of a *sociedad anonima* corporate governance structure. AFORES, through their boards of directors and relevant corporate structures, will provide management services to FIEFORES.

The Initiative provides that the FIEFORES incorporation procedure will be as follows: i) shall be incorporated by one funding partner before CONSAR; ii) shall be incorporated as *sociedad anonima* according to LSAR dispositions; and iii) must be registered before the National Securities Registry. Additionally, in order to be incorporated and operate as a FIEFORE, the prior authorization of the CONSAR shall be obtained, with the previous favorable opinion of the SHCP.

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Among the most relevant matters, the Initiative proposes that, in addition to investing in securities subject to public offering, through primary placements or open market transactions, the FIEFORES will be authorized to invest in securities placed through private offerings, prior opinion of the SHCP and *Banco de México* (**BANXICO**), as provided by the General Provisions issued by CONSAR, so that the FIEFORES can invest in small and medium-size companies that currently do not have access to funding of AFORES due to the requirements and costs related with a public offerings. Additionally, the maximum legal amount of 20% of the total asset value for investments in foreign securities is eliminated, so that in the future, it will be CONSAR, prior SHCP and *Banco de México* opinion, which will determine the maximum permitted percentage. Additionally, through the Initiative, it is proposed that FIEFORES will be allowed to carry out the following activities: **i)** receive money deposits offered as guarantees in repurchase operations; **ii)** securities lending and repurchase transactions, including securities issued by corporations; and **iii)** credits and loans, exclusively in its capacity as lender.

In connection with the AFORES management fees, the Initiative proposes that: **i)** in addition to the percentage of the value of the managed assets, an additional component shall be considered by calculating the revenue obtained by the workers when the aforementioned revenue is above the referenced rate established by the CONSAR, which will encourage a better alignment of interests with the managers; and **ii)** when the corresponding investment is made in long-term projects, such as strategic productive infrastructure projects, an additional component will be added to the percentage of the management fee, to be calculated as a percentage of the revenue obtained by the workers. The objective of this proposal is to ensure that the traditional commission and cost structure of the SIEFORES will not discourage investments of FIEFORES in such strategic projects.

In order to promote the workers' voluntary contributions, the Initiative contemplates eliminating the minimum investment period of the voluntarily contributions made by workers, being only subject to the minimum term indicated on each FIEFORE's prospectus. This will give the workers the opportunity to withdraw voluntary contributions at any time they deem convenient. In addition, the restriction period for workers transferring savings from one institution to another is eliminated, provided their contributions are transferred to a FIEFORE offering higher revenues.

Finally, the Initiative states that SIEFORES will have a 12 (twelve) month term, counted as of the date the Initiative becomes effective, to file with CONSAR the authorization request to amend their bylaws in order to reflect the required clauses applicable to FIEFORES, in order to transform into FIEFORES.

At Sánchez Devanny, we have the necessary experience to advise our clients on the diverse opportunities and requirements under the Initiative. We will keep you informed on the evolution of the new Investment Regime Rules to issued by the CONSAR, which will be essential for the fulfillment of the Initiative objectives.

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