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Discussion Topic:

Citigroup's rescue by the American Government

Results in a concentration of Banamex that should be filed before the Mexican Federal Competition Commission

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This Note is a personal opinion. It does not necessarily reflect VA&BA position

1. Citigroup has recently announced that the American Government will provide it with financial support.
2. Such support includes the acquisition on Citigroup's preferred stock: As published by Citi,

"The U.S. Treasury will invest \$20 billion in Citi preferred stock under the Troubled Asset Relief Program (TARP)

Citi will issue an incremental \$7 billion in preferred stock to the U.S. Treasury and the FDIC as payment for a government guarantee on ..."

(See <http://www.citigroup.com/citi/press/2008/081124a.htm>.)

3. Such acquisition implies that the American Government is acquiring indirectly a proportion of Banamex' capital stock or its equivalent in Banamex' assets.
4. The Federal Law on Economic Competition, article 20, section III establishes:

"Article 20. The following concentrations should be filed before the Commission before its completion:

...

*III. If they are the result of an event or series of events resulting in an acquisition of assets or capital stock inside the Republic for an amount higher than 8.4 million times the current Federal District minimum wage, and **in the transaction are involved two or more economic agents** whose assets or annual sales, jointly or independently, add up to more than 48 million times the current Federal District minimum wage."*

5. Taking account of a minimum wage of MxP \$52.59 and assuming an exchange rate of MxP \$13.50 per USD \$1.00, then 8.4 million times the wage amounts to USD \$32.72 million approx., and 48 million times the wage amounts to USD \$186.98 million approx.

6. Grupo Financiero Banamex reports, for the first quarter of 2008: total assets and capital stock of MxP \$629,147 millions and MxP \$46,998 millions, respectively. Such figures amount to USD \$ 46, 603 millions and USD \$ 3,481 millions approx. (See http://www.banamex.com/esp/pdf_bin/informacion_financiera/gpo_1t2008.pdf .)
7. **Thus it is very likely that the support to be given by the American Government translates in its indirect proportional accumulation of assets or capital stock in Banamex that surpasses the thresholds as stated by FLEC's article 20, section III.**
8. Final caveats: Although at first sight it seems that such a concentration will not result in adverse effects to the competition process in Mexico, there are a couple of moot questions that should be clarified in order to proceed with the filing and its analysis:
 - a. By the Federal Competition Commission: Whether the America Government should be considered an “economic agent”. (From my point of view, the answer should be affirmative in this case).
 - b. By the Ministry of the Treasury (Secretaría de Hacienda y Crédito Público): Whether a foreign government is allowed, pursuant to Mexican financial regulations, to become stock holder –even in an indirect way- of a Mexican financial institution. (I do not know the answer).