



Embajada Británica
en México



HANDBOOK ON CORPORATE DEBT ISSUANCE IN THE MEXICAN MARKET

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MESSAGE BY THE BRITISH AMBASSADOR TO MEXICO, SUSANNAH GOSHKO

Preface by the British Ambassador to Mexico, Susannah Goshko – Handbook for the Issuance of Corporate Debt in the Mexican Market

Ending poverty, tackling climate change and meeting the Sustainable Development Goals (SDGs) are the key priorities of the UK's international development policy. Mexico and the UK are strategic allies in this agenda.

According to the OECD, at least 3.9 trillion dollars in additional financing is needed globally each year in order to achieve the SDGs. On the other hand, the private institutional capital potentially available for investment in sustainable projects through capital markets is valued at around USD 250 trillion. There is growing recognition among governments and multi-lateral institutions that mobilising private capital is key to achieving sustainable development.

In this context, MOBILIST is the flagship programme of the UK Government that aims to mobilise capital for sustainable development in emerging markets such as Mexico, through public capital markets.

MOBILIST identifies new scalable, replicable and commercially viable financial products, and provides investment through seed equity capital, technical assistance and market research, all aimed at catalysing much needed investment through equity and debt capital markets.

The UK Government, through MOBILIST, collaborated with Momentum Mexico and Basila Abogados to prepare the handbook you are holding in your hands. MOBILIST firmly believes that this manual will be beneficial to the deepening of the stock market as a financing alternative in Mexico, especially for medium-sized companies, which hold great potential as an engine for sustainable economic growth.

Medium-sized companies, although they make up less than 1% of the 6 million companies in Mexico, contribute approximately 16% of the GDP and

generate seven out of every ten jobs. However, they still face limitations in accessing capital markets to grow. It is our hope that this handbook contributes to creating certainty about the specific steps to follow that will result in a successful listing on domestic stock exchanges and to reducing the asymmetry of information by being available to the general public.

We appreciate the partnership and support of the Ministry of Finance and the Central Bank of Mexico in the preparation of this document. Both MOBILIST and this handbook are aligned with Mexico's Sustainable Financing Mobilization Strategy launched last September, which recognises SMEs as key actors for its implementation, especially for the development of projects and activities with a social and environmental focus. For the UK Government, collaborations of this kind are essential to inspiring the collective action needed to address global development challenges.



Susannah Goshko CMG

His Majesty's Ambassador to the United Mexican States
Foreign, Commonwealth & Development Office

ACKNOWLEDGEMENTS

This handbook is the result of the hard work and collaboration of numerous individuals and institutions, with the support of the UK Government through its MOBILIST (Mobilising Institutional Capital Through Listed Products) program and its embassy in Mexico.

Momentum Mexico, represented by John Toshack, was fortunate to establish a strong and productive relationship with Dave Portmann under the MOBILIST program. This connection sparked the desire to contribute to the development of the debt securities market in Mexico, which led to the sponsorship by MOBILIST for the preparation of this handbook.

To prepare the handbook, a work team was formed by professionals from three Mexican firms, specialized in complementary disciplines within the financial sector:

- Basila Abogados: Mauricio Basila and Miguel López.
- Social Value Institute: Hernando Aguilera.
- Momentum Mexico: Felipe Vilá, John Toshack, Luis Rodríguez, and Carlos Cardona.

We wish to express our special gratitude to Javier Sunderland, who, as an advisor to Momentum Mexico, joined the team. In addition to his extensive experience in the securities market, Javier contributed valuable recommendations and opinions.

Last but not least, we acknowledge the willingness, professionalism, continuous support, and contributions to the handbook from Sarah Hidalgo and Christopher Cheung, from the UK Embassy in Mexico.

Federico Casas Godoy
Managing Partner
Momentum Mexico

DEFINED TERMS

TERM	DEFINITION
AMIB	Mexican Securities Industry Association (Asociación Mexicana de Instituciones Bursátiles).
Banxico	Mexican Central Bank (<i>Banco de México</i>).
BIVA	Mexican Institutional Securities Exchange (Bolsa Institucional de Valores).
BMV	Mexican Securities Exchange (Bolsa Mexicana de Valores).
CCV	Mexican Securities Central Counterparty (Contraparte Central de Valores).
CFE	Mexican Federal Electricity Commission (Comisión Federal de Electricidad).
CUE	The General provisions applicable to securities issuers and other participants of the securities market or Single Regulations for Issuers (<i>Disposiciones de carácter general aplicables a las emisoras de valores y a otros participantes del mercado de valores or Circular Única de Emisoras</i>).
ESG	Environmental, social and governance.
GDP	Gross domestic product.
INDEVAL	Mexican Central Securities Depository (Instituto para el depósito de valores-S.D. Indeval, S.A. de C.V.).
IPAB	The Bank Savings Protection Institute (Instituto para la Protección del Ahorro Bancario).

TERM	DEFINITION
IPO	Initial public offering.
KIIS	Key Investment Information Sheet (<i>Documento con Información Clave sobre la Inversión or DICI</i>).
NBFIS	Non-bank financial institutions.
Pemex	Mexican state-owned oil company (<i>Petróleos Mexicanos</i>).
RNV	Mexican National Securities Registry (<i>Registro Nacional de Valores</i>).
SDG	Sustainable Development Goals (<i>Objetivos de Desarrollo Sostenible or ODS</i>).
SEP	Mexican Ministry of Public Education (<i>Secretaría de Educación Pública</i>).
SHCP	Mexican Ministry of Finance and Public Credit (<i>Secretaría de Hacienda y Crédito Público</i>).
SMES	Medium-sized enterprise (<i>pequeñas y medianas empresas or PYMEs</i>).
UN	United Nations Organization (<i>Organización de las Naciones Unidas</i>).

1. PREFACES



GERARDO ISRAEL GARCÍA LÓPEZ, GENERAL DIRECTOR OF CENTRAL BANKING OPERATIONS, BANCO DE MÉXICO

Historically, the development of financial markets in Mexico has been an ongoing process. Efforts to promote their robust development span several decades of our recent history. Indeed, various actors, both public and private, have worked intensively to promote and understand them. The latter allows us to be in a better position not only to promote their development, but also to canalize it.

Corporate finance, on the other hand, is -as a subject of study- relatively recent. While the nature of the main challenges for companies' access to sufficient capital is now better understood, raising sufficient capital faces significant obstacles in practice. This capital enables such firms to grow their activities significantly, and its relevance as a determinant of economic growth is indubitable.

In this context, and in a novel and remarkable way, this Handbook describes the debt issuance process, focusing, mainly, on small and medium-sized enterprises (SMEs) in the Mexican economy, which represent the vast majority of companies in our country. It also outlines some of the key steps in the process, such as the preparation of the issuance, including the careful drafting of the prospectus, the promotion and sale to investors, and the most relevant post-placement activities. This valuable contribution provides insights from participants who have been involved in debt issuance processes for several decades. Thus, they generously share their knowledge on issuance mechanisms with potential users, most notably SMEs.

Raising capital by an SME is a substantial achievement. This Handbook explains many of the challenges and opportunities that exist for issuers today and, in doing so, paves the way for SMEs to be in a better position to issue debt.

The Handbook suggests that the supply and demand for debt face a number of challenges in Mexico's financial markets. In this regard, it is useful to highlight some of the factors behind these challenges. One of the main financial frictions is information asymmetry; that is, the managers of the company, who will issue the debt, have more information about the company and its projects than the investors, who will buy the debt

Debt leads to a relationship between managers and investors, in which the former, in a sense, take actions within the company on behalf of the latter.¹ In this relationship, three important implications stand out: investors cannot distinguish with certainty between talented and untalented managers; the actions of managers can lead to risks and some of these risks are borne (usually unintentionally and without their full knowledge) by investors; and, investor-access to certain information or disclosure of information by managers is costly.²

Another important friction relates to the development of market infrastructure around the debt issuance process itself. The infrastructure involves systems, managed by a public or a private regulated entity, that provide services to financial markets such as trading, clearing and settlement, as well as the process from the issuer's decision to place debt, to the authorities' approval measures for such placement, and the actions taken by financial institutions to place debt in the market. In this context, the recent reform of the Securities Market Law is likely to improve these infrastructures by simplifying the securities issuance process.

Related to the frictions noted above is that a significant proportion of SMEs do not have historical credit information that they may wish to provide. This Handbook explains how this, and other challenges may be addressed. Perhaps there may also be some discouraged entrepreneurs; that is, they could issue debt, but assume that they are not eligible to do so for various reasons, such as their size or profitability. Thus, this Handbook could be a valuable guide for those entrepreneurs who find themselves in this situation.

Notably, the Handbook includes a section on Environmental, Social, and Governance (ESG) bonds, a topic that has been worked on globally for

1. This can be viewed as an agency problem, where the agent (managers/entrepreneurs) represents the principal (investors/bondholders); for example, see Ross, Stephen A. (1973) "The Economic Theory of Agency: The Principal's Problem." *The American Economic Review* 63, no. 2: 134-39. URL

2. These are formally known as adverse selection, moral hazard, and costly state verification. For more details see Tirole, J. (2006). *The Theory of Corporate Finance*. Princeton University Press.

several years now. In this regard, it is important that companies in Mexico continue to support the adoption of the best ESG standards. Likewise, it is crucial to develop and implement schemes that respond to the enormous problems that may exist in environmental, social, and governance issues. Time is of the essence, as the potential costs of not acting in a timely manner in this area are growing.

This book represents a step in the right direction that will allow authorities, private institutions, and individuals interested in financial markets to enhance their understanding of the subject. The aim is that, through better informed discussions about their characteristics, challenges and problems, the development of our financial markets can be pursued, which, in turn, will result in greater benefits for the national economy.

Finally, I believe that the effort put into this Handbook should be acknowledged; I am hopeful that it will soon become an essential reference for those companies that intend to issue debt and for scholars in the field. I would also urge the authors to make this the first of several editions, and users to enter into a dialogue with the authors, so that a new edition with updated information, reflecting the constant evolution of financial markets, will see the light of day when it is deemed appropriate.

Gerardo Israel García López

General Director (*Director general*) of Central Banking Operations

Banco de México³

3. The views expressed in this text are those of the author and do not necessarily reflect an institutional opinion.

PREFACE AMIB

Mexico has had large companies propelling its growth through securities market financing since as early as the 19th century.

More recently, our market has financed the construction of a large network of highways, infrastructure, housing and energy projects.

Mexico's integration into international trade has resulted in the emergence of an export power in the last three decades, and its capacity has been focused on the manufacturing sector and the automotive industry. Mexico is positioned as the seventh largest producer of passenger vehicles, the fifth largest producer of heavy-duty vehicles, and the fourth largest producer of auto parts worldwide. Mexico maintains a significant capacity in the agricultural sector, where it is ranked eleventh in the world as a producer of agricultural food products.

Recently, the nearshoring process, characterized by a large channeling of investment flows, has resulted in a renewed export momentum, and the need to continue investing in public and private infrastructure to maintain a productive plant of increasingly larger scales, capable of overcoming the challenges of: (1) securing a significant portion of these flows, (2) taking advantage of Mexico's privileged location, but primarily (3) consolidating the creation, financing and competitiveness of more companies and, thus, (4) creating additional high quality jobs.

We invite entrepreneurs to reflect on the fact that, although nearshoring is a process that will benefit the economy, on the one hand, it means opportunities to become a supplier for these new companies, but, at the same time, local companies will come up against greater competition; in both cases, it will be critical for those at home to have efficient financing, such as that offered in the securities market.

The securities market will be able to take advantage in a more compelling way than in the past, since its capacity to finance the required capital

through the issuance of bonds, shares or other financial instruments, is being radically transformed and revamped.

A new Securities Market Law was enacted at the end of 2023, introducing fundamental changes, with a more flexible and adequate framework, which will allow hundreds or thousands of smaller scale companies to underpin their projects through simplified issuances.

Offering a more competitive securities system in our country, as stated in the amendment's bill itself, by introducing a new regime for the registration of securities, which has been labeled "simplified", will provide fertile ground for the financing of smaller companies.

The flexibility scheme for the issuance of securities is based on the premise that simplified issuances will be exclusively directed to qualified and institutional investors. The foundations are laid for the existence -for the first time in Mexico- of a financing structure for smaller companies.

A market of venture capital and bonds that -as an asset class- will be identified as high yield, where proper understanding between issuers and institutional investors will be crucial; this means that the use of this Handbook will be an essential piece for the positive development of the new capital market, which should consolidate in the years to come.

Recently, there has been an evolution characterized by a more demanding public and consumers, which converge with a trend that has led to a generation of more sophisticated investors, in a way which has led to raising requirements in aspects such as environmental care, social responsibility and the need for companies to adopt better structured, more solid, but, at the same time, more functional, corporate governance practices.

Companies must ensure that their operational, labor and commercial activities are genuinely respectful of the environment, of issues such as inclusion and gender equality in all respects, and that they are transparent and ethically responsible for their business activities to the public, their employees and their own investors.

A key aspect in all this is that these requirements are independent from the company's use of securities market resources.

From this perspective, the company must earnestly seek to invest resources and focus a large part of its management at the various levels in order to fully comply with these requirements; otherwise, it is at risk of being disqualified even for minor failures to comply with environmental or social responsibility requirements.

Firstly, it is advisable to invest the required resources in order to have a corporate governance structure consistent with the company's size and business lines.

Secondly, we recommend that: although special attention must already be paid to the so-called ESG principles, which synthesize the aspects of environmental responsibility (E), social responsibility (S) and a commitment to adequate forms of corporate governance (G), it is also highly advisable that these same efforts be directed towards taking advantage of the company's maturity in these three areas, in order to comply with the requirements to become a securities issuer.

The potential risks, or "the cost of doing nothing" (as stated herein), render this Handbook as a guide for any entrepreneur or executive interested in leading a company through the world of securities financing; it reflects the intersection between high corporate responsibility and the ability to obtain securities financing resources.

The Handbook covers critical issues, such as: the preparation of a securities issuance, pre- and post-issuance procedures, the essential aspects of issuance documents, the roles of various actors such as legal and accounting advisors, information reporting obligations, and a guide for the drafting of prospectuses.

Consistently with the ESG approach, it includes a section to steer the reader towards the required transition and arrangements for ESG-oriented management.

It is worth noting that the Handbook includes annexes with case studies, as well as its pragmatic approach throughout all its contents. It is undoubtedly a valuable tool for the financial executive and the entrepreneur himself, as well as for internal and external participants of a securities issuance, focused mostly on the issuance of corporate debt, but also useful as a reference for the issuance of other types of securities.

The Mexican Securities Industry Association (*Asociación Mexicana de Instituciones Bursátiles*) highly recommends the use of this Handbook for the aforementioned purposes.

Efrén del Rosal Calzada

General Director, Securities Industry Association
(*Asociación Mexicana de Instituciones Bursátiles*)

2. INTRODUCTION



2.1 HISTORICAL CONTEXT

Financing to companies and the public sector through securities listed in public markets has been a reality in Mexico since the mid-19th century; however, it was not until 1894 that brokers who traded securities representing capital stock or debt incorporated the National Securities Exchange (*Bolsa Nacional*) and the Mexican Securities Exchange (*Bolsa Mexicana*), which were institutionalized and incorporated under a regulatory framework, and which were subsequently merged in 1896.

In 1933, the institutionalization process of the Mexican financial system began with the entry into force of the Mexican General Law on Credit Institutions and Auxiliary Organizations (*Ley General de Instituciones de Crédito y Organizaciones Auxiliares*) and its regulations, leading to the incorporation of the Mexican Securities Exchange (*Bolsa de valores de México S.A.*). From its very beginning, securities market activity was focused on the issuance and exchange of securities in equity capital markets, with a lower level of activity in the issuance and exchange of securities in debt capital markets.

In 1975, the Western Securities Exchange (*Bolsa de Valores de Occidente*), based in Guadalajara, and the Monterrey Securities Exchange (*Bolsa de Monterrey*) merged into the Securities Exchange of Mexico (*Bolsa de Valores de México*) to form today's Mexican Securities Exchange (*Bolsa Mexicana de Valores*). Between 1977 and 1978, a comprehensive amendment to the legal framework of the financial industry was undertaken in order both to revamp regulations and to find a more efficient and democratic way of financing the Federal Government and the parastatal sector, as well as to allow for the possibility of financing the private sector with various debt instruments.

The corporate debt market in Mexico began in 1978, when private companies were allowed to issue corporate bonds (*bonos corporativos*). Formerly, the Mexican securities market had been dominated by the issuance of Federal Government securities and bonds (*títulos y obligaciones*). The opening of the corporate debt market was an effort to diversify the offer of financial instruments and attract institutional and foreign investors.

In the mid-1990s, the corporate debt market in Mexico continued to grow, with an increased participation of SMEs. However, the 1997-1998 Asian financial crisis hurt the market, reducing foreign investment and increasing volatility in financial markets.

In the 2000s, Mexico's corporate debt market continued to expand, with a greater number of bond issuances and an increase in the number of participating companies. The Mexican securities market system also consolidated as a relevant source of financing for companies, particularly large corporate companies, and for some financial sector participants.

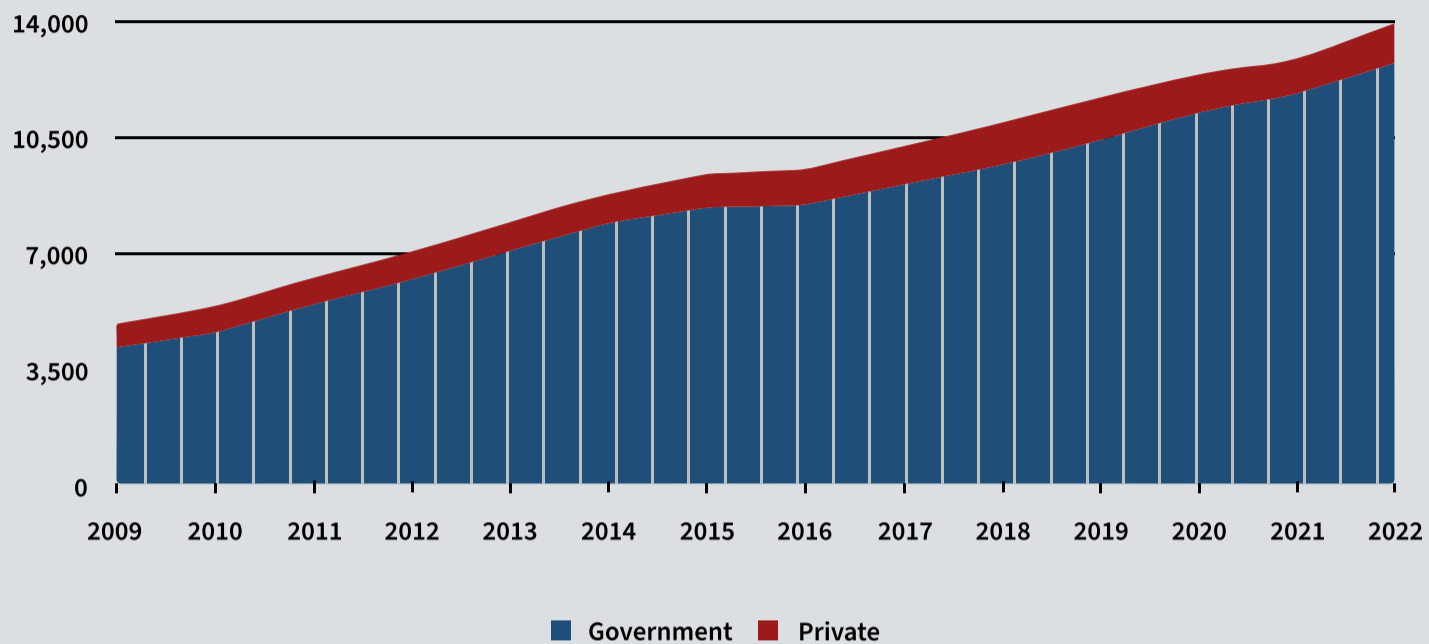
The 2007-2009 global financial crisis hit the Mexican corporate debt market, causing a decrease in bond issuance activity and an increase in financing costs. However, the Mexican securities market system proved resilient and recovered over the next decade.

From 2009 to the third quarter of 2023, the Mexican corporate debt market has experienced solid growth. The overall listed balance of corporate debt has grown considerably during this period, from 712 billion Mexican pesos to \$1,188 billion Mexican pesos. The foregoing, with a greater diversity of issuers and types of financial instruments.

The Mexican securities market system has continued to be a significant source of financing for the Mexican economy. However, we can observe a high concentration in the government sector, which total listed balances grew 238% during this period, from 4,121 billion Mexican pesos to \$12,747 billion Mexican pesos.

The balance of government-issued instruments increased from 85% of the total in December 2009 to 92% in August 2023, which includes general debt instruments issued by the government, parastatal entities (*empresas paraestatales*), trusts and state financial institutions (*instituciones financieras estatales*).

Total balances of listed debt (government and private)
Billions of Mexican pesos

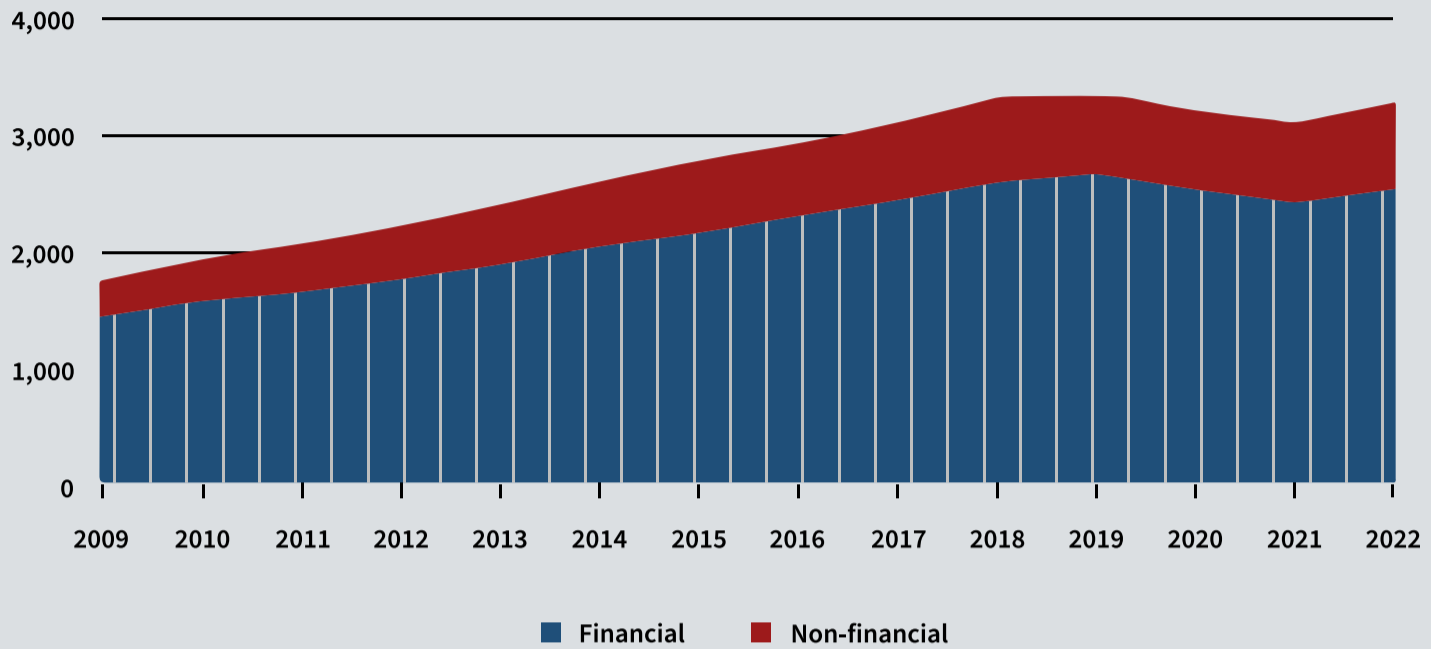


Source: Banco de México, 2023

Another way of analyzing the data is by sector: financial, non-financial, and general government instruments. We can thus observe that financial companies have dominated the majority of issuances, which, excluding general government securities, have captured 76% of securities market financing. However, financing to non-financial entities has gained ground over financing to financial entities, as, during this period, their securities market financing grew by 141% compared to the 77% growth achieved by financial entities.

However, upon closer analysis of financial entity participation, the role of private companies is considerably reduced when we divide the financial sector into state-owned and private. We can observe that government financial institutions capture most of the securities market financing and are gaining terrain, going from 73% to 82% of financing to financial companies. The growth in securities market financing to the private sector has been a mere 19% during this period, in contrast with government financing, which doubled.

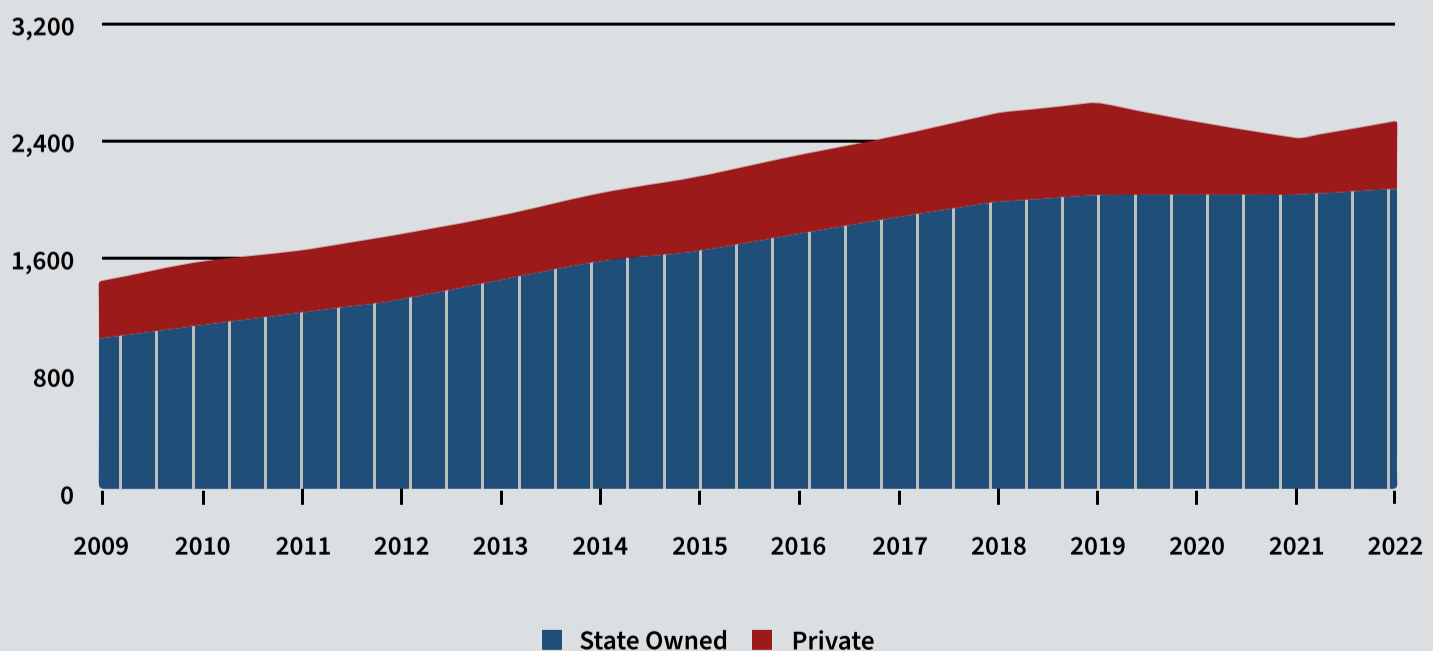
Listed debt balances by sector (excl. sovereign)
Billions of Mexican pesos



Source: Banco de México, 2023

Government institutions include the IPAB, trusts, Banxico (mainly monetary policy), and development banks. Private financial companies include commercial banks and NBFIS.

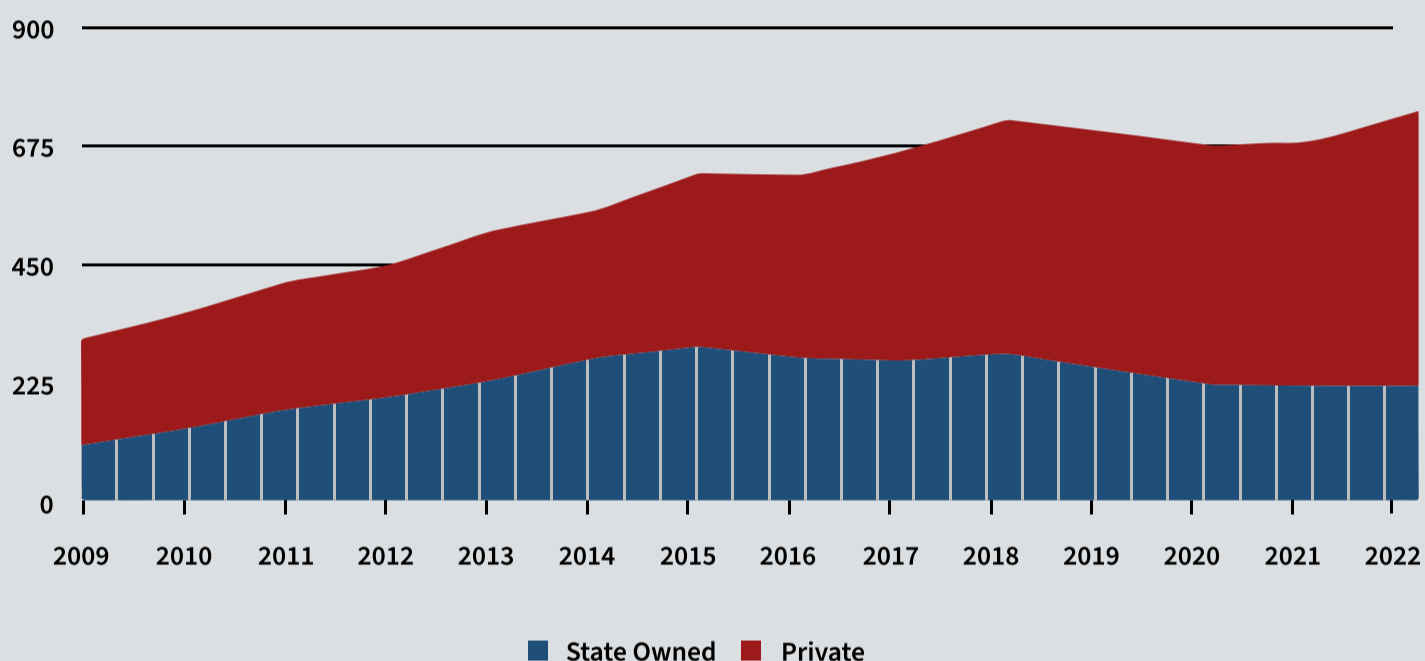
Financial sector listed debt balances
Billions of Mexican pesos



Source: Banco de México, 2023

The same is true, although to a lesser extent, if we analyze the non-financial sector. State-owned companies account for a significant portion of securities market financing, mainly PEMEX and the CFE. However, we can observe a growth of 159% in securities market financing to private companies during the aforementioned period, from 243 billion Mexican pesos to \$630 billion Mexican pesos.

Non-financial sector listed debt balances
Billions of Mexican pesos

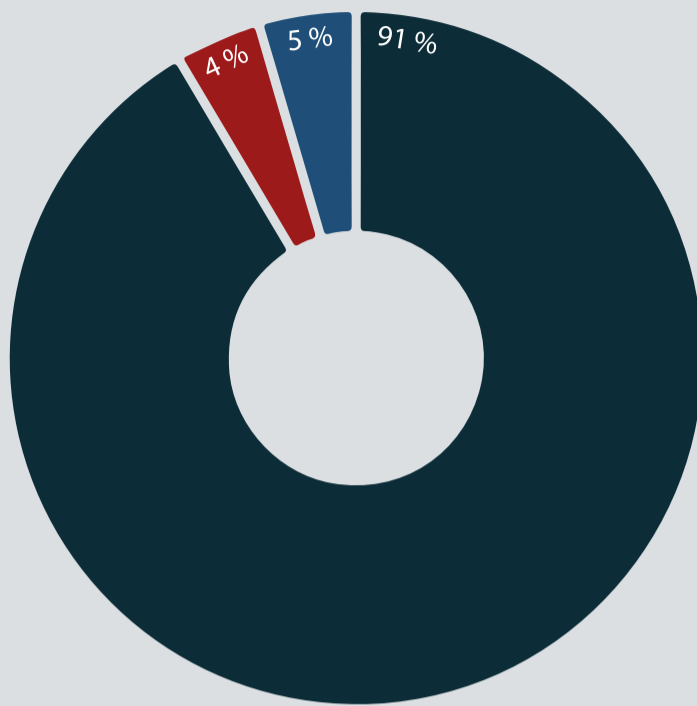


Source: Banco de México, 2023

Ten issuers, all with “AAA” credit ratings on a local scale or equivalent, represent 45% of the non-financial sector debt market. Among these issuers, PEMEX and CFE stand out, accounting for 19% of the outstanding volume.⁴

The Mexican securities market system has played an important role in financing the Mexican economy. The value of outstanding debt securities amounted to close to 14 trillion Mexican pesos in 2022. However, this has resulted in a concentration in government financing, as well as in development banking and parastatal sector financing.

⁴ Source: BIVA, BMV, 2023

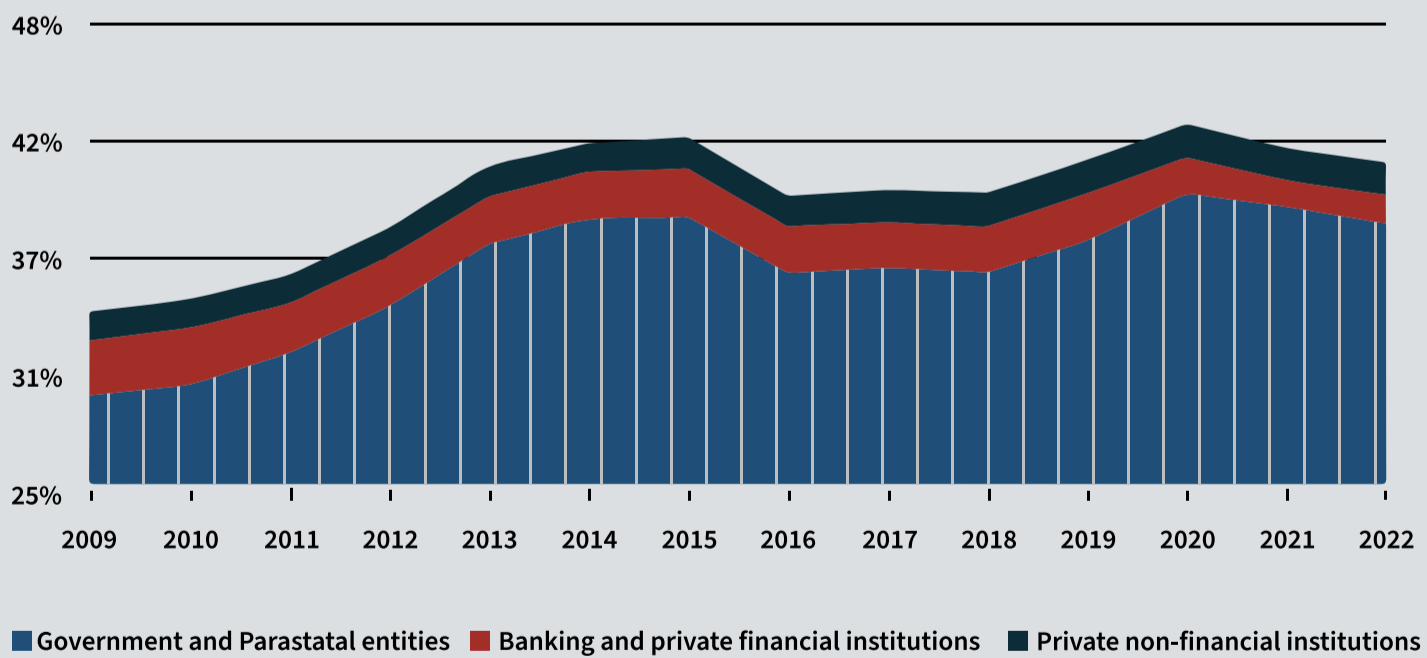


Outstanding Securities Dec. 2022

- Government and Parastatal Entities
- Banking and Private Financial Institutions
- Private Non-Financial Institutions

Source: Banco de México, 2023

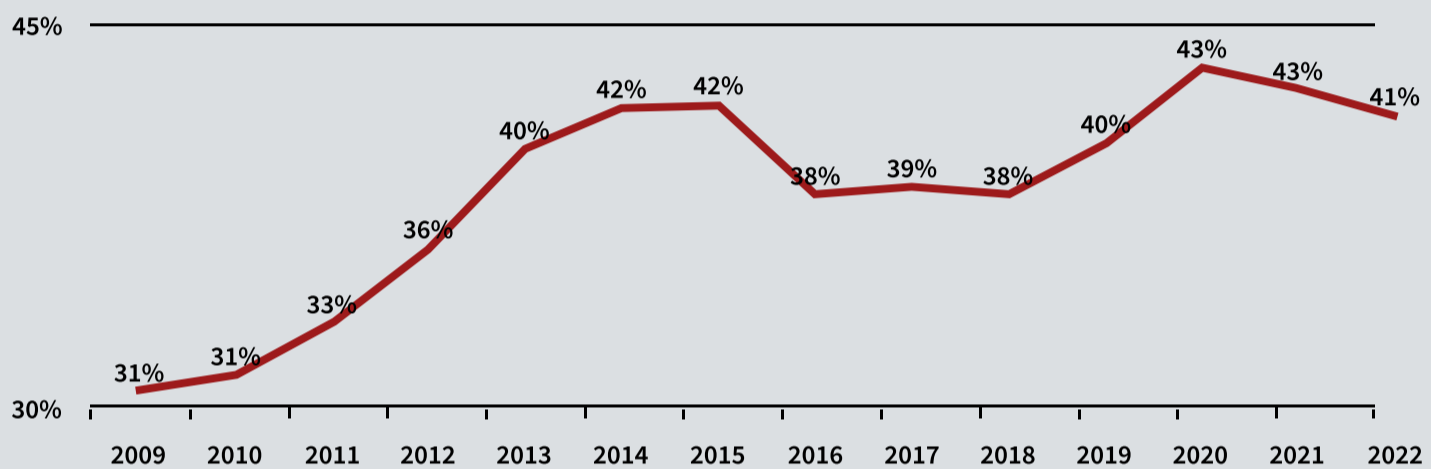
Listed debt securities change as GDP percentage



Source: Banco de México, 2023

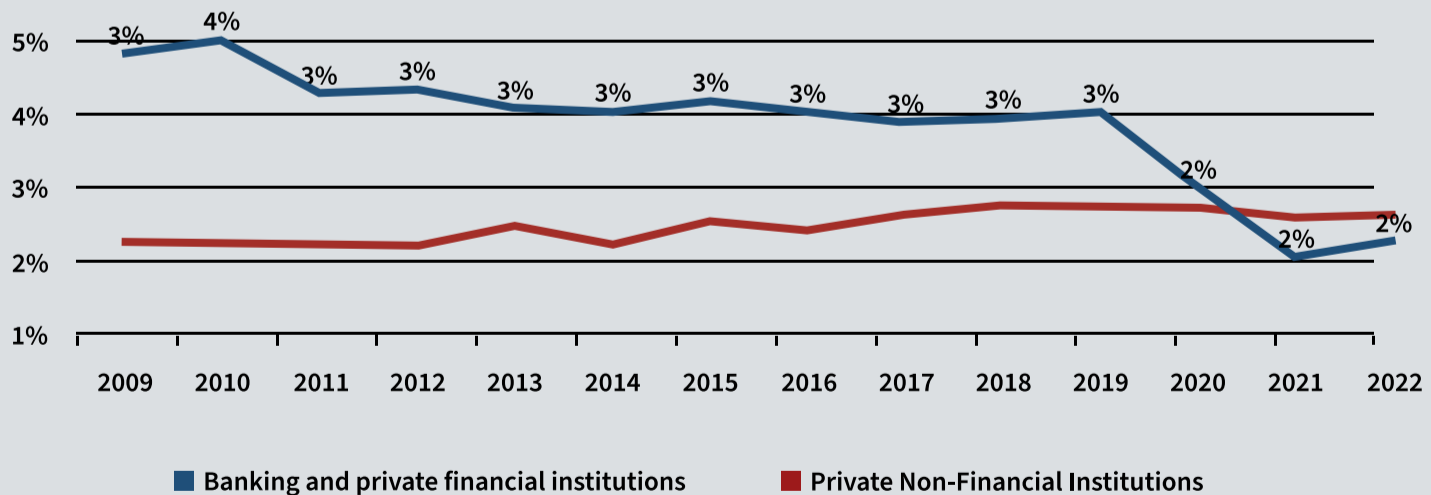
There is a high concentration in the government sector. In fact, 91% of securities market financing goes to government or government-related entities, corresponding to about 44% of the GDP. This ratio has increased consistently over the past few years, while the ratio of private financial entities has decreased and that of private non-financial entities has remained relatively stable.

Listed Government Sector Debt as GDP percentage



Source: Banco de México, INEGI; 2023

Listed private sector debt as GDP percentage



Source: Banco de México, INEGI; 2023

Securities market financing for the Mexican private sector represents only approximately 4% of the GDP. Practically half of securities market financing directed to the private sector is concentrated in banks and NBFIs, which means that the real sector of the Mexican economy only receives securities market financing equivalent to 2% of the GDP.

Nevertheless, the securities market sector has freed up resources for commercial banks and NBFIs to increase their financing activity for companies and individuals. Furthermore, the corporate debt market is evolving and consolidating as an important source of financing for the private sector.

The outlook for the Mexican securities market system and the corporate debt market is promising, with the expectation that innovation and technology will continue to transform the traditional ways in which companies access financing and engage with investors. As a result, new opportunities may open up for the growth and development of companies in the Mexican private sector, including SMEs.

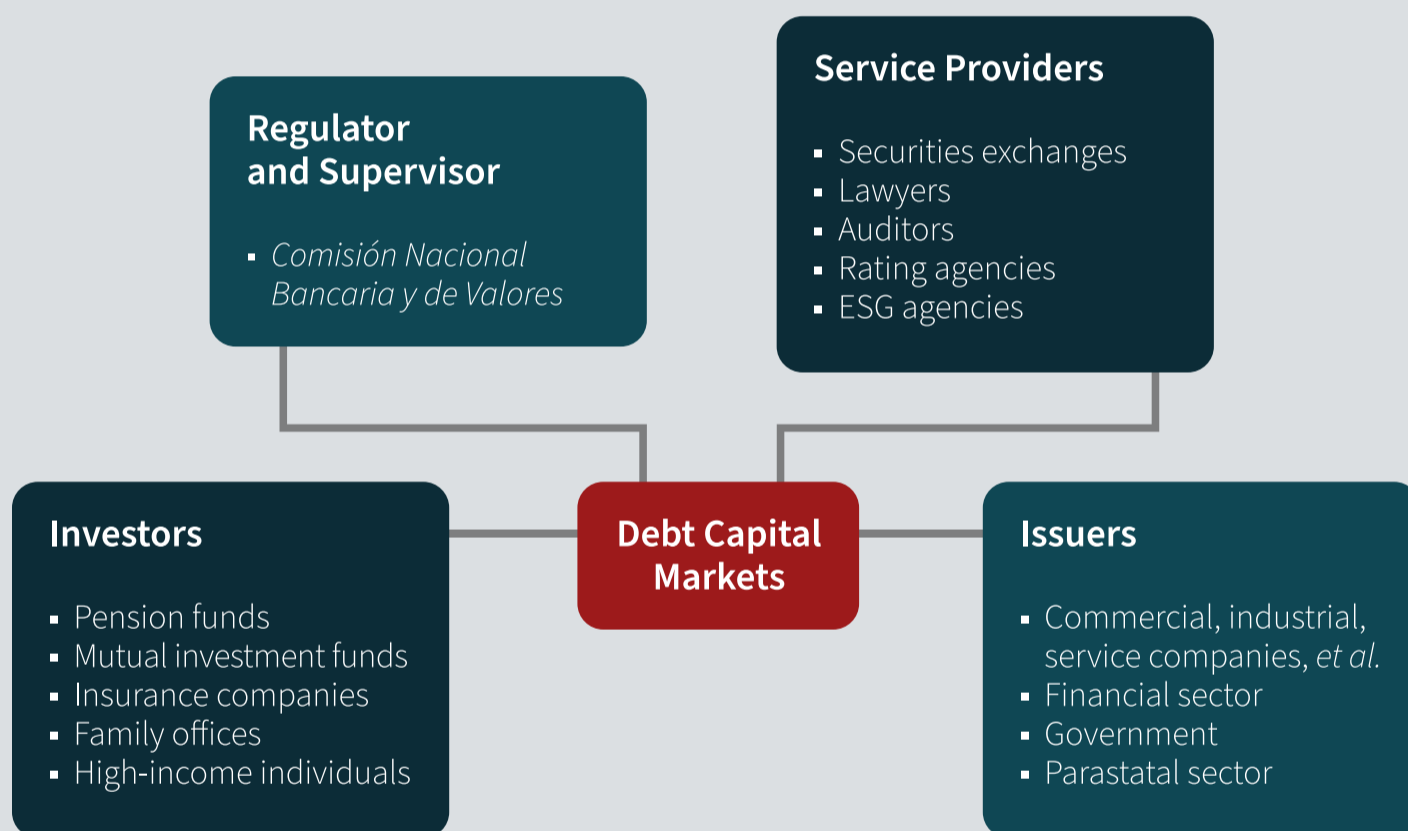
2.2 KEY MARKET PARTICIPANTS

1	Auction and bookbuilding companies:	These companies participate in the placement of debt securities through electronic platforms, enabling the auction and bookbuilding process to establish both price and demand for instruments.
2	Auditors/ accountants:	Professionals and accounting firms that verify financial and accounting information provided by issuers.
3	Brokerage firms (casas de bolsa) (intermediaries):	Financial institutions authorized and regulated by the CNBV which play a fundamental role in the placement of debt instruments in the market, acting as a link between issuers and investors. Through their corporate finance divisions, brokerage firms provide advisory services to debt and equity issuers.
4	Clearing agent:	In the Mexican market, the ccv acts as clearing agent, ensuring that transactions are effectively settled.
5	Common representative:	Regarding debt instruments, acts before the issuer on behalf of bondholders (<i>tenedores de certificados bursátiles</i>) to protect their interests.
6	Depository (Custodio):	In the Mexican market, the INDEVAL is the entity responsible for the custody and management of securities.
7	ESG rating agencies:	ESG rating agencies are among the most recent players to enter the scene. These agents are responsible for assessing the status and performance of issuers in relation to ESG aspects. Their presence exerts considerable influence on ethical and responsible investment decisions. Although, initially, their focus was on the issuance of “thematic bonds”, such as green, social and sustainability bonds, their relevance is constantly growing, positioning themselves as participants in all securities issuances.

8	Investment banks/financial advisors/structuring agents:	Professionals and specialized firms that advise issuers on the structuring of debt and equity instruments, including their terms and conditions.
9	Investors:	Individuals, financial institutions and funds that purchase debt instruments, seeking profitability and diversification in their portfolios.
10	Issuers:	Government entities, corporations and other organizations that issue debt instruments to finance their activities.
11	Legal advisors:	Lawyers and law firms that advise issuers on legal matters related to the issuance of debt instruments.
12	OTC debt securities broker-dealers:	These firms assist in the trading of debt instruments in the over-the-counter (OTC) market, where securities are traded after placement (secondary markets) directly between buyers and sellers outside securities exchanges. They are referred to as mechanisms to facilitate securities transactions.
13	Price vendors:	Companies that provide prices of listed securities based, primarily, on their price in the secondary market.
14	Rating agencies:	Entities that evaluate the credit strength of issuers and their debt instruments, issuing credit ratings which inform investors on the probability of defaults.
15	Regulator/Supervisor:	The National Banking and Securities Commission (<i>Comisión Nacional Bancaria y de Valores</i>) (CNBV) is the entity responsible for the surveillance and regulation of the Mexican securities market.
16	Securities exchanges (<i>Bolsas de valores</i>):	The BIVA and the BMV are securities exchanges in which debt and equity instruments are listed and issued. They provide the required infrastructure for the trading and settlement of transactions.
17	Trustee (<i>fiduciario</i>):	A bank or brokerage firm that manages and operates a trust (debt or equity securities issuing vehicle).

2.3 SECURITIES MARKET DYNAMICS IN MEXICO: A BRIEF ANALYSIS OF KEY PARTICIPANTS

The Mexican debt market comprises an ecosystem characterized by the active interaction among the aforementioned participants. These key participants contribute substantially to the dynamics of this financial market, which is critical to the country's economy. The following is a brief analysis of how each of these participants performs its role in the market dynamics:



1. Issuers: whether government entities (sub-sovereign entities) or private sector companies, they are the drivers of market dynamics through the issuance of debt instruments to obtain both short- and long-term financing. Their decision to undertake issuances is influenced by various factors such as market conditions and interest rates, as well as their own capital needs. They work on structuring instruments designed to attract investor interest through interaction with their advisors and investment banks.

2. Investors: they are the backbone of the debt securities market. By analyzing credit ratings, price information, and data provided by issuers, investors make decisions regarding the acquisition of debt instruments aligned with their profitability and risk tolerance targets. Under applicable laws, there are three types of investors:

a. Institutional investors: which are represented by investment companies, banks, and pension funds, among other financial entities.

b. Qualified investors: which are those who comply with certain financial requirements that allow them to access investment opportunities not generally available to other retail investors; these requirements refer to having a minimum investment capacity.

c. Public investors: which are individuals (small savers) and retail investors who do not have the same financial capacity or knowledge as the investors described above, and are, therefore, subject to higher protection levels.

3. Regulator/supervisor: the CNBV plays an important role in supervising and regulating the debt securities market. Its participation in the market dynamics lies, mainly, in overseeing the disclosure of relevant information on transactions so that these are carried out fairly, transparently, and in strict compliance with the regulations in force.

4. Securities exchanges: the BIVA and the BMV play a fundamental role in market dynamics. The listing and public offering of debt instruments are performed through these institutions to provide investors the opportunity to acquire securities within a regulated and transparent environment.

5. Brokerage firms (placement agents): these participants are responsible for the placement of debt instruments in the market. Their interaction with issuers contributes to market dynamics by enabling the issuance and distribution of securities among investors. Strategies such as bookbuilding and electronic auctions are implemented to set competitive prices. According to the AMIB, there are 36 brokerage firms authorized by the CNBV to operate.

6. Rating agencies: credit ratings issued by these entities influence investors' risk assessment. Their participation in market dynamics lies in the evaluation of the credit soundness of issuers and their debt instruments, which can impact interest rate surcharges and the appeal of the securities issued. The CNBV supervises 7 rating agencies in Mexico; amongst the leading agencies are Fitch México, S&P Global Ratings, Moody's Local México, HR Ratings de México and Verum.

7. Investment bankers/financial advisors/structuring agents: these specialized professionals play a relevant role in advising issuers in the structuring of debt instruments. They collaborate in the establishment of maturity, interest rates, amortization, and other characteristics of the instruments issued. Their knowledge contributes, fundamentally, to the creation of attractive instruments for both issuers and investors.

8. Trustee: regarding structured or off-balance sheet debt, trusts have a critical role. They act as independent agents that protect the interests of investors and ensure compliance with the terms and conditions of the debt instruments. Legally, all banks and brokerage firms may act as trustees; however, only a few participants cover this niche.

9. Auction and bookbuilding companies: these technology companies contribute an essential element to the dynamics by providing digital solutions that allow issuers and investment banks to efficiently execute auctions and bookbuilding processes. This results in accurate pricing and demand assessment by investors.

10. otc Broker-dealers/Secondary market brokers: otc Broker-dealers have a fundamental role in the secondary market. They enable the negotiation of debt instruments outside securities exchanges, allowing the connection between buyers and sellers in customized transactions. Their intervention expands liquidity options for investors.

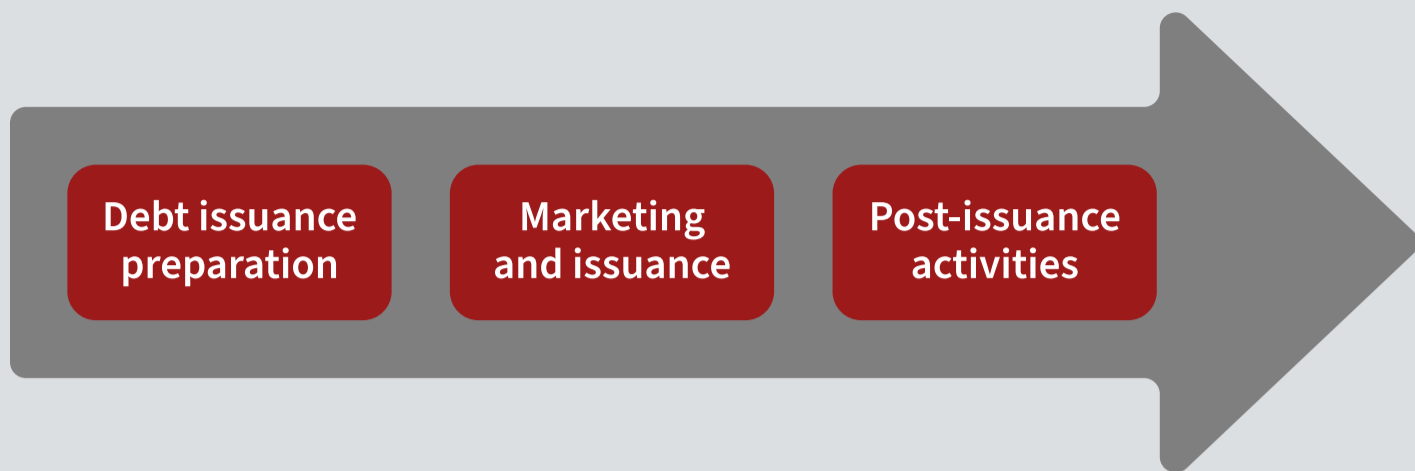
11. Price vendors: market dynamics receive a decisive boost from these real-time data providers, such as PiP and Valmer. They provide up-to-date information on prices, rates and other market indicators, allowing participants to make informed decisions based on accurate and up-to-date data.

12. Central counterparties and securities depositories: the ccv and the INDEVAL are actors that ensure the proper settlement and custody of securities, which contributes significantly to the dynamics by ensuring that transactions run smoothly and that investors receive their securities and payments in a timely manner.

In summary, the dynamics of the Mexican debt securities market are the result of constant collaboration and interaction among various key participants. From issuers seeking financing to investors pursuing investment opportunities, each of these key participants has a critical role in creating a smooth and dynamic environment in which debt instruments are issued, traded, and managed.

3. DEBT SECURITIES ISSUANCE: A DETAILED GUIDE

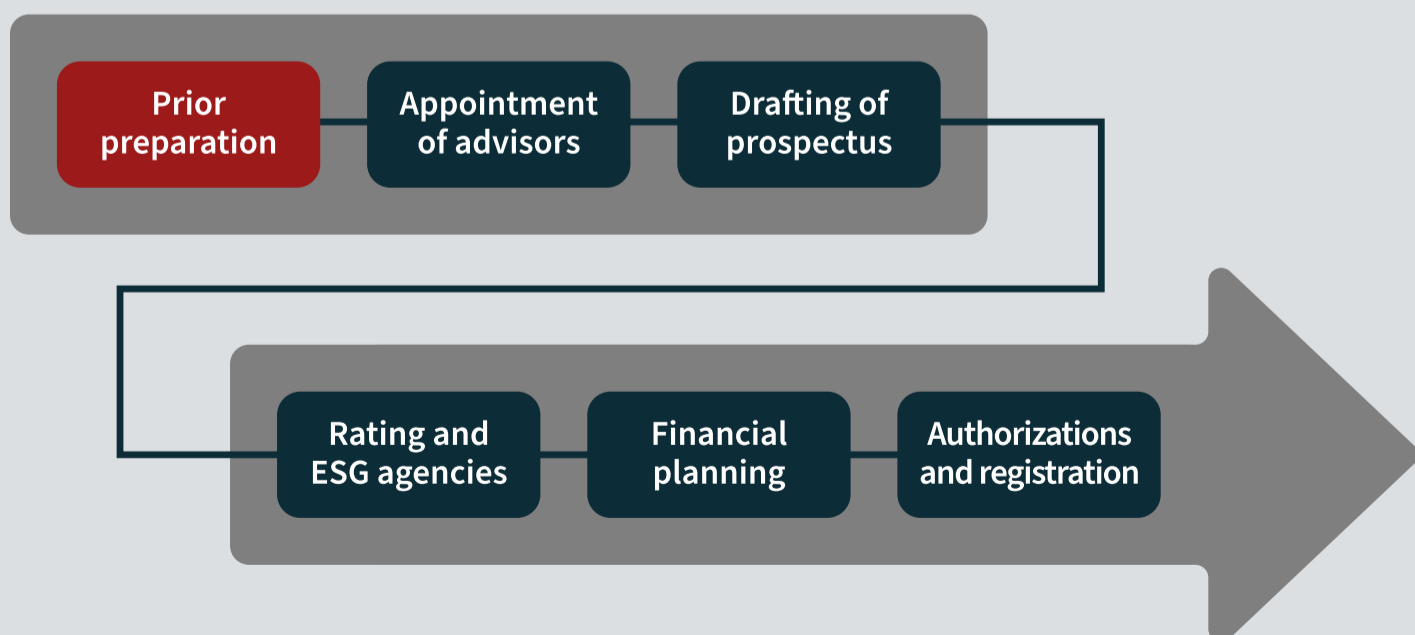




This section describes the general process for the issuance of debt securities. This process begins with the prior preparation by the issuer. Preparation ranges from capital structure analysis to the appointment of advisors, rating agencies, and regulatory processes. This is followed by the marketing of the transaction, which concludes with the issuance of the securities. This section also includes a subsection describing certain post-debt issuance activities. These activities include, *inter alia*, liability management and compliance with reporting obligations.

3.1 DEBT ISSUANCE PREPARATION

3.1.1 Pre-issuance preparation.



A. Analysis of the company's capital structure and identification of financing needs.

The first step in the debt issuance process is to define a company's optimal capital structure and financing needs. The optimal capital structure is that which minimizes the cost of raising capital while achieving, at the same time, the company's strategic objectives.

Once the capital structure has been defined, the company must identify the different capital sources available for financing.

Companies may need capital to finance working capital, acquire equipment and machinery, refinance debt, etc. The most common sources of capital are equity, debt, and internal capital.

It is important to have a capital allocation strategy that is consistent with the company's objectives. It is also recommended that long-term assets be financed with long-term capital. For example, the acquisition of capital assets should not be financed with short-term debt.

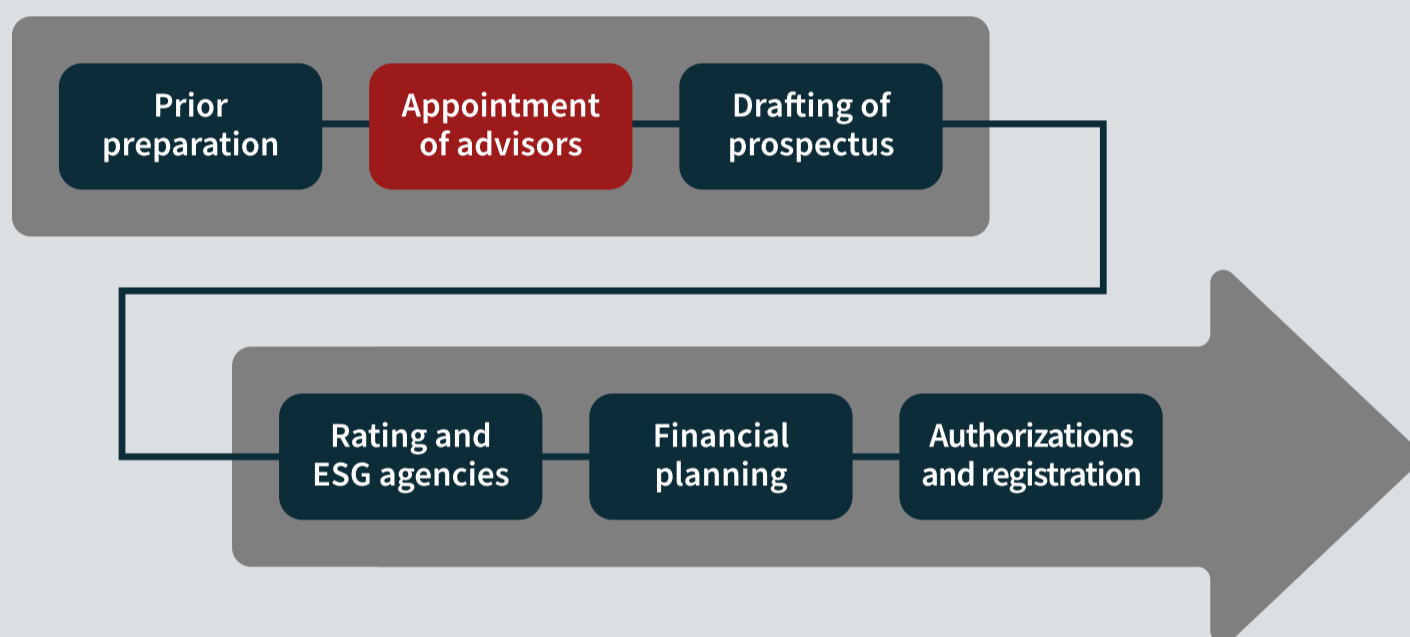
B. Assessment of the company's condition in terms of corporate governance practices, accounting (auditors, timely and proper submission of accounting information, etc.), and tax and legal compliance.

Once the decision to enter the debt market has been made, the management team (CEO, CFO, comptroller, etc.) must understand the legal and regulatory implications of issuing debt in the markets. First, an internal assessment of the company's specific condition in terms of corporate governance practices and compliance with legal and tax obligations shall be performed.

Corporate governance and transparency regarding financial information will be fundamental for any company intending to issue marketable debt. In fact, one of the greatest challenges when issuing debt is minimizing agency problems between the company and investors (*i.e.*, potential debt holders). The assessment should cover

issues ranging from the company's organizational chart to internal committees and accounting. Understanding the quality of the accounting information produced, as well as its timely and proper submission, will be critical. In this context, external auditors play a key role, considering the provision of relevant information thereby.

3.1.2 Appointment of advisors: engagement of placement agent (investment banker), legal advisors, and other experts to assist in structuring the issuance and complying with regulatory requirements.



An important step in the debt issuance process will be the appointment of the advisors who will support the company:

1. Placement agent: for regulatory purposes, the company shall have, at least, one placement agent (*agente colocador*) or placement intermediary (*intermediario colocador*). The placement agent, together with the issuer, handles the debt authorization and issuance process. The placement agent is a brokerage firm duly authorized by the CNBV in terms of the LMV.⁵ The placement agent leads the issuer from the beginning of the process and its responsibility ends at the time of placement of the securities and settlement of the subscription thereof.

⁵ Incorporated and authorized in accordance with Title VI of the LMV.

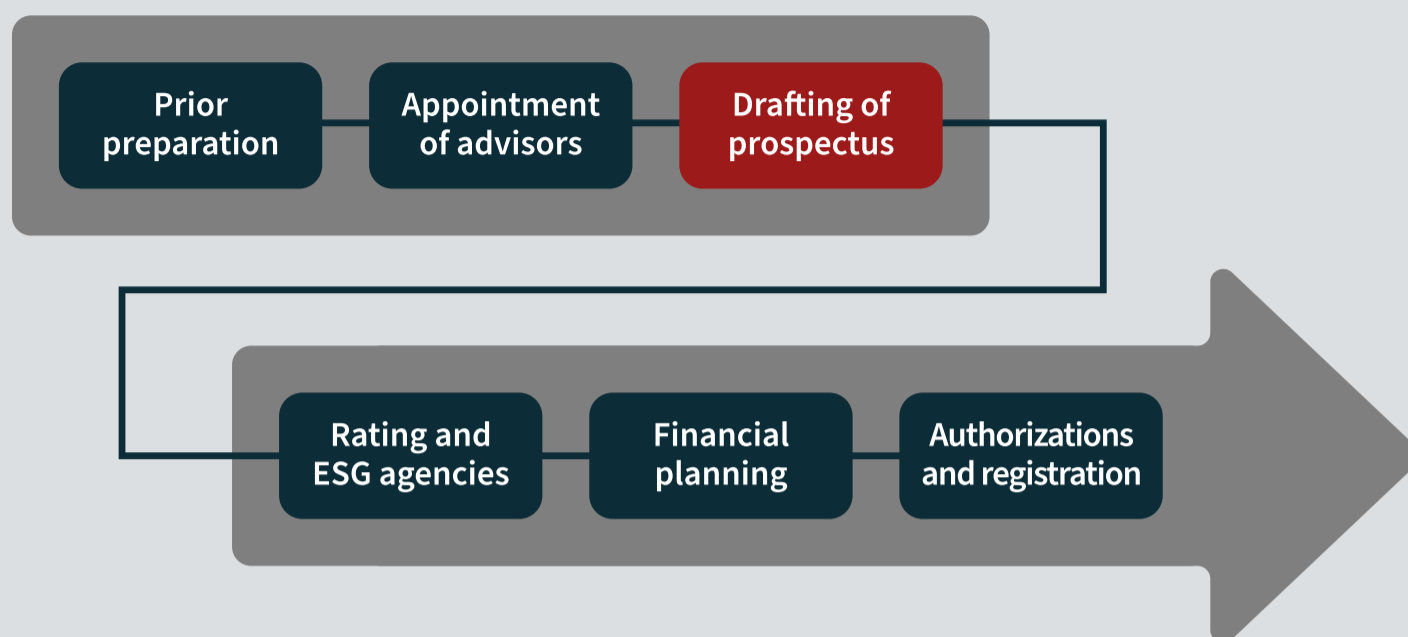
It is common for larger issuances to involve more than one placement agent. It is possible to have one or more placement intermediaries in a single issuance.

2. Legal advisor: the role of the legal advisor will be represented by a legal expert, *i.e.*, a person with a Mexican law degree, certified by the General Career Board (*Dirección General de Profesiones*) under the SEP, preferably, with experience in the securities market. The latter will be responsible for assisting the issuer in the document drafting process in accordance with the regulations in force; in addition to preparing the “legal opinion” whereby the advisor addresses the legal validity and enforceability of the issuance documents, as well as the powers and authorities of the attorneys-in-fact. In complex transactions, in addition to the issuer’s legal advisors, placement intermediaries may be assisted by their legal advisors.

3. Structuring agent: in the case of structured issuances, *i.e.*, issuances that use legal vehicles to secure the issuance (non-secured issuances (*emisiones no quirografarias*), with specific collateral), the participation of structuring agents is required. The latter, together with the legal advisors, will be responsible for the incorporation of the legal vehicle and the development of the structure to fulfill the purpose of the issuance; for example, in the case of issuances secured with assets contributed to a trust.

4. Other advisors: the issuer may also have other types of advisors to handle tax and accounting issues or, as has recently become more common, an advisor on ESG matters (good ESG practices). This last item has gained relevance, as many investors seek to invest in companies with sound ESG practices.

3.1.3 Prospectus drafting.



The first formal step in the issuance process is the preparation of the placement prospectus (*prospecto de colocación*). The placement prospectus contains all the relevant information regarding the offering of securities to be made, as well as information about the issuer's business and characteristics, which shall comply with all the regulatory requirements described in the preceding chapter. Said prospectus will be filed before the CNBV, together with the application for registration of the corresponding debt securities and the annexes thereto, for said authority to review that all relevant obligations are complied with. At the same time, such document will be filed before the securities exchange, which, while not in charge of authorizing the document, is involved in the review and feedback process. Once authorized, the prospectus will be available to the investors well in advance of the offering date. It is a fundamental document on which investors will, to a large extent, base their investment decision. Generally, the prospectus is drafted by the placement agent and legal counsel during this stage, with the participation of the issuer, who will provide all necessary and detailed information for such purposes. The following steps shall be observed in drafting the placement prospectus:

- 1. Due diligence:** as a preliminary step in drafting the placement prospectus, the placement agent and the legal advisors will lead the process whereby the nature of the issuer's business is analyzed and

described in detail, identifying risks and presenting truthful and detailed financial information. This information will constitute a fundamental part of the prospectus. It is essential to carry out an exhaustive process to provide the greatest number of elements that will allow the investor to make an informed decision. The due diligence process is generally carried out through a series of interviews with the issuer's key executives (CEO, CFO, comptroller, human resources, etc.).

2. Prospectus drafting: based on the due diligence, the prospectus will be drafted in compliance with the legal requirements outlined in the CUE. The prospectus will cover various aspects ranging from the particular characteristics of the issuance (term, currency, interest rate, maturity date, interest payment periods, guarantees, trusts, credit ratings, etc.) to a detailed description of the issuer's business (market, business model, major clients, suppliers, human resources). Likewise, information such as the issuer's organizational structure, risk factors affecting the issuer, key management and shareholders, environmental aspects, open legal proceedings, and detailed financial information shall also be included.

3.1.4 Involvement of credit rating agencies and ESG agencies.

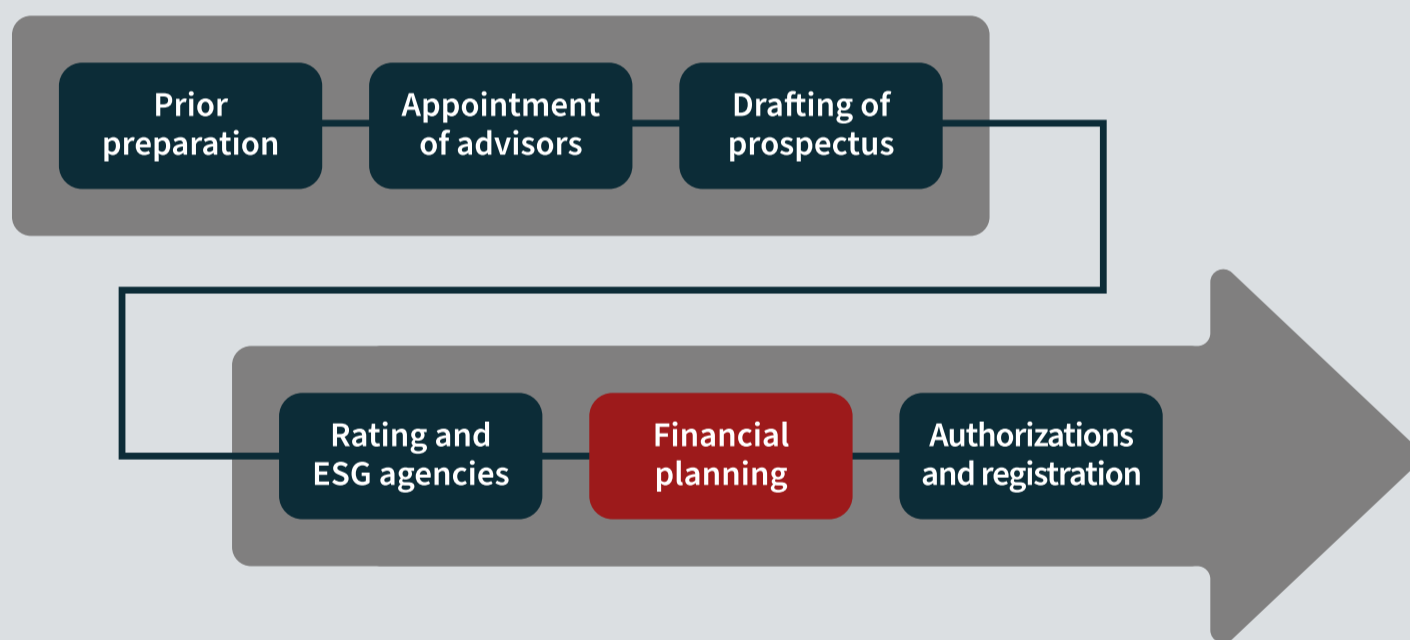
1. Credit risk rating agencies: the issuer shall contact one or more credit risk rating agencies to obtain the credit rating(s) for the issuance. Credit ratings are a regulatory requirement and will be part of the documents attached to the prospectus. This process may take several weeks for a new issuer; therefore, it is advisable to start as soon as possible.

Depending on the type of issuer and characteristics of the issuance, up to two credit ratings may be required for the issuance. There are several global and national risk rating agencies. The best-known global agencies are Standard & Poor's Global Ratings, Moody's Investor Services and Fitch, while HR Ratings and Verum are commonly used in Mexico. The credit rating scale ranges from AAA to D, depending on creditworthiness, where D is the lowest and AAA is the highest.

2. ESG Agencies: in addition to credit risk rating agencies, the issuer may require the services of an agency specialized in ESG aspects. Certain rating agencies can perform this task.

ESG agencies evaluate companies from these three perspectives and offer an assessment of each company's condition. Although this is not currently part of the regulation, it is increasingly common for institutional financiers to seek to invest in companies that have a good track record regarding ESG practices. The financial community shares the sense of urgency to promote the adoption of sustainable corporate practices in the business sector.

3.1.5 Financial planning. Definition of financing strategy: instrument, amount, term, type of rate, and market determination.

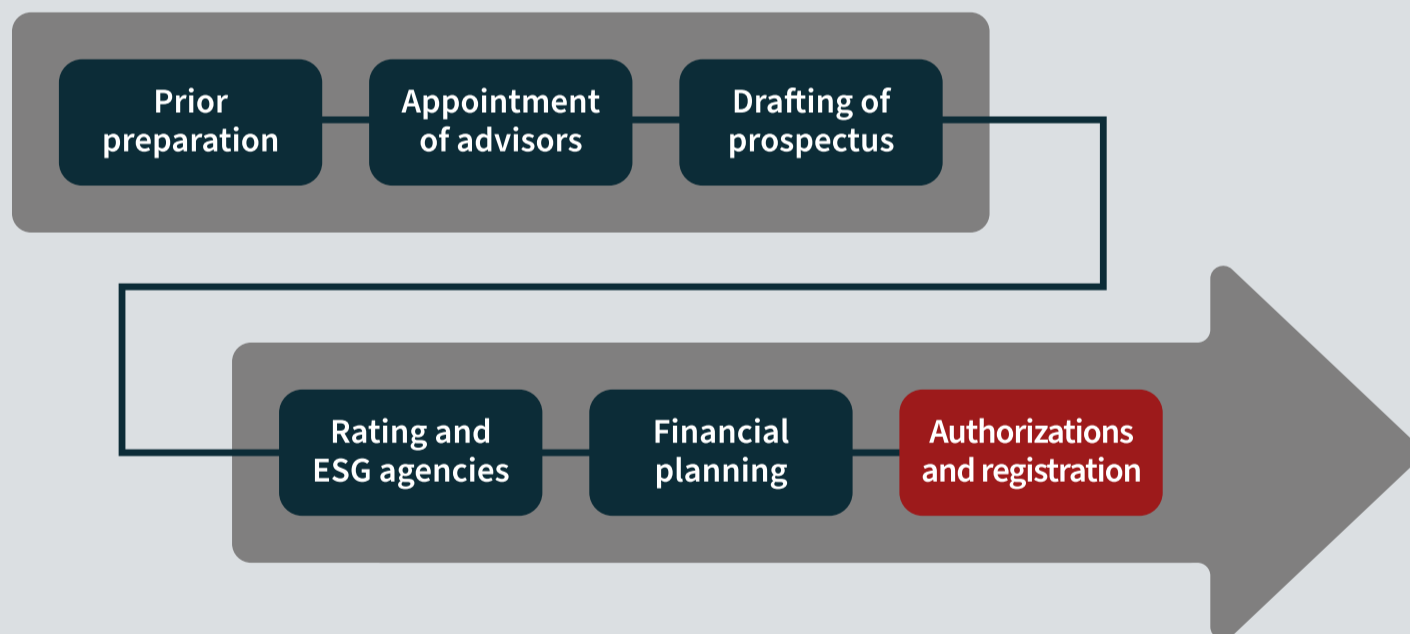


Once the corporate governance assessment has been obtained, the due diligence on the financial position has been performed, and the use of the resources to be obtained through the issuance and its effects on the cash generation capacity have been identified, the company will be able to analyze the optimal financing strategy. In other words, the type of instrument to be used, the amount to be issued, the term, the principal amortization structure, as well as the currency to be issued and the corresponding interest rate to be paid (floating or fixed).

The debt market in Mexico is sufficiently diversified to offer different types of instruments, as well as maturity terms that can range from 28 days to 10 or 30 years. It is worth mentioning that longer maturities (equal to or greater than 10 years) are only available for government issuances or for some corporations with high credit ratings. It is estimated that SMEs could reach maturity terms ranging from 4 to 7 years and, possibly in the future, the 10-year maturity term could also be available.

Furthermore, the choice of interest rate will depend on the company's own characteristics and market conditions. Generally, working capital is financed through short-term debt, while capital expenditures or acquisitions are financed through medium- to long-term debt. The term of the debt will depend on the characteristics of the business, as well as its creditworthiness.

3.1.6 Authorizations and registration.



1. Regulatory authorizations: except for the simplified registration (*inscripción simplificada*) of securities referred to in the Amendment Bill dated December 28, 2023, once all legal requirements have been complied with, the final step in the regulatory process for the issuance is to obtain the required authorizations from the CNBV, in order to complete the registration before the RNV and carry out the offering of the debt securities. Section 5 hereunder describes the authorization

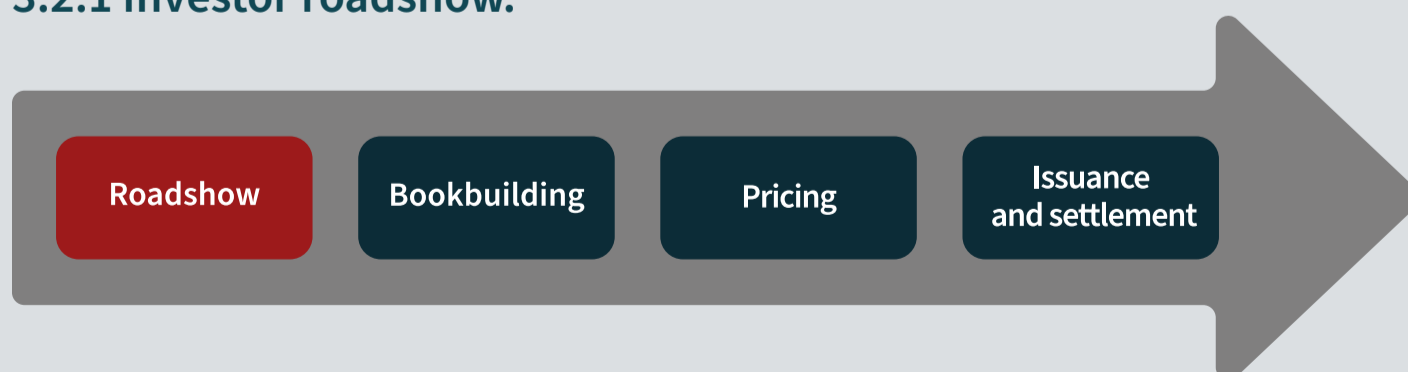
process and the required documents to be submitted before the CNBV in greater detail. In some cases, other authorizations may be required, as could be in the event of mergers, acquisitions or market concentrations that could be deemed to be monopolistic practices.

2. Registration before securities exchanges: “simultaneously” with the application for registration before the CNBV (except for the simplified registration (*inscripción simplificada*) of securities referred to in the Amendment Bill dated December 28, 2023), the listing of the securities shall be promoted in a securities exchange. The securities exchange shall be provided with the same documentation submitted to the CNBV, so that such information may be made available to the investing public. In this regard, the securities exchange will issue a positive opinion regarding compliance with the requirements set forth in its internal regulations. There are currently two securities exchanges in Mexico where securities may be listed: the BIVA and the BMV. The securities exchanges will have, for each issuance, a section where all the information related to the securities shall be included: prospectus, supplements, etc.

3.2 MARKETING AND ISSUANCE

Once the authorization process before the CNBV has been initiated, the marketing process of the issuance may be started. This is a fundamental stage, since, in general, the goal is to promote the issuance among as many investors as possible.

3.2.1 Investor roadshow.

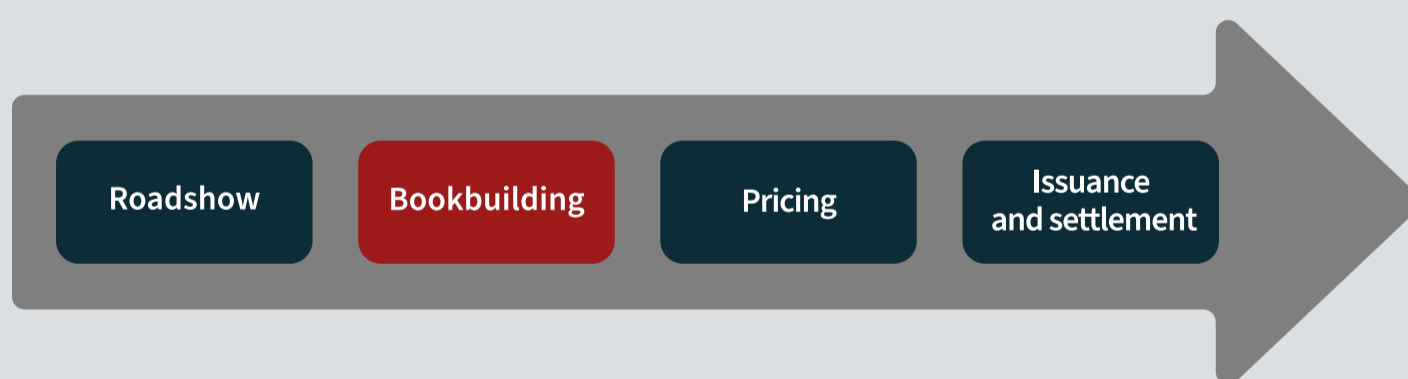


The marketing plan shall be structured by the placement agent and the issuer. It will consider the specific characteristics of the issuance, such as amount, term, creditworthiness, etc., in order to define the target investor audience. At this stage, promotional materials will be prepared, and the roadshow or information tour will be carried out. Both concepts are defined below:

1. Promotional materials: placement prospectus, KIIIS, corporate presentation, selling memorandum, among other materials. It is important to note that no information which has not been previously included in the prospectus or in any informative document authorized by the CNBV may be used as promotional material.

2. Roadshow: the placement agent will organize a series of face-to-face or virtual meetings with potential investors. These may be group or one-on-one meetings. On the investors' side, investment and risk managers attend. Depending on the type of issuance and issuer, these meetings could be with pension funds, investment companies, insurance companies, private banking managers, or wealth advisors.

3.2.2 Bookbuilding.



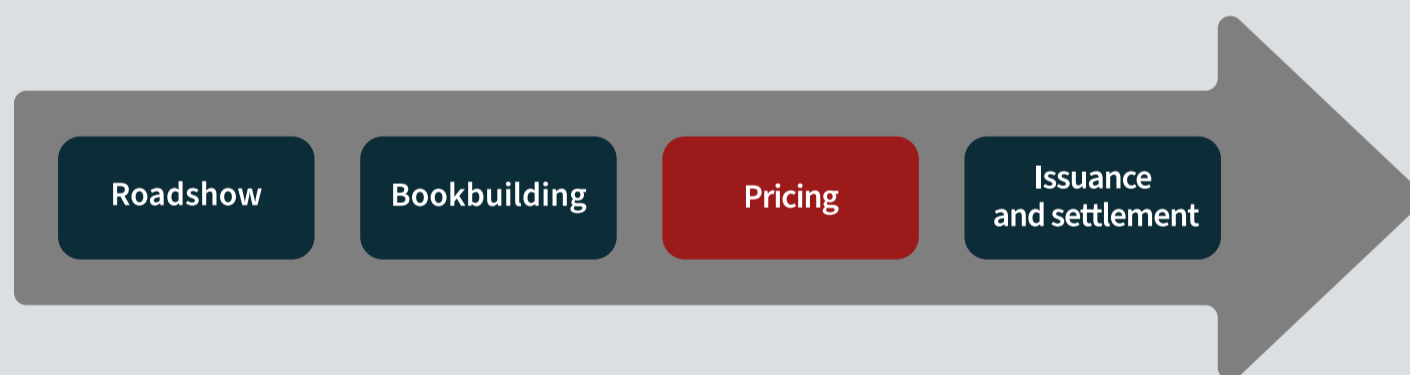
Once the marketing process of the issuance is concluded, the bookbuilding process begins. The placement agent will contact the different investors to clarify any doubts or so that they may request additional information regarding the issuance. The staff of the placement agent responsible

for bookbuilding is different from those who assisted the issuer in the preparation of the prospectus and the offering documents. Depending on the size and geographic distribution of the offering, it will be necessary to determine the need for an underwriting syndicate (*sindicato colocador*), in which case the lead bookrunner (*agente colocador líder*) will be in charge of the coordinating activities.

The placement agent may begin to receive indications from interested investors to create a preliminary book (which acts as a preliminary listing or registry) of purchase or subscription orders. Such expressions of interest shall include the amount they would be willing to invest, as well as the interest rate they would expect to obtain.

In this case, the investor could indicate interest in a range of amounts or indicate interest within a range of expected interest rates. Therefore, the preliminary book of orders may be modified by the time the final book is produced.

3.2.3 Pricing and order allocation.



Once all firm orders are received from investors, the placement agent shall work on the allocation of such orders. The issuer is usually involved in this process. When the demand for securities exceeds supply, a mechanism to minimize the issuer's cost of funding while treating investors fairly shall be established.

For instance, the allocation may involve establishing a maximum rate to be paid, while those who placed bids below such rate would receive their

allocation on a *pro-rata* basis. Some issuers may prefer to favor certain long-term investors, such as pension funds. The placement agent may advise the issuer in determining the best option.

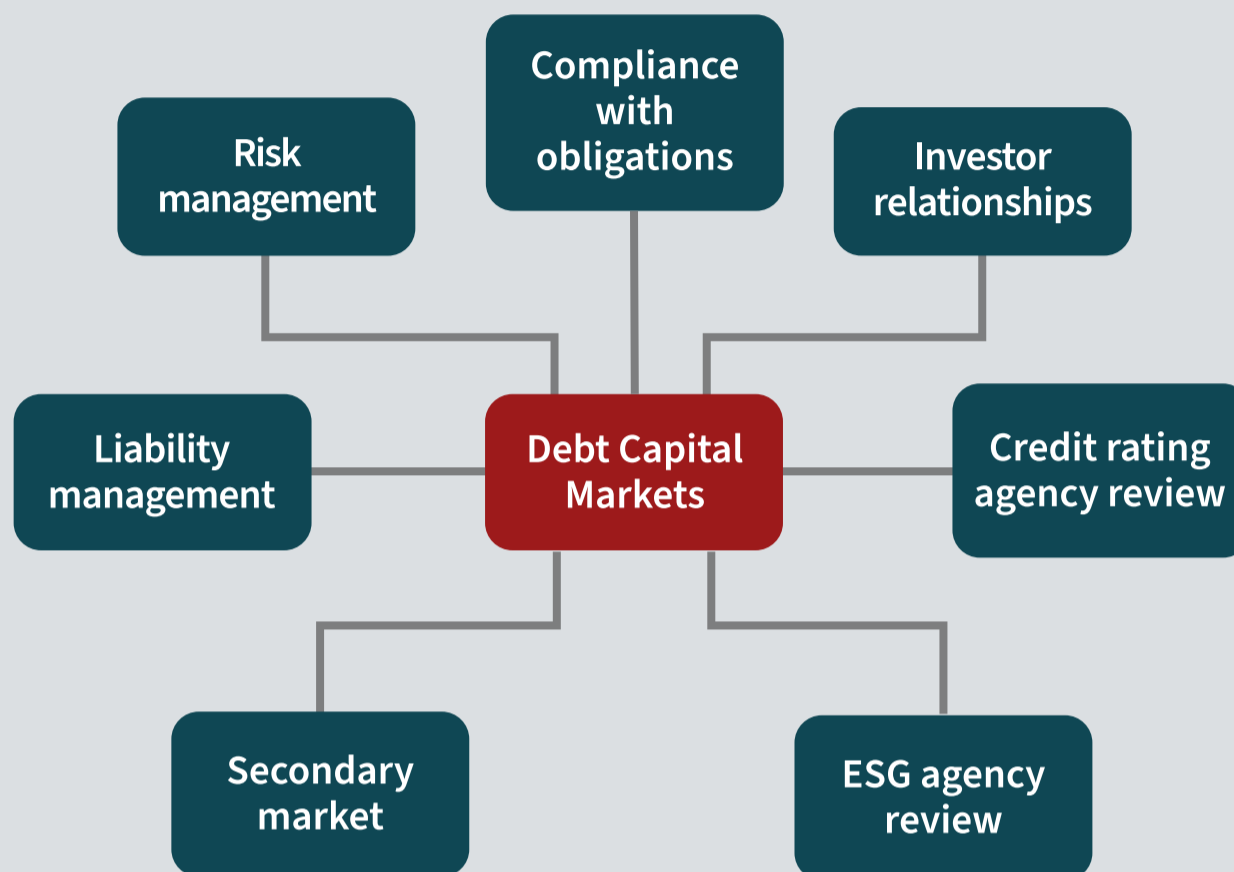
The final pricing determination for the issuance is made at the end of the allocation process. The final terms and conditions for the issuance are determined, including, mainly, the amount to be issued and the interest rate to be paid. This information is communicated to the market and the authorities for the settlement of the securities.

3.2.4 Debt placement and settlement process.



The issuer, assisted by the placement agent, deposits the issuance securities with the INDEVAL before trading-cross. As a final step in the debt placement process, the placement agent performs the cross-trade in the securities exchange and settles the amount of the subscription of the debt securities through the INDEVAL. Securities are assigned to investors according to the final order book. This generally occurs two business days after pricing conditions are set (T+2). As of that date, the securities will begin to accrue interest and the term for principal payments shall begin; a series of other activities which the issuer shall execute to comply with current regulations and market expectations begins. These activities will be discussed in greater detail in the following section.

3.3 POST-DEBT ISSUANCE ACTIVITIES



3.3.1 Financial reporting/disclosure obligations.

The first activity to be carried out by the issuer will be to fully comply with the applicable regulations and obligations set forth in the debt securities; particularly, to evidence the use of the proceeds in accordance with the offering documents. First, it is required to submit periodic financial reports, as well as to report relevant events. Such obligations are conceptually defined below; however, chapters IV and V herein describe the regulatory obligations in greater detail:

- 1. Quarterly and annual reports:** the LMV establishes the importance of ongoing disclosure of relevant information to investors. Issuers shall provide periodic information, such as audited annual financial statements, quarterly reports and other relevant data, so that investors can make informed decisions. The annual report shall be submitted during the first quarter of the year following the fiscal year being reported.

It is important to note that, when there are trusts and guarantors (*avales o garantes*) their financial information shall also be submitted.

2. Other obligations: as indicated in chapter IV, issuers with securities registered before the RNV shall notify the CNBV and the respective securities exchanges regarding relevant events that could affect the current or expected financial situation of the company as soon as they have knowledge thereof. The issuer shall also report corporate actions, corporate restructurings, and derivative positions, among others. Furthermore, the issuer shall report the causes leading to unusual movements in the price or trading volume of its listed securities.

3.3.2 Performance of obligations assumed in debt placements.

The main commitment of the issuer is, naturally, the payment of the debt. The issuer commits to pay interest and principal in accordance with the times and amounts established in the debt securities. In addition to the payment of interest and principal, and, as applicable in each case, there may be a negotiation between the issuer and investors to establish additional financial obligations. These obligations involve affirmative and negative covenants undertaken by the issuer and are intended to guarantee payment to investors.

For instance, the issuer may undertake to maintain a level of net indebtedness lower than X number of times the annual EBITDA (*i.e.*, earnings before interest, taxes, depreciation, and amortization). Or it may undertake to maintain minimum liquidity to cover debt service payments. As an example of negative covenants, the issuer could agree not to sell or divest relevant assets while there is outstanding debt. Likewise, the issuer could agree not to pledge any of the company's relevant assets as collateral for another loan (*i.e.*, financial covenants).

These commitments will depend on the issuer's credit worthiness and the negotiation process. The placement agent may advise the issuer in the negotiation process to reach an agreement that benefits both the issuer and the investors.

3.3.3 Post-agreement investor relations.

While not a regulatory obligation, when a company has securities listed in the market, having an investor relations area is a common practice.

This area will be responsible for maintaining good investor relations, as this is critical to the financial management and reputation of the company. Ensuring open and effective communication with investors contributes to maintaining the company's stability and building a solid reputation in the market.

Good investor relations are extremely useful to achieve the following objectives:

- 1. Effective communication and transparency:** acting as a bridge between the issuer and investors, addressing requests for information regarding the company's finances.
- 2. Access to capital:** maintaining good relations with investors contributes to keeping this source of financing open and accessible for future needs.
- 3. Crisis management:** in times of crisis, the investor relations team serves as an invaluable asset in maintaining communication with the market and communicating the actions being taken by the company.
- 4. Regulatory compliance:** it is common practice for the issuer to publish all financial information required by the financial authority (quarterly and annual reports, relevant events, etc.) in the investor relations section.
- 5. Corporate image:** maintaining good investor relations can have a positive influence on the public perception of the company.

3.3.4 Periodic review by credit rating agencies.

Rating agencies will perform periodic reviews of the company's financial situation to determine whether to maintain, downgrade, or upgrade the rating, or to change the outlook, as appropriate. It is important for the

company to maintain regular communication with rating agencies to ensure that they have all the information required to update the rating.

Generally, rating agencies will request an annual meeting with the issuer to update its information and learn of any data that could negatively or positively impact the issuer's payment capacity. If there are no changes in the issuer's credit risk, the rating agency shall maintain the same ratings granted. When there are significant changes concerning the referred risk, the agency will issue a statement announcing that the rating is being revised, either upward or downward, as applicable. Finally, the agency issues its statement announcing the new rating.

3.3.5 Periodic review with ESG agencies.

Per the obligations undertaken before investors, the issuer shall submit to periodic reviews by the engaged ESG agency. This review will focus on compliance with the targets outlined in the initial work plan.

3.3.6 Secondary market.

The value of debt securities in the secondary market may reflect different circumstances, such as interest rate movements, changes in general financial market conditions, or changes in the issuer's financial situation.

Therefore, monitoring the behavior of securities in the secondary market is encouraged. This can be accomplished by using the services of price vendors. Monitoring prices in the secondary market can also be useful in making decisions when reissuing debt, or to implement liability management strategies.

However, it is worth noting that, in the case of corporate issuances, secondary market activity is considerably lower than that of government issuances. In fact, the vast majority of investors remain invested in securities until maturity.

3.3.7 Liability management.

Liability management refers to the strategic management of a company's debt and other obligations. This requires active monitoring and optimization of the structure, costs, and maturities thereof to minimize risks and achieve certain financial goals. Likewise, proper liability management can have a favorable effect on the issuer's credit ratings.

Key aspects of liability management include the following:

- 1.** Debt structure optimization;
- 2.** Financial risk mitigation;
- 3.** Cost reduction;
- 4.** Average debt life optimization;
- 5.** Deleveraging; and
- 6.** Liquidity management.

An example of a liability management strategy could be the exchange of debt, where an issuer could repurchase its bonds issued in the market with shorter maturity and exchange them for bonds with longer maturity. This would extend the average life of its debt. Another example could be to take advantage of the company's liquidity to repurchase debt from markets and, thus, reduce leverage. This could be perceived positively by rating agencies.

3.3.8 Financial risk management.

Financial risk management refers to the practice of identifying, analyzing, and mitigating the different types of financial risks that may impact a company's performance and financial health. Strategies are required to protect organizations from adverse financial events and uncertainty.

Elements of risk management include the following:

- 1.** Risk identification;
- 2.** Risk analysis and assessment;
- 3.** Risk mitigation:
 - a.** Market risk;
 - b.** Credit risk;
 - c.** Liquidity risk;
 - d.** Operational risk;
- 4.** Risk monitoring; and
- 5.** Regulation and reporting:
 - a.** Risk culture and corporate communication.

4. CURRENT REGULATION AND REGULATORY FRAMEWORK



4.1 SUMMARY OF REGULATORY FRAMEWORK

Public issuances of debt securities in the Mexican market are regulated by securities laws in order to protect investors and maintain the integrity and transparency of the financial market. The main legal provisions to be considered for the public issuance of debt instruments are (i) the LMV, (ii) the CUE, issued by the CNBV, and (iii) the internal regulations of securities exchanges.

Certain key aspects related to public debt issuances under Mexican laws include the following:

- 1. Authorization and registration:** before carrying out a public debt issuance, issuers shall obtain authorization from, and registration before, the CNBV.
- 2. Required documentation:** issuers intending to issue debt shall submit to the CNBV a series of documents describing the terms of the issuance, the issuer's financial condition, and other relevant information.
- 3. Credit rating:** debt issuances shall be rated by independent credit rating agencies. These agencies evaluate the creditworthiness of the debt issued and issue a rating that indicates the risk associated with the investment.
- 4. Disclosure of information:** the LMV outlines the importance of disclosing relevant information for the public offering and, on an ongoing basis, to investors. Issuers shall provide legal, financial and non-financial information, risk factors, and periodic information, such as audited financial statements, quarterly reports, and other relevant data to allow investors to make informed decisions.
- 5. Registration of securities:** debt issuers shall register securities before the RNV, which is the registry where securities issued in the Mexican securities market are recorded.

6. Investor protection: the LMV includes provisions intended to protect the rights of minority investors, such as the ban on fraudulent practices and the establishment of strict requirements regarding the information provided to investors.

The internal regulations of the BMV and the BIVA include sections on the securities authorized to be listed on the securities exchange, both for debt and equity instruments, as well as the requirements to be complied with by issuers in order to list their securities in the markets.

4.2 MAIN DOCUMENTATION: PROSPECTUS, SUPPLEMENT, OFFERING NOTICE, LEGAL OPINION, AND, AS APPLICABLE, TRUST AGREEMENT, AS WELL AS THE PROCESS BEFORE THE CNBV

This subsection describes the different types of securities registrations that the issuer may request before the RNV, as well as the legal requirements and documents to be filed before regulatory authorities for the issuance of securities.

Prior to any public offering and placement of securities in the Mexican market, securities shall be registered before the RNV, under the responsibility of the CNBV, for which purpose, the corresponding registration shall be requested before said commission, and the documentation and information detailed below shall be submitted.

The RNV is merely a registry in which the main characteristics of all securities authorized to be offered to investors in the Mexican securities market are recorded.

Registration before the RNV is purely declarative; *i.e.*, the regulatory authority does not validate the soundness of the securities or the solvency of the

issuer, but, solely, the fact that the legal and regulatory requirements were complied with (primarily, regarding disclosure of information) so that a certain security may be offered to the investing public.

4.2.1 Registration and public offering.

The documentation required to apply for registration and public offering with the CNBV is the following:

- 1.** Issuer's articles of incorporation or, as applicable, draft of the issuer's trust agreement.
- 2.** Placement prospectus and, as applicable, information supplement; this requirement is not applicable for debt securities with a maturity equal to or less than one year.
- 3.** KIIS, except for issuers intending to issue debt instruments for a term equal to or less than one year or requesting the registration of their securities before the RNV without a public offering.
- 4.** Audited annual financial statements prepared by the issuer's external auditor.
- 5.** Legal opinion issued by an independent external lawyer.
- 6.** Information from the guarantor (*aval o garante*), in the case of guaranteed or secured instruments.
- 7.** Public instrument evidencing the powers of attorney of the issuer's representatives, as well as a certification by the board of directors with respect to such powers.
- 8.** Draft of the general shareholders' meeting minutes, or the resolution of the board of directors of the issuer or the technical committee of the trust, whereby the issuance of the securities is approved, and registration thereof is requested.
- 9.** Draft of the certificate covering the securities to be registered.

10. Financial statements with positive or negative opinion, as revised by the issuer's external auditor. Regarding debt instruments with a term equal to or less than one year, the financial statements relating to the last fiscal year of the issuer may be submitted compared against the financial statements of the previous fiscal year.

11. Letter of independence issued by the lawyer providing the legal opinion.

12. Draft public offering notice.

13. Regarding debt securities, an opinion on the credit rating of the issuance from a securities rating agency, dated no later than 90 business days prior to the placement date.

14. Regarding secured or collateralized issuances:

a. Legal opinion referring to the due incorporation and enforceability of the guarantees and the powers of the person subscribing them, as well as the procedure for their execution.

b. Financial information of the guarantor (*aval o garante*).

c. Audited financial statements of the guarantor (*aval o garante*).

15. Regarding instruments issued under the protection of an indenture (*acta de emisión*), draft indenture.

16. Regarding subordinated debt and bonds issued by financial institutions, draft indenture (*acta de emission*) and, as applicable, authorization from Banxico.

It should be noted that debt securities with a maturity of one year or less are exempt from submitting the placement prospectus and the KIIS referred in the preceding paragraphs.

When the payment obligation covered by the respective securities depends, fully or partially, on an entity or company (*persona moral*) other than the issuer (guarantor (*aval o garante*) etc.), the corresponding financial information shall also be submitted with respect to the latter.

Simultaneously with the application for registration before the CNBV, the listing of the securities on a securities exchange shall be promoted and the same information that was submitted to the CNBV shall be provided, so that the same can be made available to the public. In this regard, the securities exchange will issue a positive opinion regarding compliance with the requirements set forth in its internal regulations.

In accordance with the CUE, issuers shall submit applications at least 20 business days prior to the expected date of the public offering. Regarding debt instruments with a term equal to or less than one year, at least 10 business days prior to the expected date of the public offering.

4.2.2 Registration without an offering.

It is possible to obtain the registration of the securities before the RNV without a public offering, for which purpose, the same procedure outlined in the “Registration and public offering” section above shall be followed, except that, instead of the placement prospectus, an informative brochure without the offering chapter shall be submitted.

Such registration is applicable in cases where the securities are already privately placed as of the date of the application for registration, *i.e.*, when the securities will not be offered to the investing public but are only intended to be listed on one of the Mexican securities exchanges to allow their trading in the secondary market.

4.2.3 Preventive registration (*inscripción preventiva*) (placement program).

Legal entities may request the CNBV a preventive registration (*inscripción preventiva*) (prior listing) of securities before the RNV, under the placement program regime. This enables the issuance and placement of one or more series of securities, successively, during a term and for a maximum outstanding amount determined or to be fixed.

In other words, the issuer of debt securities may carry out several placements after the initial one under the program previously authorized by the CNBV.

The term of the program may be up to 5 years and the first placement of the securities shall be carried out within a period of 2 years, to avoid expiration of its registration.

4.2.4 Critical route for securities registration and placement.

In general, the route to be followed by issuers to obtain the authorization for registration of their securities before the RNV, as well as for the placement of such securities, regardless of the type of registration requested, comprises of the following steps or stages:⁶

- 1.** Preparation, drafting, and compilation of the registration application and all other documents required according to the type of registration to be requested. During this stage, the placement intermediary and, as applicable, the members of the syndicate perform a due diligence assessment of the issuer's financial, legal, and accounting information, so that the disclosure thereof is sufficient and adequate and the instrument's risk factors are duly identified and disclosed.
- 2.** Submission of application for registration and all required documentation before the CNBV (the "**First Filing**"). In such First Filing, draft documents may be submitted, leaving blank or bracketed spaces for information not yet available as of the filing date.
- 3.** Reception, response and adjustment with respect to the observations issued by the CNBV (and, as applicable, by the securities exchange) to the application and other documentation submitted in the First Filing. New versions of the documents shall be adjusted or revised, considering the applicable observations and including the most updated information to date in order to be resubmitted to the CNBV (the "**Second Filing**").

6. The stages described may vary depending on each issuance.

4. The CNBV reviews the documentation submitted in the Second Filing and, in case of additional observations, may issue a new round of comments and observations, which shall be fully addressed and corrected by the issuer. At this stage, the new version of the documents submitted by the issuer shall consider all final information for the issuance, as well as, if applicable, the duly subscribed and signed documents (the “**Third Filing**”). Although there are typically 3 filings before the CNBV, considering that the authority has no limitation for further comments, there may be as many filings of updated or corrected information as the CNBV may formally require.

5. Once there are no further comments from the CNBV regarding the documents submitted in the Third Filing, the final, original, and signed versions of the registration documents shall be submitted; subsequently, the CNBV will issue the official letter of authorization for registration and, as applicable, public offering. The certificates representing the securities will be deposited, prior to the offering, with the INDEVAL.

6. After obtaining the authorization for registration or offering of the securities, as well as for the disclosure of the public offering notice, the placement intermediary shall proceed with the offering, crossing and settlement of the securities in the securities exchange in accordance with the terms set forth in the offering documents.

4.2.5 Simplified securities registration (Amendment Bill).

There is an amendment bill (the “**Amendment Bill**”)⁷ currently underway, which, among others, seeks to implement the “simplified registration” before the RNV, which concept implies an innovative procedure that eliminates the authorization process before the CNBV described in this section, requiring submission solely through the securities exchanges, which substantially reduces the requirements to obtain the registration of

7. “Bill with draft decree amending, repealing and supplementing various provisions of the LMV and the Investment Funds Law (*Ley de Fondos de Inversión*)”, published in the Senate Gazette (*Gaceta del Senado*) on April 25, 2023, approved on April 26, 2023, by the Commissions of Finance and Public Credit (*Hacienda y Crédito Público*) and Legislative Studies (*Estudios Legislativos*) of the Senate of the Mexican Republic and approved on November 15, 2023 by the Plenary (*Pleno*) of the House of Representatives (*Cámara de Diputados*).

securities before the RNV and their listing on any of the Mexican securities exchanges, provided that such securities are offered **exclusively to institutional and qualified investors.**⁸

Pursuant to the Amendment Bill, in order for debt securities to be subject to simplified registration before the RNV and to be listed in Mexico, they shall comply with the following requirements:

1. The issuer shall request a brokerage firm to review the information of the simplified issuer and the debt securities to be registered, to verify compliance with the general provisions (*disposiciones de carácter general*) to be issued by the CNBV derived from the Amendment Bill, and with the internal guidelines of such intermediary;
2. The issuer, jointly with the placement intermediary, shall prepare:
 - a. An abbreviated, preliminary, and definitive placement prospectus or information supplement which complies with the

8. Pursuant to Article 2, Sections XVI) and XVII) of the LMV: **(i) Qualified investor** (*inversionista calificado*) means the person who ordinarily has the income, assets or qualitative characteristics that the CNBV establishes through general provisions; and **(ii) Institutional investor** (*inversionista institucional*) means the person who, pursuant to federal law, has such character or is a financial entity, including when acting as trustee under trusts considered as institutional investors pursuant to the law.

Pursuant to article 1, section (XV) of the CUE, the following shall be deemed qualified investors:

Basic: means the person who maintains, on average, during the last 12 months, investments in securities for an amount equal to or greater than 1'500,000 investment units or who has obtained in each of the last 2 years, annual gross income equal to or greater than 500,000 investment units.

Sophisticated: means a person who maintains, on average, during the last 12 months, investments in securities in one or several financial entities, for an amount equal to or greater than 3'000,000 investment units, or who has obtained in each of the last 2 years annual gross income equal to or greater than 1'000,000 investment units. In addition to the above, clients who wish to be considered sophisticated qualified investors must execute the form included in Annex 1 of the General Provisions applicable to financial entities and other persons that provide investment services (*Disposiciones de carácter general aplicables entidades financieras y demás personas que proporcionen servicios de inversión*), published in the Official Federal Gazette (*Diario Oficial de la Federación*) on January 9, 2015 and its corresponding amendments.

To participate in restricted public offerings: the individual (*persona física*) or legal entity (*persona moral*) that maintained, on average, during the last year, investments in securities equivalent in local currency to at least 20'000,000 investment units.

general provisions (*disposiciones de carácter general*) to be issued by the CNBV in connection with the Amendment Bill; or

b. A preliminary and definitive brochure, in the event that there is no public offering of the securities to be registered before the RNV.

The difference between one and the other is that the first one (prospectus) includes the characteristics of the offering and a chapter related thereto on its cover page, and the second one (informative brochure) omits this information, as there is no offering, only the listing of the securities.

Both documents shall include clear text stating that the simplified registration before the RNV does not imply any certification from the CNBV regarding the soundness of such debt securities or their solvency, liquidity, creditworthiness, or future performance, and that the simplified issuer will not be supervised by the CNBV as a result of such registration, even if it is subject to supervision for any other reason.

1. Subsequently, the debt issuer and the brokerage firm will request, directly from a Mexican securities exchange, **(i)** the listing of the debt securities, and **(ii)** the issuance of a positive opinion for the registration of the securities before the RNV. Both documents will be issued, provided that the securities exchange confirms that the issuer's application and documents comply with the provisions set forth in its internal regulations and the general provisions (*disposiciones de carácter general*) to be issued by the CNBV in connection with the Amendment Bill;

2. Once the positive opinion from the securities exchange has been obtained, such securities exchange, together with the issuer, will request the CNBV the registration of the securities before the RNV. The CNBV will proceed to register the securities upon receipt of the positive opinion from the securities exchange;

3. Once the securities are registered before the RNV, the securities will be listed on the securities exchange; thereafter, the issuer shall comply

with the maintenance obligations to be determined by the CNBV through general provisions (*disposiciones de carácter general*).

Once the Amendment Bill is approved and enters into force, the CNBV will have 365 calendar days to issue the general provisions (*disposiciones de carácter general*) governing simplified registration; therefore, all applicable rules and requirements will be disclosed until such time and, then, the simplified registration may be effectively implemented.

4.3 FINANCIAL INFORMATION REPORTING/DISCLOSURE OBLIGATIONS

Obligations to report/disclose financial information refer to the information and documentation that issuers shall provide for disclosure to the investing public through the CNBV and the securities exchange, for purposes of: **(i)** verification by the CNBV of compliance by the securities and issuers with the requirements to continue to be registered before the RNV; **(ii)** informing the investing public and, therefore, making them aware of the relevant information and events that could influence the price of the securities issued.

For purposes of the aforementioned reporting/disclosure, the regulation sets forth that issuers shall deliver information periodically, in the form of reports, and, continuously, in the form of relevant events, as detailed below:

4.3.1 Periodic information.

Issuers with securities registered before the RNV shall provide the CNBV, the securities exchange, and the general public with the financial, economic, accounting, and administrative information indicated below, in the following form and with the following frequency:

1. Annual information: on the third business day immediately following the date on which an ordinary general shareholders' meeting is held to approve the results of the fiscal year, which shall be held within 4 months after the closing of such fiscal year:

- a. Audited annual financial statements or their equivalent;
- b. Opinion from the external auditor; and
- c. No later than April 30th each year: annual report for the immediately preceding fiscal year.

2. Quarterly information: within 20 business days following the end of each of the first quarters of the fiscal year and within 40 business days following the end of the fourth quarter, the financial statements, as well as the economic, accounting, and administrative information specified in the corresponding electronic formats, comparing, at least, the figures for the relevant quarter with the financial statements for the previous fiscal year.

In the event that compliance with the obligations regarding securities issued under the trust depends, fully or partially, on the settlor (*fideicomitente*), the manager of the trust estate, the guarantor (*garante o avalista*) of the assets, or any other third party, the corresponding financial information shall be additionally provided concerning such parties.

In the event of issuance of secured debt instruments, the annual audited financial statements or equivalent thereof, with respect to the guarantor (*aval o garante*), except in the case of the issuer's subsidiaries.

Furthermore, the corporate acts executed by the issuer shall be disclosed, such as calls for shareholders' meetings, as well as meetings of bondholders and holders of other securities, a summary of the resolutions adopted at such meetings, and a copy of the corresponding meeting minutes certified by the secretary or person authorized for such purposes.

Moreover, issuers who have obtained the registry of debt instruments with a term equal to or less than one year before the RNV shall provide the CNBV, the securities exchange, and the general public with the aforementioned annual and quarterly information.

4.3.2 Financial statements.

Financial statements shall be prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and be audited by an external auditor, as applicable.

The external auditor's assessments, other than the external audit of basic financial statements or substitutes thereof, as well as the corresponding statements, opinions, or reports shall be prepared in accordance with the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants.

Regarding financial statements of those issuers that are legal entities (*personas morales*) which main activity is the granting of loans, financial leasing, or financial factoring, such statements shall be prepared and audited in accordance with the accounting and auditing criteria applicable to regulated multiple purpose financial companies (*sociedades financieras de objeto múltiple reguladas*) referred to in Article 87-D, Section V, of the General Law on Credit Institutions and Auxiliary Credit Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*).

4.4 OBLIGATIONS AND RESPONSIBILITIES OF TRANSACTION PARTIES

This section describes the maintenance obligations that shall be complied with by issuers with securities registered before the RNV and listed on a Mexican securities exchange.

The maintenance terms, requirements, and obligations refer to activities that issuers shall perform and documents that shall be submitted in order for (i) the CNBV to keep the securities registered before the RNV, and (ii) the securities exchange to keep the listing of the issued instruments.

4.4.1 Issuer obligations.

Issuers with securities registered before the RNV will be required to submit before the CNBV and the securities exchange on which their securities are listed, relevant information, through the following reports:

1. Ongoing reports relating to corporate acts;
2. Quarterly reports, including financial statements;
3. Reports with respect to the annual audited financial statements;
4. Reports on corporate restructurings;
5. Relevant events;
6. Reports on policies and transactions; and
7. Reports on positions held by issuers in derivative financial instruments.

Likewise, issuers shall disclose, through the securities exchange where their securities are listed, relevant events⁹ at the time they have knowledge thereof, and may only defer their disclosure when the following conditions are met:

⁹ Events or facts that may influence or actually influence the price of securities registered before the RNV.

1. When they are not consummated acts, facts, or events.
2. When there is no information thereof in the mass media.
3. When there are no unusual movements in the price or trading volume of the securities; such movements meaning any change in the supply or demand of the securities or in their price, which is not consistent with historical behavior and cannot be explained using the information available to the public.

4.4.2 Distribution of information.

The distribution of information for promotional, marketing, or advertising purposes regarding securities, addressed to the general public, will be subject to prior authorization from the CNBV.


No communications may be distributed for promotional or marketing purposes with respect to the securities subject to a public offering or placement, unless their content is included in the placement prospectuses, supplements, brochures, or information documents authorized by the CNBV.

4.4.3 Common representative.

Issuers of securities representing their own debt placed in national territory, and which shall be registered before the RNV, shall appoint a common representative for their holders, who will act for and on behalf of all holders of the debt securities and will, at all times, protect the interests of the investors of the relevant issuance. Issuers will appoint brokerage firms or credit institutions (*instituciones de crédito*) as common representatives for the holders of such securities, who will be required to take the appropriate actions to safeguard the rights of the investors.

In no case may the appointment of the common representative fall on the brokerage firm acting as placement intermediary, nor on those credit institutions (*instituciones de crédito*) participating in the issuance and public offering transaction of the relevant securities.

**5. PRACTICAL GUIDE FOR
THE DRAFTING OF A
PLACEMENT PROSPECTUS
(FOR ISSUANCES WITH
MATURITIES OF MORE
THAN ONE YEAR)**



5.1 GUIDELINES AND BEST PRACTICES FOR THE DRAFTING OF PROSPECTUSES

This section describes the steps to be followed in the development of a placement prospectus compliant with the regulatory requirements established by the CNBV. For such purposes, the guidelines, principles, and regulations that shall be considered for the drafting of the prospectus for the issuance of securities are detailed below.

5.1.1 Guidelines for the drafting of the placement prospectus.

Annex H of the CUE outlines the instructions for the drafting of placement prospectuses¹⁰, including the disclosure requirements to which issuers shall adhere for the drafting of placement prospectuses, brochures, and information supplements to obtain registration before the RNV and for the authorization of public offerings for the sale and/or subscription of such instruments.

The preliminary placement prospectus shall include the most recent information available as of the date of filing of the application; regarding the definitive placement prospectus, such information shall be updated, to the extent deemed relevant, as of the placement date.

In drafting the prospectus, clear and easy-to-understand language shall be used at all times, avoiding the use of complex technical or legal terms that cannot be easily understood by a person who does not have specialized knowledge in the relevant subject. Likewise, superlative terms and value judgments should be avoided; however, if deemed necessary, they shall be adequately substantiated.

10. Document containing all corporate, legal and financial information related to the issuer and the securities to be listed, which is required to be disclosed prior to the public offering.

1. Relevance principle.

In addition to the information expressly required in the various sections of the instructions, all relevant information shall be provided.

This principle shall be followed, at all times, when drafting the prospectus and when determining the depth and scope with which the various topics outlined in the instructions shall be developed.

The issuer, as well as the persons executing the document, will be responsible for determining which information is relevant, considering the context of the particular characteristics of each issuer. In determining relevant information, both quantitative and qualitative factors shall be considered.

This relevance principle is particularly important when defining the risk factors that the potential investor should know and assess. Although such risk factors cannot be foreseen in their entirety, their careful determination should be exhaustive, to avoid overlooking, to the greatest extent possible, any relevant element when making an investment decision.

2. External information sources and expert statements.

When a report, statistics, or other information included in the prospectus has been obtained from a public source of information, the same shall be cited, and when the information comes from an expert, a statement shall be included indicating that such information has been incorporated prior consent from such person.

3. Currency denomination.

All figures presented shall be expressed in the same currency as that used in the financial statements, unless otherwise indicated in the prospectus or supplement.

In any case, the exchange rate used to convert the figures into Mexican pesos shall be indicated. Likewise, the date of the exchange rate(s) used shall be indicated, as well as the official source and technical specifications thereof (e.g., closing exchange rate, average, etc.).

Issuers intending to list securities on the securities exchange without a public offering shall submit an information brochure, which shall include the same information required in each of the chapters under the instructions, except for information referring to the public offering.

5.1.2 Issuances under the program regime.

It should be reiterated that the placement program regime (*modalidad de programa de colocación*) allows the issuance and placement of one or more series of securities. This may be performed successively, during a term, and for a maximum outstanding amount. The amount may be determined or to be fixed. Accordingly, the issuer of the debt securities may perform several placements subsequent to the initial one under the program that has already been authorized by the CNBV.

The placement prospectus prepared in connection with a placement program shall include the information outlined in the instructions, except for the characteristics related to the offering and the cover page of the instructions, in which place the characteristics of the program will be included.

The characteristics of the securities to be offered shall be included in a supplement to the prospectus, which shall contain the following information:

- 1.** The information contained in the section “Prospectus cover page” of the prospectus.
- 2.** The information related to “The offering”.
- 3.** A section entitled “Recent events” shall be included, in which relevant information not disclosed in the program’s prospectus or documents incorporated by reference shall be inserted.

4. The following paragraph shall be included at the end of the table of contents of the prospectus, ensuring that it is at least 2 points larger than the font size used in the table of contents: “This supplement constitutes an integrating part of the program’s prospectus, as authorized by the CNBV, and, therefore, both documents shall be reviewed jointly”.

5. The information supplement may incorporate by reference the information submitted to the securities exchange and the investing public after the last updated prospectus of the program.

In the event a new issuance is launched under the program, issuers shall update the program prospectus in all its chapters, after one year from the date of publication of the prospectus or from the date of its last update, except for those issuers that are up to date in the delivery of periodic information.

The placement prospectus, prospectus supplements and the corresponding notices prepared in connection with a placement program, or with respect to the issuance of securities which placement is carried out in one or more series, shall contain the following statement in the “Prospectus cover page” section: “Furthermore, we state that, as of the date of filing of this information supplement or the corresponding notices, and, based on the information available to us, to the best of our knowledge and belief, the issuer qualifies under the presumptions set forth in Article 13 Bis of the General rules applicable to issuers of securities and other market participants (*Disposiciones de carácter general aplicables a las emisoras de valores y a otros participantes del mercado*) published in the Official Federal Gazette (*Diario Oficial de la Federación*) on March 19, 2003, and its corresponding amendments”.

5.1.3 Information on guarantors (*avales o garantes*).

Regarding secured or guaranteed¹¹ issuances, the following information in connection with the guarantor (*aval o garante*) shall be included:

11. Refers to issuances that are guaranteed or secured by a third party.

1. Corporate name and commercial name, or, as applicable, name of the individual (*persona física*), as well as a description of the business in which they participate.
2. Audited financial statements.
3. Any other information considered relevant to assess the credit risk of the corresponding guarantor (*aval o garante*).

5.1.4 Issuances by financial institutions as trustees.

In this case, in addition to the applicable requirements outlined in the instructions, all information on the securities contributed into a trust which is considered relevant to assess the risk of the issuance of the securities being registered shall be included, such as:

1. Characteristics or general terms of the securities to be contributed into a trust.
2. Historical information for, at least, 5 years on the payment history of the securities contributed into a trust.
3. Information regarding the securities manager or operator, including information systems, experience as manager, and any other information deemed relevant.
4. Criteria with which the securities shall comply to be contributed to the trust.
5. Degree of concentration by type of security.
6. Whether the securities are free from any lien or contingency.

When the fulfillment of the obligations of the trust depends, fully or partially, on the settlor (*fideicomitente*), the securities manager, or any other third party, the following information shall be provided with respect thereto:

- 1.** Corporate name and commercial name, or, as applicable, name of the individual (*persona física*), as well as a description of the business in which they participate.
- 2.** Audited financial statements.
- 3.** Any other information considered relevant to evaluate the credit risk of the settlor (*fideicomitente*), the securities manager, or third parties.

5.2 PROSPECTUS CONTENT AND STRUCTURE (REQUIREMENTS AND BEST PRACTICES)

This section details all aspects to be observed in a placement prospectus; in other words, it serves as a guide for the issuer to prepare a placement prospectus compliant with all legal requirements and best practices required to obtain authorization from the CNBV.

5.2.1 Information required in the prospectus.

The placement prospectus shall include the following:

A. Prospectus cover page.

Information not known as of the date of preparation of the preliminary prospectus, such as the price and placement date of the securities, shall be indicated by a blank space, which is usually left between brackets.

The prospectus cover page shall contain, at least, the following information:

- 1.** Indication as to the public nature of the offering and type thereof (primary, secondary, national, international).

- 2.** Name of the issuer and, as applicable, name of the selling shareholders or the trustee institution (*institución fiduciaria*) and the settlor (*fideicomitente*).
- 3.** Ticker symbol.
- 4.** Number and characteristics of the securities offered (class, series, type, as applicable, par value, and other information that allows their full identification).
- 5.** Denomination of the reference currency applicable to the issuance.
- 6.** Placement price.
- 7.** Total amount of the offering (in case of joint offers, specifying the amount of each offer).
- 8.** In the case of issuances under a program, the total amount authorized, if any, on a revolving basis.
- 9.** Date of publication of the offering notice (which shall be made, at least, one business day prior to the book closing or auction date).
- 10.** Period or date of the offering.
- 11.** Closing date of the book or auction.
- 12.** Date of registration before the corresponding securities exchange.
- 13.** Settlement date.
- 14.** Net proceeds to be obtained by the issuer through the placement.
- 15.** Potential buyers.
- 16.** Name of the placement intermediary.
- 17.** If applicable, intermediaries participating in the underwriting syndicate.
- 18.** Custodian (*depositario*).

- 19.** Rating granted by a rating institution (a brief explanation of the meaning of such rating and any condition or consideration therein shall be included).
- 20.** Legal basis for the applicable tax regime.
- 21.** If applicable, indication of any risk associated with the corresponding transaction, which, due to its relevance, should be included on the prospectus cover page.
- 22.** Indicate that the securities are registered before the RNV and that they are subject to quotation or registration in the corresponding listing on the securities exchange.
- 23.** The text referred to in the second to last paragraph of Article 86 of the LMV: “Registration before the National Securities Registry does not imply a certification regarding the soundness of the securities, the solvency of the issuer or the accuracy or truthfulness of the information contained in the prospectus, nor does it validate the acts that, if any, may have been conducted in breach of the law”.
- 24.** RNV registration number.
- 25.** Place and date of publication of the prospectus or, as applicable, of the relevant notice.
- 26.** Number and date of CNBV authorization to publish the prospectus or, as applicable, the relevant notice.
- 27.** If applicable, the text “Prospectus available for review with the placement intermediary” and the websites where it can be consulted.
- 28.** Regarding the preliminary document, the words “preliminary prospectus” in red ink, as well as the following text: “The information contained in this preliminary prospectus is subject to modifications, amendments, additions, clarifications or substitutions.”
- 29.** Term and maturity date.

- 30.** If applicable, number of series into which the issuance is divided.
- 31.** If applicable, the corresponding issuance number.
- 32.** Interest rate, discount rate, or yield rate, and calculation mechanism.
- 33.** Interest rate applicable for the first period.
- 34.** Periodicity of payment of returns.
- 35.** Periodicity and form of amortization of the securities and, as applicable, indicate the early amortization causes and procedure.
- 36.** If applicable, guarantor(s) or collateral(s).
- 37.** Date of issuance.
- 38.** Place and form of payment of interest or returns and principal.
- 39.** Name of the common representative for the securities holders.
- 40.** If applicable, subordination of the securities.

Additionally, it shall include the following representations:

“The updated version of this preliminary prospectus, which includes the aforementioned modifications, amendments, additions, clarifications, or substitutions that may be made between the date of this document and the date on which the offering is completed, may be consulted on the websites of the (name of the corresponding securities exchange) and the CNBV, at the following URLs, respectively: (include website URLs)”

Likewise, any changes made to this preliminary prospectus in the foregoing terms will be made public through the (name of the corresponding SEDI) on its website: (include website URL).”

“The securities discussed in this preliminary prospectus may not be offered or sold until the CNBV authorizes their offering according to the provisions set forth in the LMV. This preliminary document does not constitute a public offering for the sale of the securities described herein.”

Regarding securities issued under the protection of a trust, the following information shall also be included:

1. Term and maturity date;
2. If applicable, the number of series into which the issuance is divided;
3. If applicable, the corresponding issuance number;
4. Trust number and information in connection with the trust agreement;
5. Name of the trustee (*fiduciario*);
6. Settlor (*fideicomitente*);
7. Beneficiaries (*fideicomisarios*);
8. Trust assets (*valores fideicomitidos*);
9. Characteristics or general terms of the trust securities;
10. Rights conferred by the securities issued under the trust;
11. Form of amortization of the securities;
12. Name of the common representative for the securities holders
13. If applicable, appraisal report.

B. Table of Contents.

A table of contents shall be included on the first page of the prospectus, in accordance with the following:

I. GENERAL INFORMATION.

- a. Glossary of terms and definitions;
- b. Executive summary;
- c. Risk factors;
- d. Other securities; and
- e. Public documents.

II. THE OFFERING.

- a.** Characteristics of the securities;
- b.** Use of proceeds;
- c.** Allocation plan;
- d.** Costs related to the offering;
- e.** Post-offering capital structure;
- f.** Duties of the common representative, as applicable;
- g.** Securities market information; and
- h.** Market maker.

III. THE ISSUER.

- a.** History and development of the issuer;
- b.** Business description:
 - 1.** Main activity;
 - 2.** Distribution channels;
 - 3.** Patents, licenses, trademarks and other agreements;
 - 4.** Main clients;
 - 5.** Applicable laws and tax status;
 - 6.** Human resources;
 - 7.** Environmental performance;
 - 8.** Market information;
 - 9.** Corporate structure;
 - 10.** Description of main assets; and
 - 11.** Judicial, administrative or arbitration proceedings.

IV. FINANCIAL INFORMATION.

- a.** Selected financial information;
- b.** Financial information by line of business, geographic area and export sales;
- c.** Material debt report;
- d.** Management's discussion and analysis on issuer's operating and financial position results:
 - 1.** Operating results;
 - 2.** Financial position, liquidity, and capital resources; and
 - 3.** Internal control.
- e.** Estimates, provisions or critical accounting reserves.

V. MANAGEMENT.

- a.** External auditors;
- b.** Related-party transactions and conflicts of interest;
- c.** Directors and shareholders; and
- d.** Bylaws and other agreements.

VI. RESPONSIBLE PERSONS.

VII. ANNEXES.

- a.** Financial statements and opinions from the supervisory committee, and statutory auditor's report, if any;
- b.** Legal opinion;
- c.** Certificate covering the issuance; and
- d.** Rating on the credit risk of the issuance or program; as applicable,

the following text shall be included in “bold type” at the end of the table of contents within the prospectus, ensuring that it is at least 2 points larger than the size of the letter used in the table of contents:

“No intermediary, attorney-in-fact authorized to enter into transactions with the public, or any other person, has been authorized to provide information or make any statement not included herein. Accordingly, any information or statement not included herein shall be deemed not authorized by the issuer and (corporate name of the placement intermediary)”.

C. Information to be included in the prospectus chapters.

I. GENERAL INFORMATION.

a. Glossary of terms and definitions: A glossary shall be included, if deemed appropriate.

b. Executive summary: An executive summary about the issuer, and its financial position (including a summary of financial information) shall be submitted.

c. Risk Factors: The issuer shall describe the factors that may significantly affect the company’s performance and profitability, as well as those that may impact the price of its securities. It is recommended that they be arranged according to the relevance they represent for the issuer. Likewise, the issuer shall not introduce risk factors that may apply to any issuer or to any offering.

d. In this regard, the information provided shall refer to factors such as the following: Current strategy risks, situations related to the countries in which it operates, absence of profitable operations in recent periods, financial position of the issuer, dependence or expiration of patents, trademarks or agreements, acquisition of assets, other than those pertaining to the issuer’s normal line of business,

expiration of supply agreements, defaults in the payment of bank and securities market liabilities or restructuring thereof, potential entry of new competitors, potential over-demand or oversupply in the market or markets in which the issuer participates, vulnerability of the company to changes in interest rates or exchange rates, use of financial reporting standards different from those required by these provisions, off-balance sheet transactions, dependence on key personnel (managers), dependence on a single business unit, impact of changes in government regulations, potential volatility in stock prices, potential non-compliance with securities exchange listing and/or registration requirements, absence of market for registered securities, environmental issues related to its assets, supplies, products, or services, impact of changes in international environmental regulations and agreements, existence of credits whereby the issuer is bound to maintain certain proportions in its financial structure, etc.

e. Other securities: The issuer shall disclose whether or not it has other securities registered before the RNV or listed in other markets, as well as the type of public reports it sends to the corresponding regulatory authorities and securities exchanges, on a periodic and continuous basis. Likewise, the frequency with which the aforementioned information is delivered to the regulatory authority or to the securities exchanges where the securities are listed, as well as the periods reported (*e.g.*, current quarter versus previous quarter, current quarter versus same quarter of the previous year, etc.) shall also be indicated. Furthermore, it shall inform whether it has delivered, in a complete and timely manner during the last 3 fiscal years, the reports required by Mexican and foreign laws on relevant events and periodic information).

f. Public documents: The issuer shall indicate that the documents submitted as part of the application to the CNBV, and the securities exchange may be consulted on their websites.

II. THE OFFERING.

a. Characteristics of the offering: A description of the following information shall be submitted:

1. Type of offering (primary, secondary, national, international);
2. Total amount of the issuance in Mexico and abroad, as applicable;
3. Number of securities offered in Mexico and abroad, as applicable;
4. Placement price of the securities, as well as a description of the method used to determine such price;
5. The period for which the offering will be valid;
6. The form and term for settlement of the securities;
7. Potential buyers: “individuals (*personas físicas*) and legal entities (*personas morales*), when their investment regime expressly provides for it” and, as applicable, potential limitations;
8. Reference to the extraordinary general shareholders’ meeting minutes or resolution of the board of directors, regarding the approval of the issuance of the securities, as applicable;
9. As deemed appropriate, a descriptive and schematic explanation of the transaction to be executed shall be submitted;
10. Reference to the credit risk rating of the issuance or program, issued by at least one securities rating agency, dated no later than 90 days prior to the placement date, including the rationale for such rating, as well as the conditions or considerations, if any, that may have been established for the rating;
11. Additionally, the explanation of the meaning of the rating granted shall expressly indicate that such rating does not constitute investment advice, and that it may be subject to updates at any time, in accordance with the methodologies of such rating institution;

- 12.** Indicate whether or not it has any collateral (*aval*) or other guarantee and how to execute or enforce the same;
- 13.** In the case of mortgage-backed securities (*títulos con garantía hipotecaria*), specify the value of the assets granted as collateral, including a brief description thereof and the current appraisal details;
- 14.** Indicate whether the assets offered as collateral are insured and provide the details of the policy;
- 15.** If the securities have a trust guarantee (*garantía fiduciaria*), an extract of the trust agreement shall be included, as well as the value of the assets, according to a valid appraisal and the appraisal details, as applicable;
- 16.** The basis for the determination of the return and amortization chart;
- 17.** Periodicity and form of amortization of the securities, indicating, as applicable, all causes and procedures for early amortization;
- 18.** Limitations to which the issuer will be subject during the term of the issuance;
- 19.** Disclosure of the terms of any clause whereby any increase in the number of securities is permitted without authorization from the holders;
- 20.** Transcription of other relevant terms of the security and, as applicable, of the indenture (*acta de emission*);
- 21.** Identification of the source of the required resources to comply with the payment obligations of the securities; and
- 22.** Legal basis of the applicable tax regime.

In the case of securities issued by a trust, additionally:

- 1)** Attach a copy of the result of the report issued by Nacional Financiera, S.N.C. or Banco Nacional de Obras Públicas, S.N.C., by the securities rating institution, or credit institution.

2) Summary of the trust agreement, including settlor's (*fideicomitente*) obligations.

b. Use of proceeds: The prospectus or, as applicable, the supplement shall indicate the net proceeds of the offering, detailing each of the main projects or purposes of the financing obtained, as well as the percentage allocated to each of them.

If the proceeds are used, directly or indirectly, to acquire assets other than those pertaining to the issuer's regular line of business, the type of assets and their cost, as well as the expected benefit, shall be specified. If the assets are acquired from affiliates, partners, or shareholders of the issuer or its subsidiaries, the identity of the sellers and how the cost of the transaction was determined shall be disclosed.

If the resources are intended to be used to finance the acquisition of other businesses, a description of the latter shall be provided, as well as information on the existence of negotiations for such acquisition.

If a significant portion of the proceeds is used to, partially or fully, repay debt, the amount, interest rate, and original maturity date of such debt shall be disclosed, and, if the liabilities were assumed in the previous year, the use to which such proceeds were dedicated shall be disclosed.

With respect to the preliminary prospectus, the information required in this chapter shall be presented in an estimated form.

c. Allocation plan: Under this chapter, the issuer shall provide the following information:

1. Name of the lead placement intermediary (*intermediario colocador líder*), identifying whether the securities will be offered thereby under firm commitment or best efforts terms.

- 2.** The business relationship or any other type of relationship existing between the placement intermediary(ies) participating in the offering and the issuer shall be indicated, as well as any conflict of interest derived from the participation of the placement intermediary(ies) in the offering.
- 3.** If known by the issuer or the placement intermediary, disclosure of whether the main shareholders, executives, or members of the board of directors intend to subscribe part of the securities subject to the offering or if any person intends to subscribe more than 5% of the offering individually or as a group. The definitive version shall disclose whether or not the aforementioned presumptions have been verified.
- 4.** Indicate whether the amount of the offering in Mexico may be increased through the exercise of over-allotment granted to the placement intermediary.
- 5.** Indicate whether the placement intermediary and members of the syndicate will perform transactions that facilitate the placement of the securities.
- 6.** Include the sales strategy intended to be implemented to place the securities, including the type of investors to whom the offering will be directed.
- 7.** Likewise, the criteria used for the allocation of securities shall be explained, such as minimum and maximum amount to be allocated per investor, first come first served allocation, pro-rata allocation, etc. If the rate or price of the securities is to be determined under an auction procedure, the requirements to participate in the auction, the date on which bids may be received, the criteria to select the winners, and how the result of the auction will be announced shall be disclosed.
- 8.** The placement intermediary who will be responsible for the concentration of bids.

9. If the placement intermediary intends to, partially or fully, place the securities subject to the issuance among related parties with respect to such intermediary, the preliminary prospectus shall indicate whether such related parties will participate under the same conditions as the rest of the investors participating in the offering, as well as the number of securities effectively distributed among its related parties in the final prospectus. Otherwise, a statement to the contrary shall be included.

10. Indicate that, considering the public nature of the offering, any person interested in investing in the securities being issued will be able to participate in the offering process under the same conditions as other investors, as well as to acquire the securities, unless their investment regime prevents them from doing so.

d. Expenses related to the offering: Estimated figures shall be disclosed in the preliminary prospectus and the effective net resources for the placement in the final prospectus, as well as a general description of the expenses related to the offering, breaking down, for each of the participating entities or advisors: brokerage and placement fees, costs of registration before the RNV, listing on the securities exchange, legal advisors and others, with a breakdown of the latter, as deemed relevant with respect to the total expenses.

e. Post-offering capital structure: The issuer shall submit financial information reflecting its capitalization and indebtedness as of the most recent date possible (distinguishing between short- and long-term debt; banking and securities market), disclosing the current situation and, as applicable, the adjustments to the balance sheet reflecting the application of the resources obtained from the sale of the securities to be placed among investors.

f. Common representative duties: In this section, the issuer shall list the duties of the common representative following the provisions set forth in the indenture (*acta de emisión*) or in the certificate.

g. Name of the persons with relevant participation in the offering: The issuer shall submit a list with the names of the following persons:

1. Individuals (*personas físicas*) and/or legal entities (*personas morales*) appointed and/or with relevant participation in advising and/or consulting in connection with the securities offering and involved in the legal or financial assessment of the issuer, including any other expert engaged by the issuer to whom any material statement or report included in the prospectus has been entrusted, or who has prepared or certified any part thereof, indicating the extent of their work and responsibilities with respect to the issuance.
2. If any of the experts or advisors participating in the transaction owns shares of the issuer or its subsidiaries or has a direct or indirect economic interest therein, a description of such investment or interest shall be provided.
3. Person responsible for investor relations.

III. THE ISSUER.

a. History and development of the issuer: This chapter shall provide the following information, which shall cover the past 3 years:

1. Issuer's corporate name and commercial name.
2. Issuer's incorporation date and place, and duration thereof.
3. Address and telephone numbers of issuer's main offices.
4. Description of the evolution of the issuer and its subsidiaries, as applicable, focusing on the events of the previous year, providing information such as the following: general business strategy implemented, most important historical events, such

as mergers, acquisitions or asset sales, changes in business management, changes in the products and services offered, changes to the corporate name, insolvency or bankruptcy, judicial, administrative or arbitration proceedings that have had a significant impact on the issuer's financial situation, impact of laws and government provisions on the development of the business, and events of a similar nature.

5. Schematic and numerical description of the main investments made, including participation in other companies for the past 3 fiscal years.

6. Indicate any public offering carried out to take control of the issuer or carried out by the issuer to take control of other companies, during the past fiscal year. The price and conditions of the offering shall be stated, as well as the final result.

Regarding foreign issuers, the incorporation regime and laws under which the issuer operates shall be included, identifying whether it is subject to the supervision of any regulatory body.

b. Description of the business: The business in which the issuer participates shall be described, as well as the business strategies implemented thereby.

1. Main activity: A description of the issuer's primary activities shall be included, indicating the various categories of products sold and/or services provided, as well as a general description of the industrial processes.

The source and availability of raw materials by line of business shall also be disclosed, including the name of the main suppliers and an analysis of whether the prices of the main raw materials are volatile or whether there is dependence on a particular supplier.

Moreover, a description of the cyclical or seasonal behavior of the issuer's main businesses, if any, shall be provided.

Similarly, if there has been any variation in the ordinary course of business with respect to working capital, the issuer's practices shall be described (e.g., when the issuer is required to maintain high inventory levels to comply with expedited delivery requirements or when the company has granted its customers extensions on payment terms).

The categories of similar products or services, or individual products representing 10% or more of the issuer's total consolidated revenues, for each of the past 3 fiscal years, shall be provided, indicating the amount and percentage of such revenues.

Finally, a description of the risks or effects that climate change may have on the issuer's business, such as: a decrease in the demand associated with products that require significant greenhouse gas emissions, an increase in the demand for other products that require lower emissions, among others, shall be included. Likewise, the current or potential indirect consequences on market trends that the issuer may encounter as a result of climate change shall be disclosed.

2. Distribution channels: A description of the issuer's distribution and marketing channels, including an explanation of any special sales methods (e.g., subscription sales).

3. Patents, licenses, trademarks, and other agreements: Information shall be provided on patents, licenses, trademarks, franchises, industrial, commercial, or financial services agreements, and other rights held by the issuer which are considered relevant, indicating their duration and explaining their importance for the issuer's development. Information shall also be provided on all those that are about to expire and the policies regarding product research and development during the last 3 fiscal years, identifying, as deemed relevant, the amount invested in these activities.

Likewise, a summary of the relevant agreements, other than those related to the ordinary course of business, entered into by the issuer in the last 3 fiscal years shall be provided, indicating the expiration dates, extension terms, and the extent to which the renewal of such agreements may be affected.

4. Main clients: An indication shall be made as to whether the issuer is dependent on any or several clients, provided that dependence is deemed to exist when the loss of such clients would adversely affect the issuer's operating results or financial position. Likewise, the name of any client and its relationship, if any, with the issuer and its subsidiaries shall be included, provided that sales to such client represent 10% or more of the issuer's total consolidated sales.

5. Applicable laws and tax status: Description of the impact of laws and governmental provisions on the development of the business, as well as the special tax benefits (subsidies, exemptions, and others) available to the issuer or whether it is subject to any special tax.

Likewise, the relevant, current, or potential impact of any law or governmental provision related to climate change shall be indicated.

6. Human resources: Provide the number of people employed as of the date of the latest financial statements and, if the number of employees has varied considerably during the period, state the reasons for such variation. The percentage of employees between trust employees (*empleados de confianza*) and unionized employees (*empleados sindicalizados*) and a description of the relationship with the union shall also be provided.

If the issuer hires a significant number of temporary employees, the number of people hired under this regime at the end of the last fiscal year shall be indicated.

7. Environmental performance: Indicate whether the issuer has an environmental policy in place, whether it has or intends to implement an environmental management system, whether it has any environmental certificate or acknowledgement, either issued by the competent authority or by a duly authorized entity, and whether it has any program or project for the protection, defense, or restoration of the environment and natural resources. It shall also state whether the issuer's activities represent a significant environmental risk.

Additionally, the relevant current or potential impacts derived from climate change on the issuer's business shall be disclosed.

8. Market information: A description of the main markets in which the issuer participates, including its market share, its main competitors, as well as the positive and negative aspects of its competitive position. Any statement in such regard shall be duly substantiated.

9. Corporate structure: If the issuer is part of a corporate group, the integration of such group shall be disclosed, indicating the activities of relevant subsidiaries and their position in such group.

Likewise, in the case of shareholding companies, the name, capital ownership percentage, and, if different, the ratio of voting shares, as well as the existing business relationships with the relevant subsidiaries listed as of the year being reported (e.g., leasing of assets, technical and financial support, transactions between the two, etc.) shall be provided. When subsidiaries are not considered significant and there are numerous subsidiaries, the issuer may report only the total number of subsidiaries.

Likewise, similar information shall be provided in the case of associated companies and the participation of such companies in the issuer's consolidated net income when the same exceeds 10%.

A subsidiary will be considered relevant when it satisfies any of the following conditions: the total assets of the respective subsidiary exceed 10% of the total assets reported in the consolidated financial statements as of the last fiscal year or the income of the subsidiaries exceeds 10% of the total consolidated income.

10. Description of main assets: Information shall be provided regarding any major fixed assets of the issuer and its subsidiaries, including their size, use, location, products manufactured therein, condition, age, installed and used capacity, whether they are insured, whether they are owned or leased from third parties, dimensions, environmental conditions that affect the use of these assets, etc. The issuer shall also indicate whether any asset has been granted as collateral to obtain any loan, the type of asset, the procedure to foreclose such collateral, and the general characteristics of the loan (amount, rate, term, etc.).

With respect to construction, expansion, or facility improvement plans, the nature of, and basis for, such plans, the financing of the project, and the expected increase in production capacity shall be described.

11. Judicial, administrative, or arbitration proceedings: A brief description shall be provided as to whether there currently are, or whether there is a high probability that there may be in the future, any relevant judicial, administrative, or arbitration proceedings, other than those in the ordinary course of business, in which the issuer or persons related to the issuer are or may be involved, provided that such proceedings have had or may have a significant impact on the issuer's operating results and financial position. Likewise, the court or administrative instance in which such proceeding is being conducted, the date on which such proceeding was initiated, and whether its outcome has had or may have a material adverse effect on the issuer's operating results and financial position shall be disclosed. If there is more than one legal proceeding related to the ordinary

course of the issuer's business that individually may not have a material adverse effect, but when analyzed together with other similar cases, does have a material adverse effect, the relevant information shall be provided.

Additionally, the issuer shall disclose whether it falls under any of the presumptions set forth in Articles 9 and 10 of the Mexican Bankruptcy Law (*Ley de Concursos Mercantiles*), or if it could be declared or has been declared bankrupt.

A relevant judicial, administrative, or arbitration proceeding means a proceeding that could represent a cost or benefit of at least 10% of the issuer's assets.

12. Capital stock: The amount of subscribed and paid-in capital, the number and type of shares representing such capital, details of their characteristics, and, as applicable, information of unpaid, fixed, and variable capital shall be disclosed. If a significant portion of the capital has been paid in kind during the last three fiscal years, this shall be disclosed.

In cases where there is authorized but unsubscribed capital, the amount and the basis on which it was authorized shall be disclosed. Likewise, the amount of any outstanding securities associated with the capital and the conditions and procedures for their conversion, exercise, exchange, or subscription shall be disclosed.

Any events occurring during the last 3 fiscal years which have altered the amount of capital and the number and classes of shares involved shall be identified. Likewise, the price and terms of each new issuance of shares shall be specified for the same period, including any discount or special terms offered to the shareholders who have subscribed the shares. If no issuance has been made, this shall be stated. Likewise, the reasons for which the amount of capital was reduced, if any, shall be indicated.

Furthermore, the issuer shall disclose the open positions held thereby in derivative instruments subject to in-kind payment which underlying commodity is the issuer's shares or ordinary participation certificates on such shares.

Regarding foreign issuers, indicate whether the laws of the country in which the issuer was incorporated allow the repurchase of shares by the issuer and, if so, the number of shares that have been repurchased during the last 3 fiscal years, as well as the portion of capital that such shares represent, and whether there are any limitations to carry out such repurchases.

13. Dividends: The frequency with which the issuer has declared dividends in the last 3 fiscal years shall be stated, as well as the amount of the dividend declared per share (foreign issuers shall use the exchange rate of the date on which the dividend was paid). If any restrictions limit the issuer's ability to pay dividends or may limit its future payment capacity, these shall be disclosed.

Likewise, when the issuer has not paid cash dividends while having had the capacity to pay them according to its profits, the reason for this shall be stated. Similarly, the dividend policy that the board of directors intends to implement in the future and the general shareholders' meeting at which such policy was adopted shall be specified.

For foreign issuers, the form in which the dividend resolution will be notified or the procedure to be followed by non-resident holders for the collection of dividends shall be disclosed.

Regarding foreign issuers, the following information shall also be submitted:

14. Exchange controls and other limitations that affect security holders: This section shall indicate whether the issuer's country of incorporation has laws or regulations that restrict capital exports and imports, including exchange controls, or

which may affect the transparency of dividends, interest, or other payments to non-resident holders of the issuer's securities.

Likewise, any limitation imposed by foreign laws, by the issuer's articles of incorporation or any other document in connection with the rights associated with the securities that may be exercised by non-resident aliens shall be disclosed. Furthermore, any limitation or restriction there may be for the exercise of their rights shall also be mentioned. If there is no such limitation, a statement to that effect shall be included.

IV. FINANCIAL INFORMATION.

The relevant financial information of the issuer which may be of interest to the investing public shall be prepared and disclosed, in accordance with the following criteria:

a. Selected financial information: Selected financial information shall be provided using comparative columns for the last 3 fiscal years. This information shall be provided for a longer period when considered relevant information. The purpose of this information will be to highlight, through an easy-to-read format, certain trends in the issuer's financial position and operating results.

It is important to mention that the information included in the selected financial information chart shall be adapted to the particular characteristics of the issuer. In this regard, information such as the following shall be included: net sales or operating income, gross operating and net income (loss), income (loss) per share, acquisition of property and equipment, depreciation and amortization for the year, total assets, total long-term liabilities, accounts receivable turnover, accounts payable turnover, inventory turnover, stockholders' equity, and cash dividends declared per share.

Moreover, a brief statement shall be made regarding those factors that significantly affect the comparability of the data included in the selected financial information chart, such as accounting changes, mergers, sales of companies, etc., or, otherwise, indicate the section in which such factors are explained. In addition, the section describing those factors or uncertain events that may affect the ability of the information provided to reflect the issuer's future performance shall be included or indicated.

If deemed relevant for understanding the business, selected quarterly financial information shall be provided for the most recent reporting period. This information shall include accounts such as the following: net sales, income (loss) before taxes, net income (loss), and net income (loss) per share, as well as a general explanation of the information provided.

Additionally, regarding issuances guaranteed by the issuer's subsidiaries, the amount of their total assets, stockholders' equity, sales, and operating income shall be disclosed for each of them, according to the latest financial statements audited by an external auditor, except when all subsidiaries have co-signed as guarantors.

It is not advisable to submit financial projections; however, the issuer who decides to submit them shall adequately substantiate the same by providing an analysis of how the projections were determined, the assumptions used in the preparation thereof, and the risk associated with their non-fulfillment.

In addition, selected financial information shall be provided for the latest available interim period and a comparison thereof against the same period in the preceding year.

b. Financial information by line of business, geographic area, and export sales: For the last 3 fiscal years, financial information for each line of business and by geographic area shall be identified in accordance with the applicable financial reporting standards.

Additionally, export sales shall be disclosed on a consolidated basis or by geographic area when considered relevant information, indicating the amount and percentage participation of such exports with respect to total sales for the last 3 fiscal years.

If deemed relevant, such information shall include the first quarter of the year in which it is being submitted and the previous year for the same comparable period.

Furthermore, selected financial information shall be submitted for the latest available interim period and a comparison thereof against the same period in the preceding year.

c. Material debt report: A report on material debt or contingencies and their payment seniority shall be provided, including tax credits or debts. At least such debt representing 10% or more of the total liabilities in the issuer's consolidated financial statements as of the last fiscal year shall be included. Additionally, whether the issuer is up to date in the payment of principal and interest on such debt shall be indicated.

Concerning such material debt, a summary of the affirmative and negative covenants, if any, to which the issuer is subject under such debt; in connection with relevant matters, such as changes in control, corporate restructurings, including acquisitions, mergers and spin-offs, sale or creation of liens on strategic assets, shall be included.

Furthermore, any additional benefit or agreement, as well as early maturity causes under any debt security issued abroad or debt of any kind, other than those established in the issuances carried out in the domestic market, shall be disclosed.

d. Management's discussion and analysis of the issuer's operating results and financial position: This section shall provide all information that allows for the analysis and understanding of relevant changes in the operating results and financial position of the issuer and its subsidiaries. It should be noted that the

information to be included in this section is that which is not clearly included in the issuer's financial statements (e.g., it shall not only mention how much sales or costs increased or decreased, but also the rationale for such fluctuations), as well as those events known to management which may affect the ability of the information reported to reflect the issuer's future operating results and position.

With respect to foreign issuers and issuances made by federal and municipal entities, in order to better understand the variations in the issuer's operating results and financial position, the main differences between the International Financial Reporting Standards issued by the International Accounting Standards Board and those used to prepare the financial statements shall be disclosed. Likewise, the fiscal period used in the country of origin and the potential impact on the comparability of the issuer's information with that of other Mexican companies shall be disclosed. A brief description of any economic, tax, monetary policy, or political and social factors which have affected or may, directly or indirectly, affect the operation of the issuer or the investments of non-resident holders shall also be provided.

Moreover, any known trend, commitment, or event which may or will significantly affect the issuer's liquidity, operating results, or financial situation (e.g., future salary, raw material or product price increases, changes in market share, entry of new competitors, potential renewal of a relevant agreement, changes in laws, etc.) shall also be identified.

Additionally, the issuer shall identify the recent trends in production, sales, inventory levels, and backlog value, as well as the trends in its costs and sales prices.

Moreover, the issuer shall indicate the items in the financial statements that were restated over the past 2 years using indexes other than the Mexican National Consumer Price Index (*Índice Nacional de Precios al Consumidor de México*); in such case, the index or reference factor used shall be indicated.

The analysis and discussion of financial information shall address the following topics:

1. Operating results: Significant changes in sales, cost of sales, operating expenses, integral cost of financing, taxes, and net income for the last fiscal year shall be described, as well as a general description of the trend observed in these accounts during the last 3 fiscal years and the factors that have influenced these changes. The extent to which increases in sales (if any) are attributable to increases in prices and the extent to which they are attributable to increases in volume or sales of new products shall be described.

If deemed relevant, the impact of inflation and exchange rate fluctuations and how foreign currency loans or investments are hedged with export sales and other currency-hedging instruments shall also be described.

2. Financial position, liquidity, and capital resources: The issuer shall provide the following information in this section:

- Description of internal and external liquidity sources, as well as a brief description of any significant source of funding not yet applied, including the nature of any restrictions agreed with subsidiaries on the transfer of funds to the issuer.
- Information on the level of indebtedness at the end of the last 3 fiscal years, as well as the timing of credit requirements and available credit facilities. In this regard, information shall be provided on the profile of debt incurred, indicating whether it is at a fixed or variable rate, as well as the financial instruments used, frequency, and form of amortization of the securities, and, as applicable, indication of the causes and procedure for early amortization, considering, also, whether the following aspects could qualify as early amortization causes:

- Default in payment of principal or interest.
 - Cross-payment and cross-acceleration with any of the issuer's other debts.
 - Non-compliance with affirmative or negative covenants.
 - Filing or petition for bankruptcy, liquidation, or insolvency proceeding.
 - Submission of false or incorrect material information.
 - Changes in control of the issuer.
- Description of the policies governing the issuer's treasury, as well as the currencies in which the issuer's cash or temporary investments are held as of the most recent date.
 - To the extent deemed relevant, information shall be provided on the tax credits or debts that the issuer maintains as of the last fiscal year, indicating whether it is up to date in the payment thereof.
 - Information regarding relevant capital investments made at the end of the last fiscal year, as well as the details related to such investments and the source of financing required therefor.

To the extent deemed relevant, the issuer shall describe the changes that occurred in the main balance sheet accounts of the last fiscal year, as well as provide a general explanation on the trend thereof in the last 3 fiscal years. In this regard, the use of financial ratios is recommended for a better understanding of the changes in the financial position.

Additionally, the issuer shall indicate whether there are relevant transactions not recorded in the balance sheet or income statement, indicating the basis for the failure to record such transactions, and disclosing the risk and future impact they may have on its financial position or operating results.

3. Internal control: The issuer shall disclose whether it has an internal control system and, if so, include a brief description of such system and the entity or officer responsible for its implementation. Internal control shall mean the system that provides reasonable assurance that transactions are carried out and recorded in accordance with the provisions determined by management, as well as with the applicable general guidelines, criteria, and financial reporting standards.

In the event that the issuer submits unaudited interim or limited review financial statements, a statement explaining the relevant changes between these financial statements and the financial statements for the previous comparable period shall be included.

e. Critical accounting estimates, provisions, or reserves: The issuer shall disclose critical accounting estimates, provisions, or reserves, provided that a critical accounting estimate, provision, or reserve means any approximation prepared by management with respect to an item, category, or account in the financial statements which requires the issuer to establish assumptions on probable aspects that can be reasonably estimated. In addition, disclosure shall be made of whether the financial statements will be materially affected by potential changes in estimates, provisions, or reserves.

At least the following shall be provided for each critical estimate, provision, or reserve:

- Description of the estimate, provision, or reserve;
- Description of the methodology used for the determination thereof;
- Description of the assumptions supporting the estimate, provision, or reserve; and
- Description of potential events that could materially affect the methodology or assumptions applied.

V. MANAGEMENT.

A description of the issuer's administrative matters deemed relevant for the issuance, listing, and acquisition of the securities offered shall be included in this section, considering the following concepts:

a. External auditors: Any change in the external auditors during the last 3 fiscal years shall be indicated, stating whether they resigned or were removed by the issuer, as well as the grounds for such resignation or removal. Furthermore, whether, in the last 3 fiscal years, the external auditors have issued a revised or negative opinion, *i.e.*, a qualified opinion, an adverse opinion, or a disclaimer of opinion (or abstention) with respect to the issuer's financial statements, shall be disclosed.

Likewise, the procedure followed for the appointment of the external auditors shall be disclosed, as well as a brief description of the services rendered to the issuer for purposes other than auditing during the fiscal year reported, the amount paid for such services, and the percentage represented by such services in the overall payments made to the auditing firm in which the external auditor is employed.

b. Related-party transactions and conflicts of interest: This section shall describe any relevant transactions or credit facilities between the issuer and related parties during the last 3 fiscal years and up to the date of filing of this report, indicating whether they were carried out under arm's length conditions. In addition, transactions entered into with companies in which the issuer holds 10% or more of the voting shares or shareholders that hold such percentage in the issuer shall be disclosed.

Likewise, any other transaction which, in terms of the International Financial Reporting Standards issued by the International Accounting Standards Board, is deemed a related-party transaction shall also be disclosed.

c. Directors and shareholders: The number of members of the board of directors (regular and alternate members), the type of directors (independent or not), their names, the appointment procedure, their duties, and the powers of the board of directors shall be disclosed. The dates and types of general shareholders' meetings at which they were appointed and the period for which they were appointed shall also be disclosed.

Additionally, the following information shall be provided, for both board members and key executives: name, gender, title, years of employment with the issuer, companies where they serve as key executives or as members of the board of directors, indicating whether such companies have any type of relationship with the issuer, and any other information required to ascertain their professional capacity. Additionally, the following information shall be provided if deemed relevant: age, highest educational degree, and companies where they have served as key executives or as members of the board of directors.

In the event that there is a consanguinity or affinity relationship (*parentesco por consanguinidad o afinidad*) up to the fourth degree or civil relationship, including their spouses, concubines or common-law spouses (*concubinas o concubenarios*), between any director or key management, such relationship shall be disclosed.

Likewise, the integration by gender, in percentage terms, of the total number of key officers and board members shall be disclosed, indicating the type of board members and whether they are regular or alternate members. Furthermore, whether the issuer has any policy or program that promotes labor inclusion without distinction of gender in the integration of its governing bodies and among its employees, and, if so, a description thereof, including whether it was, as applicable, authorized by any governing body and whether there is, as applicable, any person responsible for its compliance.

The name, corporate name, or company name of the following individuals or legal entities shall be provided, identifying the category under which they fall:

1. Beneficial shareholders of more than 10% of the issuer's capital stock;
2. Shareholders exercising significant influence; or
3. Shareholders exercising control or managing power.

When, through a group of persons, in terms of the LMV, any of the aforementioned presumptions are verified, such group shall be identified, as well as the individual considered the primary beneficiary shareholder belonging to such group.

Additionally, the name and the aggregate share participation of the key directors and executives of the issuer with an individual ownership of more than 1% and less than 10% shall be disclosed.

When the aforementioned share ownership information does not reflect any change, its disclosure in the annual report may be omitted, provided that, instead, reference is made to the public document in which such information may be consulted.

Any substantial changes in the last three years regarding the ownership percentage held by the current primary shareholders shall also be disclosed.

In addition, disclosure shall be made as to whether the issuing company is controlled, directly or indirectly, by another company, a foreign government, or any other individual (*persona física*) or legal entity (*persona moral*) and, if so, their names, as well as a brief description of the nature of such control, management power or significant influence, including the amount and proportion of

voting capital. Any commitment known by the issuer which could result in a change of control over its shares, shall also be disclosed.

For purposes of the provisions of this section, a beneficial shareholder shall mean any person who, regardless of registration, or lack thereof, as a shareholder, is entitled to the rights conferred by the shares. These benefits include the power to exercise voting rights, to sell the shares or to receive the economic benefits derived therefrom. Shares that the individual (*persona física*) or legal entity (*persona moral*) may acquire in a period of less than 60 days through an agreement or option shall also be considered. Furthermore, those persons who hold securities through one or more trusts, brokerage firms, legal advisors, or other intermediaries, or through companies controlled thereby, meaning the direct or indirect power to direct the management and policies of the company, shall be considered as beneficiary shareholders.

The overall benefits of any kind received from the issuer and its subsidiaries during the last fiscal year by the members of the board of directors, key executives, and individuals who are related parties shall be disclosed. In addition, the total projected amount, or amount accumulated by the issuer and its subsidiaries for pension, retirement, or similar plans for the aforementioned individuals shall be disclosed.

Likewise, a description of the type of compensation and benefits that the aforementioned persons receive from the issuer in the aggregate shall be disclosed. Additionally, the agreements or programs for the benefit of the members of the board of directors, key executives, or employees of the issuer which allow them to participate in its capital stock shall be indicated, describing in detail their rights and obligations, including the mechanics for the distribution of shares and the determination of the prices at which they will be distributed.

Additionally, the issuer shall indicate the committee or committees established to assist the board of directors' duties, including a brief description of such committees. Likewise, the names of the

members of such committee(s) shall be indicated, as well as whether such committee(s) have at least one member who is a financial expert, and, if not, the reasons for not having such member(s) shall be disclosed. A financial expert shall mean a person who has extensive experience as an external auditor, accountant, finance officer, comptroller, or person with similar duties.

Information shall also be provided regarding the potential existence of interim management bodies, including the names of their members, their relationship with the issuer, and a summary of the operating guidelines of such bodies. In the event that the issuer does not institute such bodies, a statement in this regard shall be included.

Likewise, the issuer shall disclose whether it has codes of conduct applicable to the board of directors and key executives, and, if so, include a summary of the main guidelines set forth in such codes of conduct.

d. Bylaws and other agreements: The authority of the board of directors to establish compensation plans for executives and directors, as well as to make decisions regarding any other matter in which they may have a personal interest shall be disclosed.

Also, a description of any agreement which could delay, prevent, defer, or increase the cost of a change in control over the issuer shall be disclosed.

Moreover, the issuer shall disclose whether there are any trusts or any other mechanism whereby the corporate rights conferred by the shares are limited.

Likewise, a summary of the most relevant clauses of the bylaws shall be provided and the procedure for calling ordinary and extraordinary general shareholders' meetings, including the conditions to attend the same, shall be indicated.

Regarding foreign issuers, the following information shall also be submitted:

e. Other corporate governance practices: If the issuer is subject to a corporate governance code, a brief description of such code shall be included. If the issuer is not subject to any code, a statement to that effect shall be included. Also, other corporate governance practices considered relevant shall be indicated, such as the option for alternate directors to replace any regular director indistinctly and the conditions under which this may occur.

VI. RESPONSIBLE PERSONS.

This section refers to the persons who will be responsible for the issuance and, therefore, shall sign the corresponding placement prospectus.

For such purposes, the name, title, and institution represented by the persons who, in accordance with Article 2, section I, subsection (m) of the cUE, will sign the document, shall be included; this information shall appear at the bottom of the text outlined in the aforementioned article.

VII. ANNEXES.

a. Financial statements and reports from the supervisory committee and/or corporate practices, and statutory auditor's report, as applicable: The opinion issued by the supervisory committee shall be included, as well as the statutory auditor's report, for the fiscal years in which said committee has not issued an opinion, and the financial statements for issuers already holding shares or debt securities registered before the RNV, provided that they are up to date in the submission of periodic information, they shall include the latest financial statements submitted to

the CNBV and the corresponding securities exchange, in place of the financial statements subject to limited review referred in the aforementioned articles.

b. Legal opinion: A copy of the legal opinion issued by a Mexican attorney, who will render a favorable opinion regarding the legitimacy of the issuance documents and the authority of the persons responsible for the issuance, shall be included.

c. Certificate evidencing the issuance: A copy of the certificate that will be deposited in the INDEVAL, the institution responsible for the safekeeping of the securities issued in the Mexican securities market, shall be included.

d. Credit risk rating with respect to the issuance or program: A copy of the opinion issued by at least one securities rating agency, which date of issuance is no later than 90 days from the placement date, shall be attached.

5.3 EXAMPLES

Due to their public nature, placement prospectuses for any issuance made through a public offering in the Mexican securities market are available for review on the securities exchanges' websites:

BMV: <https://www.bmv.com.mx/es/listados-y-prospectos/prospectos-de-colocacion>

BIVA: https://www.biva.mx/empresas/emisoras_inscritas/banco_de_informacion

5.4 SINGLE ISSUANCE VS. PLACEMENT PROGRAM

As stated in section 4.2, the main difference between registration and public offering and preventive registration (*inscripción preventiva*) is the moment in which the offering and issuance of securities to the public is executed. In the former, the offering is made immediately after obtaining CNBV authorization for the registration of the securities before the RNV; whereas, regarding preventive registration (*inscripción preventiva*) through the placement program (*programa de colocación*), CNBV authorization is sought for the issuance and placement of one or more series of securities, successively, during a term and for a maximum outstanding amount that is fixed or to be fixed.

5.5 PROSPECTUS VS. SUPPLEMENTS

Regarding section 5.4, the placement prospectus is an essential document for a public offering, regardless of whether it is implemented through registration and public offering or preventive registration (*inscripción preventiva*) under the placement program (*programa de colocación*).

Moreover, the information supplements are documents that complement the information of the prospectus in a program referring to the issuance and placement of an issuance (of one or more series) under the placement program (*programa de colocación*). Therefore, prior to the placement of the securities corresponding to each issuance, issuers shall request the authorization notice and the information supplement referred in the CUE and shall attach the documentation related to the type of security to be issued in such placement which has not been submitted as of the time of requesting the preventive registration (*inscripción preventiva*) of the securities under the placement program (*programa de colocación*) regime.

**6. SECURITIES MARKETS
AND SUSTAINABILITY:
ESG TRANSITION - STEPS
FOR A GRADUAL, BUSINESS
- ALIGNED DEVELOPMENT**

The image features a dark teal background. At the bottom, there is a stylized silhouette of a mountain range with several peaks of varying heights. The text is positioned in the upper left quadrant, rendered in a bold, white, sans-serif font.

In recent years, we have observed a growing trend toward sustainable financing in securities markets. This reflects the increasing awareness of regulators and investors on the importance of ESG responsibility. Companies that adopt sustainable practices are often more attractive to investors and, if the appeal is strong enough, can benefit from lower capital costs.

The relationship between sustainable finance and the ESG approach is clear. Many investors are increasingly interested in evaluating not only financial aspects but also the ESG impact of companies. Integrating ESG criteria into investment strategy not only reduces reputational and environmental risks but could also improve long-term financial performance.

In this sense, securities markets drive sustainable business practices, thus contributing to addressing global challenges such as climate change and social inequality. This trend towards sustainable financing and the incorporation of ESG factors are transforming the dynamics between companies and investors in financial markets.

6.1 ESG: TREND OR REQUIREMENT FOR CAPITAL MARKETS

Beyond political or ideological debates, various stakeholders (capital markets, regulators, consumers, partners, social movements, etc.) consider these three letters a connection to an issue that interests them and influences their decisions. Companies affect social, environmental, and their own dynamics through profit generation.

Social dynamics are altered through the impact of a company's business model on people. This can happen in the event of workplace accidents, lack of a focus on labor welfare, or treatment conditions with collaborators, customers, and suppliers, affecting their fundamental rights.

Environmental dynamics are affected by companies due to the use, sometimes excessive, of natural resources (water, energy, land).

Furthermore, organizations have an impact throughout their value chain, derived from the management of waste, packaging, and residues, energy sources used, and the effect of their CO2 emissions, among other activities.

Governance implies the commitment of an organization to ensure that the needs of stakeholders (including investors) are heard and addressed while complying with the rules in the various decision-making areas and in the authority exercised by those involved in the business. This starts with the identification of the key elements to be regulated, followed by dissemination, control, eventuality management, and the approach to address the same.

Clearly, if these three elements are timely and professionally addressed, the likelihood of the organization sustaining itself over time increases, as the risks associated with the business can be mitigated in an effective and timely manner. This is the result of the ESG movement: corporate sustainability, which is why capital markets value the ESG approach, as it is a cornerstone that alerts them about the risk of their investments in the long term and its inclusion in their investment portfolio.

This chapter will address the sequential steps that an entrepreneur can consider to launch or expand and elevate its ESG maturity and have it acknowledged by stakeholders. Moving along this path from the right place (a tool enabling the company to be a better place for everyone) should not represent an expense, but a short-, medium- and long-term investment. One of the objectives of this document is to understand that ESG integration and maturity can and should be monetized. Towards the end of the chapter, we will address the so-called scarcity cost or the cost of doing nothing.

6.2 STEPS TOWARD ESG TRANSITION

Companies are not expected to be perfect; they are expected to be consistent and truthful in what they communicate (through actions and speech), through the way they operate, and through transparency regarding the main elements of their business model.

The steps outlined herein are intended to be concrete actions with tangible evidence required for a sustainable capital issuance or to undertake an evolution process that promotes the development, viability, and performance of the company over time.

1. Step 1: consciousness/awareness. Investors seek non-financial information to ensure that senior management is aware of the dynamics derived from their business model. Investors expect a clear (and in some cases, public) commitment to understanding, managing, and continuously improving the organization. A materiality assessment, which is an analysis of the issues that represent an organization's most significant economic, environmental, and human impacts, including human rights impacts, is often critical evidence to ensure that all voices relevant to the business have been heard, including investors, customers, regulators, collaborators, and the communities in which they operate.

2. Step 2: agreements. Understanding the ESG approach as a thorough change in arrangements concerning factors of production: the planet (land), human beings (labor), and stakeholders, including investors (capital), is important. This implies understanding the dynamics of the business and their impact both inside and outside of the company, as well as making the structural adjustments required to achieve a gradual transition based on scientific evidence, consumer preferences, regulations, or changes in social awareness.

These changes should be reflected in documents, such as an ESG strategy aligned to that of the business, internal policies, non-financial key performance indicators, public objectives and commitments, and

ESG aligned top-management incentives, among others. All of these reflect the business's intention to move forward on this path and are important elements for decision-making in capital markets.

3. Step 3: integration of ESG principles into the business. Any effort intended to increase a company's ESG maturity that does not involve modifying its operation is questionable. The principles that motivate corporate sustainability imply adjusting companies' operations to the evolving industry standards in which they operate, especially regarding relevant issues identified in the materiality assessment, thereby affecting the key performance indicators that reflect the ESG status of the business and its environment. Some examples are the decrease of accidents in the manufacturing industry, the replacement of polluting energy sources, and the decrease of CO2 emissions in the real estate industry, as well as the investment in sustainable alternatives in the financial industry, among others.

Communication and disclosure of the ESG effort must be part of the business integration. It should be reflected as a living process that understands stakeholder concerns, business strategies, risks, and regulatory requirements, which, once integrated, create a narrative that is easy to understand, communicate and demonstrate.

4. Step 4: ESG (and impact) management system. ESG awareness, commitment, integration, and information disclosure are becoming increasingly relevant. Whether due to carelessness or fraud (*dolo*), lawsuits in this area continue to increase the so-called greenwashing or social washing cases; consequently, the importance of establishing mechanisms within companies to adequately manage these aspects has also increased. This implies the creation or strengthening of new business skills.

Evidence of this includes: the establishment of an ESG Committee within the board of directors, the appointment of a Chief Sustainability Officer to transversally integrate efforts and strategies, the publication, implementation, and substantiation of ESG policies, processes, and data flows through information systems, and corporate reporting

aligned with the various international frameworks (GRI, IFRS, national sustainable taxonomy) and evaluations (CSA, MSCI, etc.) according to the corresponding interests, needs, and industry. These are some examples of the evidence expected in this area.

As part of a sound management system, there should be a responsibility and accountability system in place. This is intended to encourage compliance with the objectives in all ESG dimensions targeted by the company.

ESG transition involves recognizing that we live in changing times, and, at the same time, acknowledging the evidence demonstrating that what has worked over the last hundred years may not necessarily continue to work today. It is also important to understand that, as in any structural change, there will be times when the old will not die and the new will not be born; we must accept the imperfection of the times and understand that the important issue is to identify our ability to adapt. This conversation is about what companies and entrepreneurs are called to do: to build work environments that coexist in a healthy way with human beings and with the planet.

STEP 1: ESG CONSCIOUSNESS/AWARENESS. CONSIDERING ALL VOICES RELEVANT TO THE BUSINESS

Fundamentally, before a business can be established, there must be a demand to be met and the capacity to satisfy such demand. Hence the need for capital to finance the company, and, consequently, the need for the organization to render accounts or “maximize profits”, as learned in business schools.

Notwithstanding the above, today’s business dynamics are much more complex, and the speed and immediacy of communications have contributed to changing the rules of the game. In a sense, the voices of participants in business dynamics have been democratized. Consumers’ voices have been heard when they have expressed their preference for those companies that have demonstrated prompt responsiveness.

These new sustainability trends have reached company employees. Employees are mostly attracted to organizations that encourage them to do more than simply make money. Organizations that have an explicit purpose and consider human beings as subjects of development, growth, acknowledgement, decent and equitable treatment, embracing the value of diversity; organizations that understand that the labor relationship is a mutual exchange, in which the employee dedicates time, talent, and energy towards a common purpose, while the organization fosters their development, in exchange for fair compensation. We believe that, in the aftermath of the COVID-19 pandemic, organizations are beginning to reconsider this relationship.

In this same sense, communities where large corporations operate express their interest in establishing agreements in which they are recognized as subjects of rights, and that the arrival of companies to their communities is not simply limited to the creation of jobs. Impacts in terms of natural resource exploitation, biodiversity preservation, strengthening of urban infrastructure, proper land use, and the assessment of social and environmental impacts, to name a few, should be clearly demonstrated.

The company's relationship with regulators has been a major consideration, however, today, the regulator is also in transition. This trend originated in Europe, due to the historical evolution regarding environmental and social issues. Much has been heard about the "regulatory tsunami" approaching with the so-called taxonomies, which are tools intended to generate consensus on ESG issues. These tools emerge from the lack of benchmarks to control the so-called green and social washing, promoting products or services that do not uphold their "sustainable" qualities in the light of the authority's observations.

When referring to "voices to be heard", we allude to all that is described herein. Conducting business today implies not only considering capital and sustained profits over time but also listening to consumers, collaborators, communities in which they operate, and regulators, as well as considering emerging trends towards transparency of non-financial information, to name a few.

Where to start?

It has become common for investors to request the so-called materiality assessment from companies seeking financing. This analysis is intended to get companies to listen to different stakeholders regarding material issues that represent the most significant economic, environmental, and human impacts. Top levels of the organization are expected to integrate elements that allow better risk and opportunity management into their business strategy. It is suggested that this assessment be carried out by an independent third party to avoid conflicts of interest or loss of objectivity in the planning of strategies and adequate management systems.

The expected evidence related to business consciousness/awareness includes the following:

- Materiality assessment;
- Public commitments regarding the company's stance on material issues; and
- Sustainability inclusion in the company's microsites including relevant information.

STEP 2: CHANGES IN AGREEMENTS CONCERNING FACTORS OF PRODUCTION TOWARDS CORPORATE SUSTAINABILITY

More than 200 years ago, the fathers of economics referred to the factors of production as “land, labor, and capital”. This oversimplified idea that land was associated with rents, labor with wages, and capital with maximizing profits led to the conversations we have today: this dynamic is no longer sustainable. We need to change these agreements to ensure the survival of future generations. What has happened in all these years? How are these agreements reflected?

The idea that the fundamental objective of a company is to maximize profits has led to the subordination of the land and labor factors to the wealth factor. The implications of these agreements have led to the overexploitation of natural resources, a bad relationship with the earth, extractive dynamics that have triggered alarms in government regulations, as well as social movements warning of the severity of this phenomenon.

Moreover, the idea that paying salaries is enough to take care of the labor factor is incorrect, and, today, it has become clear that this is not the right path to take. The social challenges we face today are immense and thinking that the company has no implications in them would be naive. People spend a large part of their lives at work, which is where a significant part of their family income is generated, but this also has an impact on their personal dynamics. Working hours, working conditions, respect for their rights, and the way people are treated influence their physical and mental health. This is why companies should be concerned about the welfare of their employees, as, ultimately, this affects their productivity and their ability to innovate and contribute to the development of the organization.

The dependence and impact levels of these factors vary according to the industry in which a company operates. The effect of a mining company on potential environmental impacts is not the same as the impact generated by an asset management company, nor is the effect of a manufacturing company on thousands of workers the same as that of a technology company with fewer than 30 employees, in terms of social impact. Consequently, the actions expected from companies also vary according to their spheres of action. This leads to criticism of the traditional social responsibility approach, which generalizes corporate behaviors into philanthropy or volunteering without authentically addressing the critical issues associated with core business activity. While these are good gestures, many believe that the actions taken by some organizations sometimes fail to be consistent with the size of the impact they have on the social or environmental areas.

A question worth asking company CEOs is: What do they understand by sustainability? Do they truly care about implementing sustainability in the company? The first Chief Sustainability Officer of a company is the CEO, as

he/she is responsible for ensuring the long-term viability of the company. However, when this role is limited to evaluating the company solely on the basis of the financial results it delivers, it leads to a partial vision that has caused many companies to go bankrupt and has generated business “blind spots” that simplify investment and institutional performance decisions.

When a CEO understands his/her role as the person responsible for ensuring that the company is sustained for the next 25 years, he/she can understand his/her mission as something broader, and more complex, which has to do with the continuity and adaptability of the business model, trends, consumer habits, required talent, replacement cadres, compensation, current and future regulations, accountability to various social actors; everything that a good ESG evaluation system considers.

The idea is to change the notion that “working on sustainability is an unnecessary expense to be undertaken if regulation so requires” to “working on sustainability is to activate important sensors that will alert to key risks and opportunities in the business and increase the possibility of sustaining the organization in the long term”. This means making people understand that ESG integration, although an expense in the short-term, is an investment for the future.

Where to start?

- Define who is responsible for material issues.
- Establish clear priorities and duties through job descriptions and define management performance and compensation parameters.
- Within this context, focus on conversations about what is important for the company.

Evidence expected as a result from changing such agreements includes the following:

- Design, publication, and implementation of key policies associated with material issues.

- Implementation of an ESG structure that provides governance and relevance in decisions. Transparency in the way the business deals with litigation or disputes regarding ESG principles.
- Dedicated training and investment at all levels of the organization related to material issues.

STEP 3: INTEGRATION OF ESG PRINCIPLES INTO THE BUSINESS

The integration of ESG principles into the business implies that they are part of the logic with which managers integrate and adapt the interaction between their business model and the social and environmental aspects. This involves generating changes in different dimensions of the business, especially regarding those issues identified in a double materiality assessment, a study that reveals how the business affects its environment and how the environment affects the business, as well as the risks involved.

This section refers to compliance, as it is essential to emphasize the importance of addressing a relevant interest group: the regulator. Operating in compliance with current regulations would appear to be an obvious first step in any business proposal. The relevant issue today is that regulations around ESG dynamics are taking on additional relevance. On the one hand, performance standards are being raised and performance criteria are being refined in line with European standards. On the other hand, these criteria are being made binding on financial instruments through the so-called Sustainable Taxonomies, which standardize concepts and set precedents to avoid greenwashing, social washing, or purpose washing, and which are a source of litigation and reputational damage for major corporations which have paid the cost of not being mindful of these concepts.

Some regulations focus on human rights, which have been affected in some industries by abusive practices towards employees, such as long

working hours, lack of social security, mistreatment of collaborators, mental health issues, unsafe conditions that cause workplace accidents, discrimination, or low wages, to name a few. Many of these regulations already exist; the Ministry of Labor (*Secretaría del Trabajo*), the Ministry of the Environment (*Secretaría de Medio*), and the SHCP have established regulations with respect to these issues for many years. The novelty is to align these new regulations and, according to the specific economic activity, to emphasize that companies that want to access sustainability instruments shall first comply with these regulatory frameworks in order to subsequently measure and disclose them as part of the generally accepted accounting standards, in the same way that financial indicators are measured and reported.

In terms of sustainability, it can be said that we are at the same level as we were 50 years ago when it comes to reporting a company's economic data. Today, when we look at one of these financial reports, it is normal for these to include all information that is transparent in this area, which information is developed through information systems and the efforts of qualified people; however, the non-financial dimension is still in its early stages within companies. There are few people dedicated to these tasks, insufficient data flows, few assurance mechanisms, and a low management culture to look at these dimensions alongside the financial part. However, this has only just begun. ESG disclosure is essential, as companies that have non-financial indicators are more resilient in complex economic environments. Investment funds prioritize companies that consider corporate sustainability as intrinsic to their business models.

In this transition, sustainability qualifiers/indicators have increased their influence on the ratings issued. For a company to receive a good rating, it must disclose information; there is a golden rule considered in many assessments: if the information is not public, it does not exist. At the same time, many international organizations involved in the standardization of this information have generated consensus to simplify this understanding, and those metrics with the highest relevance have been chosen to be the common metric for many of these reports.

ESG performance reflects that companies' intent is important, but not sufficient. Industries are moving at different speeds to demonstrate that such principles are revolutionizing the way they do business. Companies that are skeptical appear more obsolete and out of touch with the interest of investors, consumers, regulators, and, virtually, all of the key players that make a company a business.

Where to start?

Expected evidence related to the integration of ESG principles into the business includes the following:

- Sustainability strategy aligned with business strategy;
- ESG key performance indicators, baseline, targets and annual reporting aligned with global standards (IFRS, GRI, SASB, among others); and
- Annual sustainability report and integrated reporting.

STEP 4: ESG MANAGEMENT SYSTEM

Can you imagine being an entrepreneur and telling your partners what your profits were for the year by writing it down on a napkin? In the 1930s, only two financial indicators were required: sales and profit. Today, documentary support, external reviews, accounting systems, etc., must be considered as part of financial statements. This is unquestionable, and, today, all companies consider it part of their day-to-day operation. What about non-financial data? In the best of cases these are entrusted to one person or one area that collects data for all areas in an Excel spreadsheet and prepares, with the assistance of an external party, an annual report which preparation undergoes the same complex path every year. This is not sustainable anymore. Excel can't hold up any longer.

An ESG management system aligned with stakeholder expectations requires a business approach that produces diverse evidence. Management integration, inclusion in job descriptions, and performance incentives are all necessary. This ultimately translates into part of the corporate results supported by the formal structure of the entire company.

The elements that reflect a good ESG management system include, among others, the following:

Intention: a committee at the highest level, in which these issues are transversally integrated into the company, preferably from the board of directors. The implementation of an ESG strategy based on a sound double materiality assessment.

Integration: material issues represented by the highest management levels and with a work plan aligned to their core duties, with clear performance metrics, initiatives, and periodic reporting. Information systems that allow non-financial data to be at the same level as financial data in the sense that they are thoroughly documented, have people who are accountable for the management thereof and have evidence of performance and transparency in their reporting, as well as public disclosure.

Compliance: based on a regulatory compliance mapping and risk analysis, processes must be implemented for the management of its annual cycle, with a management plan, documentation including evidence for each of the elements required in the labor, tax, environmental, human rights, criminal, and antitrust areas, among others.

Where to start?

The expected evidence regarding the ESG management system includes the following:

- Establishment of an ESG Committee in the board of directors and making it a priority;

- Identification and mitigation of financial, regulatory, and operational risks;
- Strengthening of non-financial data flows, responsible parties therefor, and management reporting;
- Implementation of the role of Chief Sustainability Officer or equivalent thereto; and
- Alignment of management compensation system to ESG principles.

6.3 ESG MONETIZATION AND THE COST OF DOING NOTHING

ESG implies placing relevance on some of the main non-financial aspects of the business, raising the level of awareness of these aspects, and listening to all voices that are relevant to the company, such as customers, investors, suppliers, regulators, and the community in which it operates, among others. This will allow us to design a proper strategy aligned with that of the business, intended to integrate a solid management system, with transparency and accountability. If this is properly done, the company is expected to become more resilient and achieve better levels of financial performance in the long term.

Let us, then, discuss the cost of not doing this. The monetization of these impacts can be hypothesized in the three ESG aspects. We can start with a valuation of current costs, then assess the impact of the ESG strategy on these values and come up with a return on investment of corporate sustainability.

This hypothesis on the impact of sustainability, if linked to the potential change in the relationship with your stakeholders, could go in several directions:

Regarding your customers, increasing sales and loyalty; regarding regulators, reducing fines, and improving the time required for the issuance of permits; regarding suppliers, improving costs, and reducing

returned goods; regarding the community where you operate, reducing conflicts, litigation, and improving business reputation; regarding investors, improving capital costs, liquidity, and investment in new projects; regarding employees, attracting better talent, reducing turnover, and increasing commitment and innovation. Depending on the nature of the industry, some will make more sense than others.

From a social perspective, poor talent management can have enormous hidden costs; for example, a high level of turnover has an impact on the learning curve of employees, since you have to retrain and integrate new people. The lack of a culture that attracts, develops, and enhances talent can limit innovation and environmental adaptability, and, consequently, result in a loss of market share and competitiveness. Gender inclusion in decision-making processes at the top management level and in company dynamics complements the decision-making process and enriches corporate culture.

On the environmental side, there can be considerable savings through the efficient use of supplies required in the operation, such as energy. Measuring energy consumption reveals sources of inefficiency, which has led to a switch to LED lighting technology, motion sensors to turn off unused areas, and the replacement of energy-intensive appliances. Good environmental management also reduces the risk of litigation and fines for pollution or waste, which, ultimately, impacts the company's reputation.

Corporate governance defines the rules of the game that allow the company to transcend over time while promoting proper management. These rules involve key positioning on ESG issues, the establishment of policies, the determination of incentives, risk mitigation, and transparency before stakeholders. In many business models, this aspect is crucial for investors and can determine the difference between attracting capital or not.

When discussing the costs of sustainability management, superficial compliance with requirements, without an internalization process and alignment with the business context and ensuring that what is required generates value for the operation, can result in high costs. However, if

the different aspects are approached with creativity and interest while finding the strategic value to make the company a better place through ESG, then we can say that it is a great investment.

Promoting corporate sustainability culture implies that those responsible for this task shall present a business case that includes the measurement of the strategy's profitability, enabling the sustainability approach to go from being perceived as an expense to being considered an investment. We must be conscious of the fact that companies are constantly struggling between short- and long-term objectives, for operational efficiency, and for reducing operational barriers to make the company more efficient against the competition. If we understand the background of ESG goals, we can find dynamic mechanisms to comply with them, apply technology measurement, simplify data flows for reporting, integrate the business areas towards this approach, and let them be the ones to turn their duties into tasks aligned with sustainability principles. Therefore, we can say that ESG represents a new way of doing business that brings greater benefits and that it is up to the company to gradually integrate it into its DNA for the benefit of all stakeholders, and consequently, for the business.

7. ANNEXES



7.1 MEXICO'S SUSTAINABLE TAXONOMY

First edition, March 2023 | Ministry of Finance and Public Credit | March 16, 2023 | Discover the first edition of the Sustainable Taxonomy report from the Ministry of Finance and Public Credit.

https://www.gob.mx/cms/uploads/attachment/file/809773/Taxonom_a_Sostenible_de_M_xico_.pdf



EXECUTIVE SUMMARY

A sustainable taxonomy is a classification system that identifies and defines activities, assets, or investment projects with positive environmental and social impacts, based on established goals and criteria. The purpose of a taxonomy is to provide certainty and transparency to financial markets, encourage investment in sustainable activities and better track financing flows for sustainability, providing greater clarity, certainty, and security to markets with precise and consistent definitions.

Mexico's Sustainable Taxonomy ("**Sustainable Taxonomy**") was established to create a reliable, legitimate, unified, and science-based classification system to determine the economic activities that can be considered sustainable. This is intended to increase investment in projects and economic activities that promote the fulfillment of the country's environmental and social objectives, as well as Mexico's international commitments in terms of sustainability. The Taxonomy will also promote access to timely and reliable information to encourage the mobilization of capital towards sustainable activities and reduce the risk of greenwashing.

The first stage of the Taxonomy focuses on the development of three main objectives: climate change, gender equality, and access to basic services for sustainable cities. In this sense, Mexico's Sustainable Taxonomy is pioneering and innovative at a global level, as it directly addresses the care and protection of the environment and benefits for society. In addition, the Mexican Taxonomy contributes to the design of metrics to evaluate the substantial contribution to the fulfillment of social objectives, which may serve as a reference for the development of social taxonomies in other jurisdictions.

To guarantee the relevance and operability of Mexico's Sustainable Taxonomy in the long term, it will be periodically updated and adjusted to the country's economic, social, and technological conditions and needs. The instrument will be continuously revised and updated.

The purpose of this document is to describe the creation and development process of Mexico's Sustainable Taxonomy, as well as the technical evaluation criteria for the climate and gender equality objectives for this first stage. Chapter 1 includes a review of the national and international context of sustainable finance, the conceptual and methodological framework of Mexico's Sustainable Taxonomy, relevant considerations for its implementation by different users, and the upcoming steps surrounding this instrument.

Chapter 2 introduces the technical evaluation criteria for activities related to climate change adaptation and mitigation objectives. It includes 124 eligible activities across 6 economic sectors, as well as their respective metrics, thresholds, and no-significant-harm criteria. Finally, Chapter 3 presents Mexico's proposed Sustainable Taxonomy for gender equality as a social objective.

This project proposal involves the design of a Gender Equality Index developed through guiding questions on the three pillars of Decent Work, Well-being and Social Inclusion (*Trabajo Digno, Bienestar and Inclusión Social*). Additionally, a progress report on the development of evaluation criteria for Sustainable Cities as a social objective is included as an Annex to this document, which will continue to be analyzed and will focus on promoting the access of vulnerable populations to housing, transportation, and water services.

Greenwashing refers to the activities, behaviors or strategies employed by a company or institution to lead society to believe that it is doing more to protect the environment than it actually does.

https://www.gob.mx/cms/uploads/attachment/file/809773/Taxonom_a_Sostenible_de_M_xico_.pdf

7.2 SUSTAINABLE DEVELOPMENT GOALS



Member States of the United Nations (UN) adopted the 2030 Agenda for Sustainable Development in 2015. The 2030 Agenda sets out a plan to achieve 17 Sustainable Development Goals (SDGs) in 15 years. The Agenda includes 169 targets and an overarching commitment to leave no one behind. SDGs apply to both developing and developed countries.

According to the Sustainable Development Goals Report issued in 2023, at the halfway mark, there is still a long way to go to achieve SDGs. There is an urgent need to strengthen efforts to ensure that the SDGs stay on track and move towards a sustainable future for humanity. According to current estimates, 575 million people will still be living in extreme poverty in 2030. Hunger levels have returned to 2005 levels, and limiting global temperature rise to 1.5 degrees is rapidly becoming impossible.

Globally, out of the approximately 140 targets that can be assessed, half show moderate or severe deviations from the desired performance baseline. Moreover, more than 30% of these targets experienced no progress or, far worse, slipped back below the 2015 baseline. According to the report, the

impacts of the climate crisis, the wars in Ukraine and the Middle East, a weak global economy, and the lingering effects of the COVID-19 pandemic reflect weaknesses and obstruct progress towards the SDGs.

Despite difficulties in obtaining timely data on the 169 targets, considerable progress has been made toward the availability of internationally comparable data: the number of indicators included in the global SDG database increased, from 115 in 2016 to 225 in 2023. The number of entries in the database increased, from 330,000 in 2016 to 2.7 million in May 2023. In just 7 years, the global SDG database expanded significantly (SDG Report, 2023).

Significant progress was also made in the methodological development of SDG indicators. In 2016, a concerning 39% of SDG indicators did not have an internationally established methodology or standards. By March 2020, all indicators had a well-established and internationally agreed methodology, which ensures the comparability, accuracy, reliability, and usefulness of our metrics. Furthermore, the ratio of indicators that are conceptually clear and have good country coverage increased significantly, from 36 % in 2016 to 66 % in 2022 (SDG Report, 2023).

While these achievements are worth celebrating, some gaps still hamper the data outlook. Geographic coverage, timeliness, and disaggregation remain areas of concern. For several cross-cutting goals, such as climate action (Goal 13), gender equality (Goal 5) and peace, justice, and strong institutions (Goal 16), less than half of the 193 countries or areas have globally comparable data since 2015.

Mexico's performance on SDGs ranks 80th out of 166 countries, with a score of 69.7, below the regional average (77.8). Fortunately, Mexico is close to eradicating extreme poverty (defined as living below the \$2.15 US dollars per diem threshold), but not poverty in all its dimensions. It has also managed to reduce maternal and infant mortality. Mexico has encouraging results in gender equality indicators, however, female participation in the economy and violence remain major challenges.

According to the latest National Voluntary Report (*Informe Nacional Voluntario*) on the 2030 Agenda in Mexico (2021), the government has

focused its efforts on the social and economic spheres, with an emphasis on fighting inequalities. It has also prioritized the fostering of social peace by addressing socioeconomic deficiencies. It has also actively participated in international alliances to advance the most pressing global challenges faced by the international community, including the fight against climate change, and, more recently, the achievement of universal vaccination against COVID-19.

The SHCP, together with the United Nations Development Program in Mexico (Programa de las Naciones Unidas para el Desarrollo en México) (UNDP) and the Presidential Office (*Oficina de la Presidencia*), has developed a methodology to align the federal budget with SDGs, which involves the ministries and entities of the federal public administration. According to the SHCP, 84% of budget programs are aligned with SDGs (516/616). Three SDGs account for more than 60% of the associated budget programs: SDG 16 “Promote just, peaceful and inclusive societies” (37%, 190pp), SDG 4 “Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all” (14%, 71pp), SDG 9 “Build resilient infrastructure, promote sustainable industrialization and foster innovation” (13%, 65pp).

Among the challenges to the advancement of the 2030 Agenda in Mexico, the report highlights the access to sources of financing, the strengthening of institutional capacities, particularly in subnational governments, the construction of more and better multisectoral alliances to enhance efforts and results, the expansion of community participation mechanisms, and the unprecedented impacts that the COVID-19 pandemic has had on the performance of each sector.

These lines of action echo the recently updated commitments of UN member states to facilitate the strengthening of the development system of international financial institutions, as well as to increase the capacity of the multilateral system to address emerging issues and to address the gaps and shortcomings identified in international architecture concerning SDGs, which have become apparent since 2015. In this regard, there is an important and growing discussion around the need to revamp

international financial institutions to expand financing opportunities, enhance the channeling of resources, and accelerate private investment in developing countries that need to address important social, climate, and governance challenges, to name a few.

In this context, the UK government's MOBILIST (Mobilising Institutional Capital Through Listed Product Structures) program is leading the way to add value-generating solutions that support countries in addressing and solving their most pressing challenges. Mobilist is directed at public capital markets seeking to mobilize large-scale investment flows. MOBILIST engages financial institutions in identifying public capital markets investment products that contribute to sustainable development. The objective is to identify those products intended to be listed in international and/or local securities exchanges in order to mobilize local, international, and/or UK-based capital through public capital markets. The FCDO may invest capital to support these products during their IPO. Potential products should support the achievement of SDGs and respond to the UK Government's commitment to support developing countries in addressing the challenges and opportunities arising from climate change.

Moreover, the recently launched Mobilizing Sustainable Finance Strategy (EMFS) positioned Mexico as a regional leader in sustainable finance. The EMFS acknowledges the importance of debt and capital markets, considering the holding of assets and the provision of financing. Pillar 2 of the EMFS, specifically work line 2.5, referring to sustainable financing for SMEs, is intended to facilitate an enabling environment to advance in the transformation of debt and capital markets. SMEs are key agent for implementing the strategy for the development and implementation of projects and activities with a social and environmental focus.

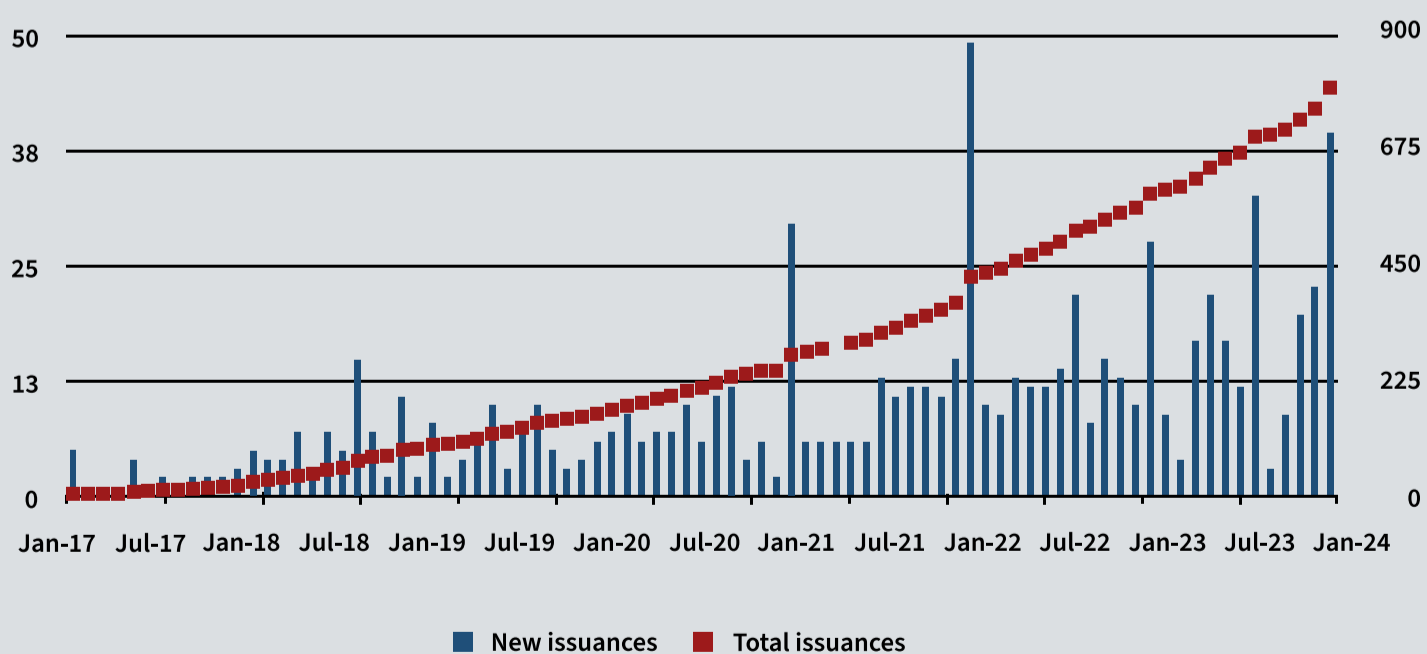
7.3 CASE STUDY: ITALIAN MINIBONDS

SMEs are essential to the European economy, defined by the European Commission as companies with fewer than 250 employees and assets or sales of less than 50 million euros per year. Despite their relevance, these companies have encountered challenges in accessing financing, especially after the 2008 global financial crisis.

The global financial crisis and the economic situation in Greece in 2011 led to a credit crunch that made banks reluctant to lend to SMEs. This resulted in a significant decrease in bank financing. In Italy, this translated into a credit squeeze from 802 billion euros before the crisis to 648 billion euros at the end of 2019.

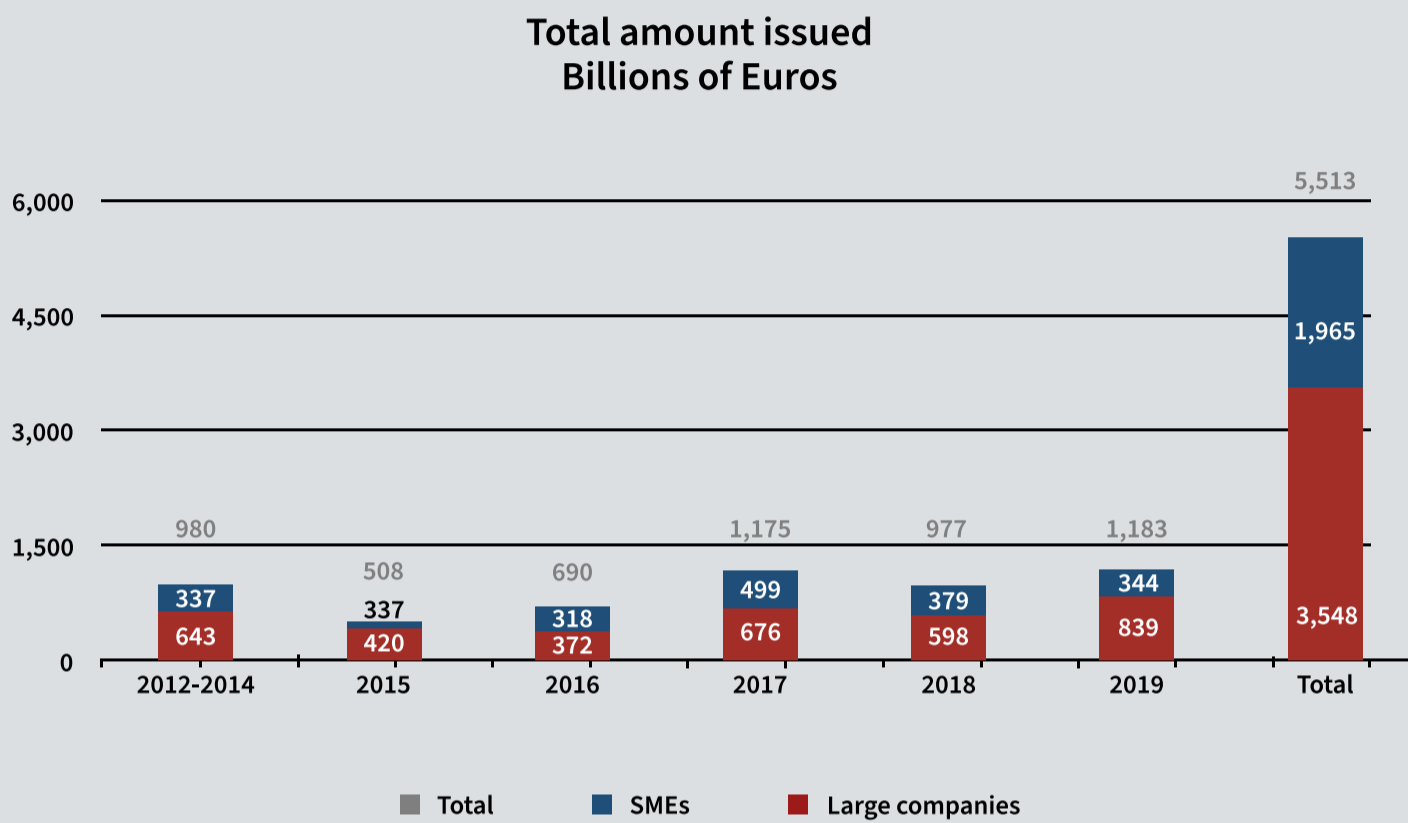
To address this concerning situation, the Italian government implemented amendments in 2012, introducing “minibonds” as an alternative source of financing. In 2013, a minibond market called ExtraMot-Pro was launched in the Italian Exchange. The Politecnico di Milano’s Minibond Observatory has monitored 801 minibond issuances by 536 companies, of which 314 are SMEs.

Growth in minibond market



Source: Osservatorio Minibond, 2020

The minibond market has raised a total of 5.5 billion euros, of which just over a third went to SMEs.



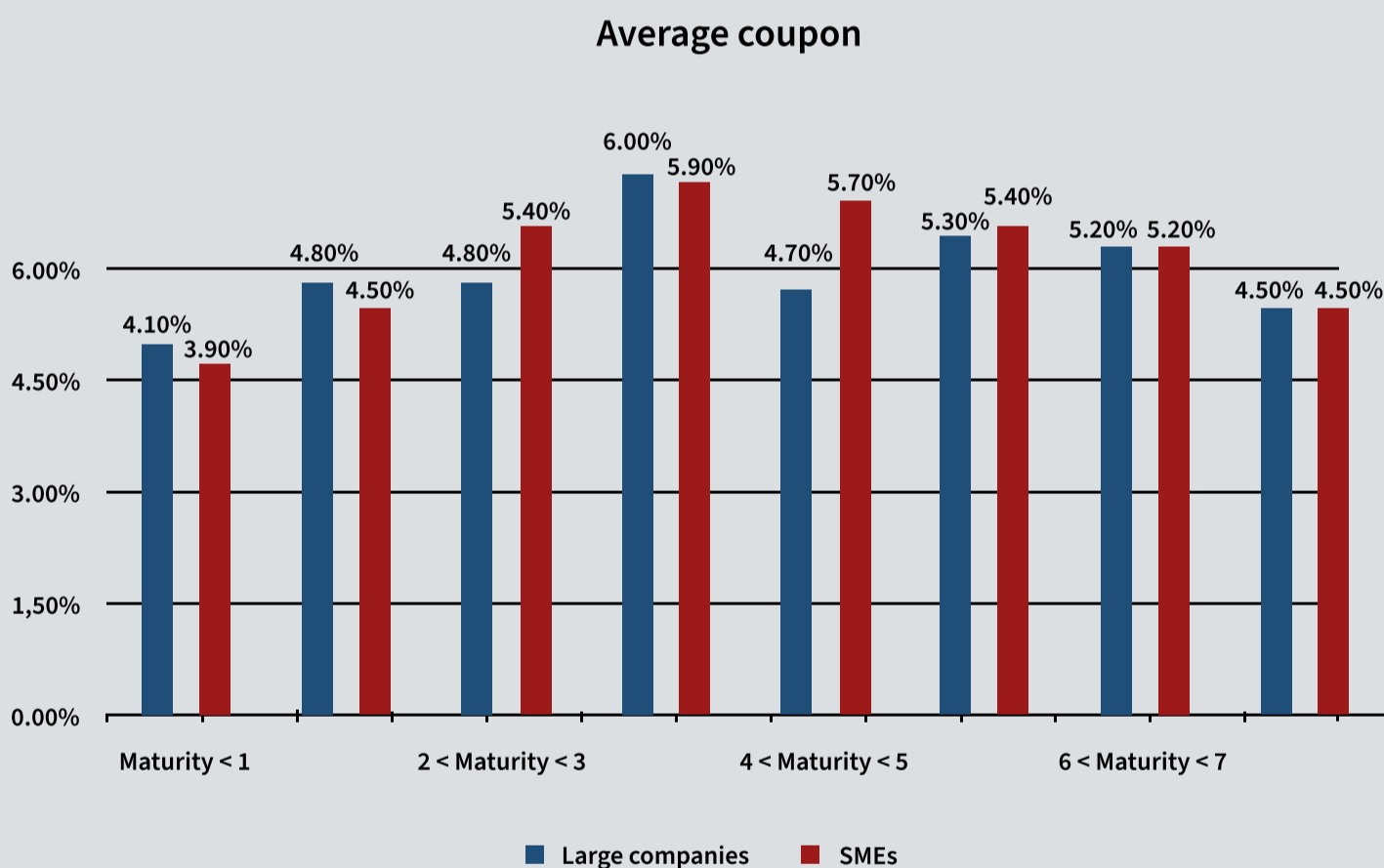
Source: Osservatorio Minibond, 2020

The mini bond issuance process requires issuing companies to have sound business plans, qualified management, a presence in the Italian market, and a focus on international expansion. Issuances may not exceed 50 million euros. Once issued, companies must provide transparent and timely information, such as audited financial statements and technical details regarding the bonds. This has created a new niche market for auditors, advisors, legal consultants, arrangers, and rating agencies, and, particularly, for investment funds specializing in this market.

The data reveal that minibond financing reduces exposure to bank debt and strengthens the financial resilience of SMEs. It also increases their visibility to investors and opens doors to more complex forms of financing in the future, such as going public or approaching private equity funds. The latter can be largely attributed to the institutionalization that companies acquire through debt listing.

The issuance of minibonds not only benefits SMEs but also the overall economic landscape by releasing capital from banks and reducing their exposure to SME vulnerabilities. It also encourages SME innovation and expansion, contributing to national economic development.

The minibond market has proven its resilience over time, growing steadily and attracting institutional investors and pension funds. This diversifies financing sources for SMEs and offers investors a new asset class. An indication of this is the low number of defaults within this market, which, ultimately, translates into a minimal difference in the spread between SMEs and large companies. Another example is the average amount issued, which has decreased from 24.7 million euros to 4.7 million euros in the period covered by the Politecnico di Milano's study.



Source: Osservatorio Minibond, 2020

In summary, the minibond market has emerged as a valuable tool to empower SMEs, allowing them to access financing in an efficient and sustainable manner. Diversifying financing sources benefits SMEs, the economy as a whole, and investors. Its success lies in its transparency,

accessibility, and adaptability to evolving market needs. In an ever-changing business world, minibonds play a key role in strengthening SMEs and promoting sustainable economic growth.

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