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### **Regulatory framework for virtual asset platforms**

On March 8, the Bank of Mexico (Banxico) published Circular 4/2019 in the Federal Official Gazette, establishing general provisions for credit institutions and financial technology institutions in the operation of virtual assets (“Circular”).

The Circular, in force as of March 9, addresses the volatility of these assets, as well as the risks they involve for their holders due, basically, to the lack of knowledge regarding the technology and cryptographic processes that support them, as well as the difficulty to determine their demand, supply and price.

Banxico also emphasizes that the lack of controls and prevention measures in the transfer of such assets to other countries may facilitate money laundering and terrorist financing.

To reduce such risks and, at the same time, allow credit and financial technology institutions (“Institutions”) to take advantage of the benefits that these new technologies could offer, the Circular provides that transactions involving virtual assets should be carried out exclusively within the framework of their internal operations and under no circumstance transfer their risk to clients, direct or indirectly.

In terms of the Circular, Institutions should be previously authorized by Banxico to perform this type of operations. Such authorizations will be valid throughout the period they are granted, although extensions are permitted.

On the other hand, the authorization will be denied if Institutions intend to provide exchange, transmission or safekeeping services involving virtual assets directly to clients.

The Circular provides the characteristics that virtual assets must meet, as follows:

1. Must be identifiable, electronically registered units of information and do not represent ownership or rights over underlying assets with lower value.
2. Satisfy issuing controls through defined protocols to which third parties may subscribe.
3. Prevent unit replications or their fractions from being transmitted more than once at the same time.

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Authorization requests must comply with requirements provided in the Circular and be sent via email to the Management of Authorizations and Consultation of Central Banking of Banxico. Once granted, it may be revoked where Institutions:

1. Fail to update the operating manual and comprehensive risk framework defined by the Circular.
2. Do not to inform Banxico about additional risks resulting from virtual asset transactions.
3. Fail to implement measures to protect clients from risks arising from such operations, whether direct or indirect.
4. Contravene control and risk containment procedures outlined in the comprehensive risk framework.
5. Fail to disclose their risk management information.
6. Operate with virtual assets in terms other than those provided in the authorization.

Revocation will proceed independently of any other due sanction.

Institutions may contract third parties, national or foreign, to perform transactions with virtual assets, prior authorization of Banxico. Each Institution shall be liable for services provided by such third parties, irrespective of the responsibilities in which they may incur.

Finally, Institutions are obliged to hire an independent third party in charge of evaluating their compliance and due diligence.

**For information regarding this subject, please do not hesitate to contact us at 9178 7000 or through the following e-mail: [contacto@ritch.com.mx](mailto:contacto@ritch.com.mx)**