

Case study: Illustrative example of FX Global Code adoption

Who we are:

We are a **Mexican Pension Fund** regulated by the National Commission of the Retirement Saving's System "CONSAR". We manage and invest the resources of individual retirement savings accounts on behalf of workers affiliated to our Pension Fund.

The Investment Committee determines the investment policy, as well as the strategy and the composition of the investment portfolio. It also designates the members of the Investment Department that execute the investment strategy. Such Department is integrated by teams lead by portfolio managers specialized in different Asset Classes.

The Pension Fund has a Comprehensive Risk Management Unit that is responsible for identifying, measuring, monitoring, quantifying, informing and disclosing the financial risks of the investment portfolio to the Risk Committee and the Board of Directors.

The Departments of Middle Office, Treasury, Back Office, Legal, Compliance and Internal Audit contribute to the compliance of the investment policies and investment strategies. Among others they are responsible of the confirmation and settlement of operations; the negotiation of legal contracts with authorized counterparts; accounting; and compliance with the internal standards.

The portfolios managed by the Pension Fund can have Foreign Currency exposure through eligible assets denominated in currencies other than the Mexican peso or through the direct trading of FX derivatives.

Why we adhered:

The decision that led the pension fund to adhere to the FX Global Code was instructed by the Institution's Governing Board to strengthen the Company's Corporate Governance. It was based on the following three fundamentals:

- i) Best trading practices
- ii) Management of Conflict of Interest
- iii) Strengthen the Operating Procedures, Policies, Internal Codes of Ethics and Conduct.

Likewise, we observed the global nature of the FX Global Code. As it is the result of a collaborative group coordinated by the BIS, it effectively considers the best international practices, giving greater sense for it to be incorporated into the practices of our institution.

Aware of the effort that the implementation involved, we developed a one-year work program that included different departments of the pension fund, and that was monitored by the Institutional Comptroller's Office.

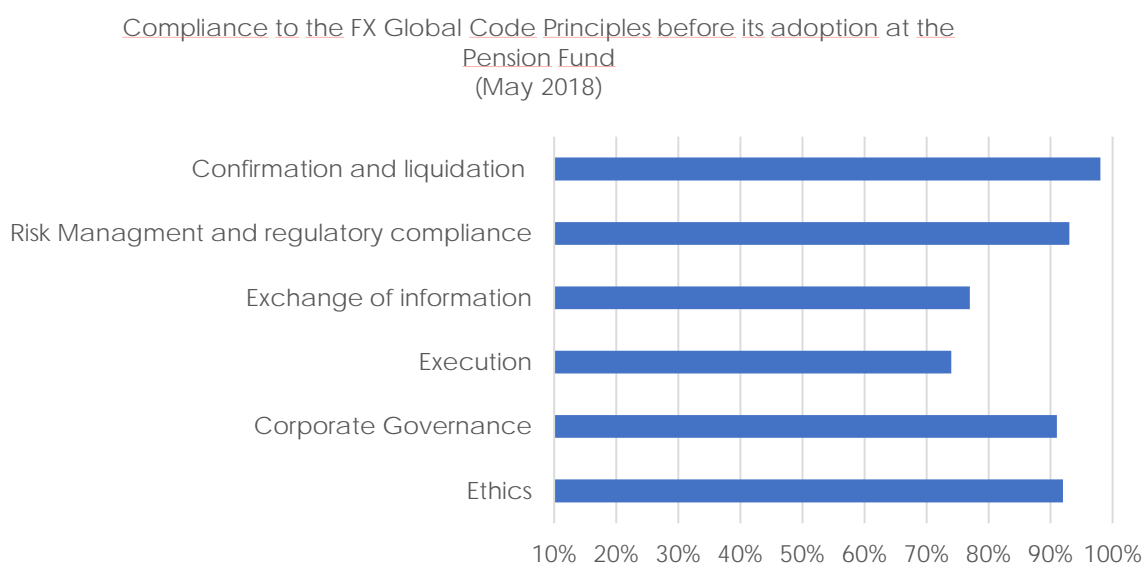
The Board of Directors approved the conscious adherence to the Code and the signing of the Declaration of Commitment.

How we adhered:

Setup: As a first step, the different Departments involved in the investment process, in conjunction with the Comptroller and the Compliance team, carried an evaluation to determine the main points needed for the adherence to the FX Global Code.

As a result of such analysis, we generated a Matrix of compliance for each Principle of the Code in accordance with what was already established in the organization. Each Department, in accordance with its responsibility, identified the level of compliance to each category and subcategory.

The above allowed us to identify the status of the Pension Fund with respect to the Code, before its adoption. The overall compliance was 88% to the Code with the following main results:



The results were globally and individually identified, and we prepared a calendar for the fulfillment of the different areas of opportunity that were detected.

Proportionality: The factors that influenced the decision to observe the Code were the following: the level of compliance before adherence; the costs in case of implementing new, better and / or different mechanisms of control, settlement and validation; and the type and complexity of FX instruments approved by the governing bodies.

The proportionality element to comply with the principles of the Code was decisive at the time of the first evaluation. After such analysis, the implementation of best practices in FX trading was initiated in a transversal way, implementing compliance controls over all the Departments participating in the investment process in the FX Market.

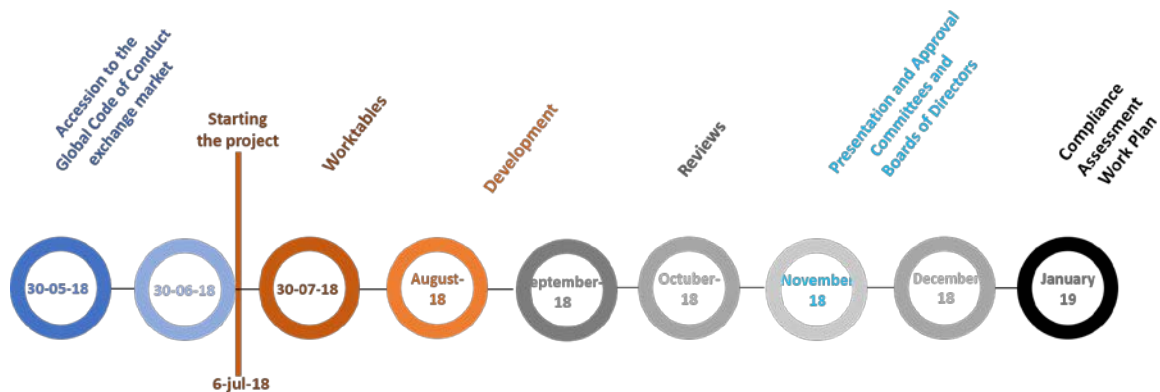
The peculiarity of FX trading, the different exposures, the frequency of negotiation, and the corresponding counterparts, were not a dilemma in the decision making.

Furthermore, the adoption of the Code would allow, in general, to escalate the implementation of best practices to other Asset Classes, which was regarded as an additional benefit to the adhesion.

Procedure: The procedure that we followed involved the several steps:

1. Knowledge and analysis of the Rules intended to establish the mechanism to which entities must be subject to inform the Central Bank of their determination whether to accede to the Global Code of Conduct.
2. Proposal to the Investment Committee of adherence to the Global Code.
3. Proposal to the Board of Directors of adherence to Global Code.
4. Analysis of the main benefits and implications requested by the Board of Directors.
5. Presentation of the evaluation of the level of compliance before adherence to the Investment Committee and the Board.
6. Approval by the Board.
7. Letter requesting adhesion to the Central Bank. Signature of the Declaration of Commitment.
8. Development of the project timeline with deliverables and its presentation to the areas involved to request their support and participation in the project.

Work Plan



9. It was determined that the Comptroller would lead and follow up the progress of the project
10. A periodic review of compliance of the policies, procedures and regulations was established through the Comptroller and the Compliance area.
11. We initiated the strengthening of the processes through the implementation of the principles. The responsibility to comply with the guiding principles was distributed according to the competence of each functional area of the organization.
12. We held monthly meetings in which the compliance progress was presented, options were discussed, and the plans and the strategies necessary to achieve the objective were implemented.
13. We enhanced several documents through the adherence to the Code: internal policies, manuals, codes of conduct and ethics, internal formats, evaluation and remuneration policies, among others.
14. Eleven months after the decision to adhere to the Code, we carried an analysis of the progress achieved, which was in line with what was originally planned.
15. The results achieved were presented to the Board of Directors at its May 2019 session.

Decision: The Compliance team, together with the Comptroller, have documented the entire process of implementing the FX Global Code and determined to be the support to the Departments involved in the investment process for the follow-up of the best practices determined by the Code.

Outlook: At the close of 2019, there are still some objectives to be met, among which are the training of employees on the principles; promotion of adherence of our counterparts; as well as reviews to assess effectiveness of the implementation of the principles.