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Practical cross-border insights into private equity law

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Expert Analysis Chapter

Q&A Chapters

Mexico

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1 Overview

1.1 What are the most common types of private equity transactions in your jurisdiction? What is the current state of the market for these transactions?

At a fund formation level, managers typically structure the funds either through a publicly traded vehicle (in the form of a trust) or a private corporation serving as the investment vehicle. It is also common for managers to choose foreign jurisdictions to form the fund prior to a local investment. At a transaction level, private equity funds are actively participating in both equity and loan financing structures.

1.2 What are the most significant factors currently encouraging or inhibiting private equity transactions in your jurisdiction?

One of the most significant factors encouraging private equity transactions in Mexico is the continuous investment by pension funds in the private equity market, through the acquisition of securities issued by publicly traded trusts that serve as private equity funds. Traditional private equity firms have the option of structuring a local fund that will receive investment from local institutional and qualified investors (which include pension funds). In order for such pension funds to allocate resources to publicly traded private equity vehicles, such investment vehicles must comply with strict structural requirements (including a specific investment period, rules for a distribution of dividends/interest, allocation of the investments in local assets, etc).

1.3 Are you seeing any types of investors other than traditional private equity firms executing private equity-style transactions in your jurisdiction? If so, please explain which investors, and briefly identify any significant points of difference between the deal terms offered, or approach taken, by this type of investor and that of traditional private equity firms.

In recent years, there has been more active participation from family offices and asset manager firms structuring transactions in a manner consistent to that of a traditional private equity firm.

2 Structuring Matters

2.1 What are the most common acquisition structures adopted for private equity transactions in your jurisdiction?

As a general rule, equity investments in Mexican assets are typically structured as either (i) investing through a local corporation, or (ii) investing through a trust, which could provide tax-transparency benefits to investors (if certain tax requirements are met). The investment is typically made at a holding company level. For local companies, it is common for the holding to also serve as an operating company.

Although private equity vehicles may invest directly in the holding company, it is common for such firms to set up special purpose vehicles ("SPVs") intended to perfect the investment. This is common for foreign firms (which would prefer having a wholly owned local subsidiary that would in turn perfect the investment), as well as publicly traded trust funds like *Certificados de Capital de Desarrollo* ("CKDs") and investment project trust certificates ("CERPIS"). The use of an SPV is directly linked to the tax structure of the fund and the investment.

2.2 What are the main drivers for these acquisition structures?

An investment structured through a corporation typically uses the form of a *Sociedad Anónima Promotora de Inversión de Capital Variable* ("SAPI"). The SAPI is a flexible corporate governance structure that offers alternatives for investors to assume a controlling participation holding a minority stake in the company.

Mexican income tax legislation allows certain types of trusts to act as transparent vehicles for its investors. In order for investors to claim such benefits, both the trust and the investment would need to comply with certain structural rules. Investments in real estate assets are commonly structured through a trust.

2.3 How is the equity commonly structured in private equity transactions in your jurisdiction (including institutional, management and carried interests)?

In terms of the investments, the corporate flexibility that a Mexican SAPI offers, allows for multiple investment structures. With a SAPI, the company may issue several series of shares, allocating different characteristics to each one.

2.4 If a private equity investor is taking a minority position, are there different structuring considerations?

The threshold for statutory minority rights in an SAPI are the lowest available for any type of business corporation in Mexico, starting at 10% of the float. In addition to such statutory rights, minority investors are able to add additional rights to their stake. These minority rights are documented in the by-laws and in stand-alone shareholders' agreements entered into by all shareholders. It is common for minority shareholders to negotiate certain rights (such as a preferred distribution, appointment of directors and officers, veto rights for certain corporate matters, etc.).

2.5 In relation to management equity, what is the typical range of equity allocated to the management, and what are the typical vesting and compulsory acquisition provisions?

Equity allocated to management varies considerably from deal to deal. Large local corporations in Mexico are usually family owned and historically managed by members of the family. In recent years, a trend for external professionals assuming management duties has been seen, but most of these companies would maintain some family members as officers or directors.

Please note that labour laws in Mexico are very protective of employees. Such laws could have an impact in equity structures offered to managers in Mexico. A case-by-case review is recommended for every management equity arrangement.

2.6 For what reasons is a management equity holder usually treated as a good leaver or a bad leaver in your jurisdiction?

As mentioned above, labour relationships are highly regulated in Mexico. The terms of employment (including those of management) shall provide minimum statutory benefits and will be subject to legal protections for termination process and severance payments. Under such rules, generally, an employee will have limited scenarios that would give the right to terminate the employment.

As a result of such legal provisions, labour courts and precedents could have an impact in any valuation changes that are applied due to leaver clauses.

3 Governance Matters

3.1 What are the typical governance arrangements for private equity portfolio companies? Are such arrangements required to be made publicly available in your jurisdiction?

Corporate by-laws and/or shareholders'/partners' agreements would normally include special rights for private equity investors (in the form of minority rights), which typically include, among others: (1) preferred stock and dividends; (2) board appointment rights; (3) voting/veto rights in respect of specified matters (see question 3.2 below); (4) rights of first refusal in respect of equity transfers or increases; and (5) drag-along and tag-along rights. Corporate by-laws for Mexican entities are registered before the Public Commerce Registry for the relevant entity's corporate domicile – these registries are publicly available. Other agreements are private.

3.2 Do private equity investors and/or their director nominees typically enjoy veto rights over major corporate actions (such as acquisitions and disposals, business plans, related party transactions, etc.)? If a private equity investor takes a minority position, what veto rights would they typically enjoy?

In the case of an equity transaction and depending on whether the acquisition is for a minority or majority stake, sponsors usually seek presence on the board, veto powers over certain super-majority matters at the shareholder and board levels (e.g., mergers, disposal of assets, indebtedness, change of business line, etc.), as well as other protections regarding their exit from the investment, ranging from tag-along and drag-along rights, as well as preferential rights in a potential initial public offering ("IPO"). The foregoing is either documented in a shareholders' or subscription agreement or is reflected in the by-laws of the acquired company.

Regarding debt transactions, investors and lenders are also likely to request board presence and will want to have a say over certain corporate and business matters – this is typically structured through representations and warranties and affirmative and negative covenants in the loan agreement. Likewise, if the deal involves a syndicate of lenders, the relationship between the members of the syndicate and their rights with respect to the debt will likely be set forth in an intercreditor agreement.

3.3 Are there any limitations on the effectiveness of veto arrangements: (i) at the shareholder level; and (ii) at the director nominee level? If so, how are these typically addressed?

As explained, so long as such veto arrangements are duly documented in the entity's corporate by-laws, no limitations of the effectiveness of these would apply.

3.4 Are there any duties owed by a private equity investor to minority shareholders such as management shareholders (or *vice versa*)? If so, how are these typically addressed?

Mexican law does not provide for such duties. Nonetheless, these duties may be agreed upon via the entity's corporate by-laws and/or shareholders'/partners' agreements (i.e., contractual duties rather than statutory duties).

3.5 Are there any limitations or restrictions on the contents or enforceability of shareholder agreements (including (i) governing law and jurisdiction, and (ii) non-compete and non-solicit provisions)?

Generally speaking, Mexican law allows for broad contractual freedom (except when agreements conflict with law or social measures). Moreover, Mexican corporate law expressly prohibits contractual arrangements that contradict the minimum rights afforded to minority shareholders/partners by law. Having said this, provisions included in entities' corporate by-laws will always prevail over contractual arrangements – in any case, care should be taken as to avoid contradictions between by-laws and contractual arrangements.

As such, governing law/jurisdiction and non-compete/non-solicitation clauses are legal under Mexican law. However (and as to avoid antitrust issues), non-compete arrangements should be limited in scope (to specific goods/services), time (generally, two to three years, and up to five years in specific scenarios) and territory (limited to specified areas).

3.6 Are there any legal restrictions or other requirements that a private equity investor should be aware of in appointing its nominees to boards of portfolio companies? What are the key potential risks and liabilities for (i) directors nominated by private equity investors to portfolio company boards, and (ii) private equity investors that nominate directors to boards of portfolio companies?

Mexican law bars (1) entities, and (2) individuals that are barred from carrying out business activities from serving as directors. In the case of publicly traded entities, statutory auditors are also barred from acting as directors within the 12 months following the date on which their auditor appointment expires.

As a rule, directors are not liable for any losses incurred by entities, unless such losses or damages are the result of wilful misconduct or gross negligence by such directors. Directors shall be jointly liable with entities for the following matters: (1) payment of equity contributions by shareholders/partners; (2) compliance with payment of dividends; (3) existence and maintenance of accounting and records; and (4) compliance with shareholder/partner resolutions.

A breach of these duties would entail liability by directors. Notwithstanding, directors shall not be liable, nor will any claim be exercisable against them, if, during the deliberation of the act for which a liability is being claimed, such directors voted against the execution or transaction, unless there is evidence of fault or wrongdoing by such director.

Special liability also exists for directors under Mexico's civil and criminal codes, and tax, antitrust, data protection, environmental, anti-money laundering/anti-bribery and corruption ("AML"/"ABC") and insolvency laws.

3.7 How do directors nominated by private equity investors deal with actual and potential conflicts of interest arising from (i) their relationship with the party nominating them, and (ii) positions as directors of other portfolio companies?

Mexican law requires directors to: (1) to refrain from voting in matters in which they have a conflict of interest; and (2) treat all information and matters that come to their attention as confidential, unless such information is publicly available or if required to disclose the information by a judicial or administrative authority.

4 Transaction Terms: General

4.1 What are the major issues impacting the timetable for transactions in your jurisdiction, including antitrust, foreign direct investment and other regulatory approval requirements, disclosure obligations and financing issues?

Generally speaking, transaction timetables will vary depending on the nature of the transaction and the underlying business.

Merger clearance is required to the extent the transaction meets certain thresholds (deal value, participant size, and concentration of assets). Merger clearance is almost always jointly requested by both parties to a transaction and is typically structured as a condition to closing. This is based on the understanding that "hell or high water" mechanisms are not common in Mexico.

With respect to foreign investment limitations, Mexican law sets forth certain restrictions applicable for few strategic activities and sectors, which are reserved to: (1) government agencies (e.g., nuclear energy generation, exploration and extraction of oil and hydrocarbons, currency printing, coin minting); (2) Mexican companies with no foreign investment (e.g., land passenger or freight transportation); and (3) Mexican companies where foreign capital ownership is limited to a certain percentage (e.g., manufacturing of explosives or firearms, radio broadcasting). Foreign investment in other specialised sectors may be subject to prior authorisation by the National Foreign Investment Commission (e.g., private education).

As a rule, private equity investors are not required to register before (or obtain clearance from) the securities regulator in Mexico (Comisión Nacional Bancaria y de Valores ("CNBV")). Moreover, private offers are not subject to clearance from the CNBV so long as these (among others): (1) are exclusively made available to institutional or qualified investors, and, when dealing with equity/membership interests or unregistered securities representing the corporate capital of companies, if such securities are offered to less than 100 investors; and (2) are not solicited, offered or promoted to an indetermined person or by mass media communication platforms, and such solicitation, offering or promotion is not conducted on a professional or regular basis.

4.2 Have there been any discernible trends in transaction terms over recent years?

There is no specific official data in Mexico to determine these trends. That said, based on our experience, private equity in Mexico has recently increased, specifically with respect to venture capital, growth and leveraged buyouts, and real estate.

We have also seen an increase in minority investments undertaken by financial sponsors (equity investments with certain minority protections or debt-like investments with rights to participate in the equity upside) or a mixture thereof.

5 Transaction Terms: Public Acquisitions

5.1 What particular features and/or challenges apply to private equity investors involved in public-to-private transactions (and their financing) and how are these commonly dealt with?

The most relevant challenge for this type of transactions would be that the acquisition of a public company would require to be conducted by means of a public tender offer. For such purposes, the transaction will be subject to disclosure in the relevant stock exchange of information regarding the transaction and, likewise, would be subject to a lengthy scrutiny and authorisation process from the CNBV. Such disclosure and approval requirements represent significant delays and costs associated to the purchase and sale process. Furthermore, additional regulatory requirements may apply considering the transaction's structure and market share of potential buyers.

5.2 What deal protections are available to private equity investors in your jurisdiction in relation to public acquisitions?

Regarding acquisitions of public companies, Mexican law allows to provide for no-shop protections in the transaction documents. Most common protections for this type of deals range from piggyback registration rights for investors, to even (less common) break-up fees or obligations to cover aborted deal costs.

6 Transaction Terms: Private Acquisitions

6.1 What consideration structures are typically preferred by private equity investors (i) on the sell-side, and (ii) on the buy-side, in your jurisdiction?

There is no general rule in Mexico with respect to pricing mechanisms; that said, traditional pricing mechanisms to closing accounts are seen more often than "locked box" mechanisms.

6.2 What is the typical package of warranties / indemnities offered by (i) a private equity seller, and (ii) the management team to a buyer?

Representations, warranties and indemnities are given by the target company and seller, and are usually fully fledged when involving a material equity percentage, and include, among others, title to assets, capacity, compliance, due authorisation, no contravention, tax, financial information, litigation, labour, etc. On the buy-side, these are usually limited to capacity, due authorisation, and financial solvency. Representations and warranties are also usually subject to the existence of a "material adverse effect".

6.3 What is the typical scope of other covenants, undertakings and indemnities provided by a private equity seller and its management team to a buyer?

In transactions where signing and closing are differed, conduct of business clauses, whereby the target company and seller agree to comply with certain positive and negative covenants to protect buyer, are common.

Indemnity clauses are usually divided into those arising from breaches to fundamental representations and warranties, and all other breaches. The caps, baskets (deductible and *de minimis*) and claim periods will depend on such type of breaches. Breaches will typically be exempt if fully disclosed. Sandbagging/anti-sandbagging mechanisms can also be included.

6.4 To what extent is representation & warranty insurance used in your jurisdiction? If so, what are the typical (i) excesses / policy limits, and (ii) carve-outs / exclusions from such insurance policies, and what is the typical cost of such insurance?

The use of representation and warranty insurance is not common in Mexico. When seen, it is usually in the context of larger cross-border transactions with foreign investors.

6.5 What limitations will typically apply to the liability of a private equity seller and management team under warranties, covenants, indemnities and undertakings?

As explained in question 6.3 above, caps, baskets (deductible and *de minimis*) and claim periods are usually negotiated and required by sellers.

6.6 Do (i) private equity sellers provide security (e.g., escrow accounts) for any warranties / liabilities, and (ii) private equity buyers insist on any security for warranties / liabilities (including any obtained from the management team)?

Holdback mechanisms and escrow accounts are commonly used in respect of indemnities. Release mechanics for these are usually tied to statutes of limitations and/or representation and warranty survival periods.

6.7 How do private equity buyers typically provide comfort as to the availability of (i) debt finance, and (ii) equity finance? What rights of enforcement do sellers typically obtain in the absence of compliance by the buyer (e.g., equity underwrite of debt funding, right to specific performance of obligations under an equity commitment letter, damages, etc.)?

The structuring of acquisitions by private equity investors through SPVs is common in Mexico. To provide comfort to buyers, guarantees (*obligación solidaria*) by parent companies or ultimate beneficial ownership are often put in place, giving sellers a direct claim in case of a breach by buyer.

Equity and debt commitment letters are also used to provide comfort to sellers that investors will ultimately have the funds required to carry out the acquisition.

6.8 Are reverse break fees prevalent in private equity transactions to limit private equity buyers' exposure? If so, what terms are typical?

Seller (reverse) break fees are uncommon in Mexico. Breaches to seller's obligations are usually covered by the seller's indemnification obligations.

7 Transaction Terms: IPOs

7.1 What particular features and/or challenges should a private equity seller be aware of in considering an IPO exit?

The most relevant features or challenges to be considered by private equity sellers in an IPO exit would be: (i) the liquidity of the Mexican equity securities market; (ii) disclosure and scrutiny process; (iii) applications and approvals required from the CNBV; and (iv) timing and costs associated and connected with the IPO process.

7.2 What customary lock-ups would be imposed on private equity sellers on an IPO exit?

It is customary to see lock-up agreements imposed on private equity sellers limiting or restricting the sale of shares for a certain period following the IPO. In our experience, such period typically ranges 180 days.

7.3 Do private equity sellers generally pursue a dual-track exit process? If so, (i) how late in the process are private equity sellers continuing to run the dual-track, and (ii) were more dual-track deals ultimately realised through a sale or IPO?

Even though a dual-track exit process is allowed in Mexico, this type of alternative for equity sellers is not common in our market. Some of the main factors are markets conditions, size, and resources to prepare for both, an IPO and third-party exit process.

8 Financing

8.1 Please outline the most common sources of debt finance used to fund private equity transactions in your jurisdiction and provide an overview of the current state of the finance market in your jurisdiction for such debt (including the syndicated loan market, private credit market and the high-yield bond market).

When debt financing is structured locally, the most common form would be a term loan granted by a local party. Having said that, the finance market in Mexico is not limited to local institutions. Access to the offshore finance market is very common for Mexican transactions. Syndicated loans are regularly seen with a wide range of international parties participating in the syndicate.

A local high-yield bond market, even when developed, faces different challenges due to the timing and costs associated to the approvals required by the CNBV. Nonetheless, issuers and investors can also access offshore markets for these purposes.

8.2 Are there any relevant legal requirements or restrictions impacting the nature or structure of the debt financing (or any particular type of debt financing) of private equity transactions?

We do not identify relevant legal requirements or restrictions to structure debt financing.

8.3 What recent trends have there been in the debt-financing market in your jurisdiction?

A very notorious trend for debt-financing market in our jurisdiction would be environmental, social and governance ("ESG") financing. Since 2020, Mexico has seen a significant increase in the number of transactions involving ESG financing and ESG bonds. As a result, relevant regulatory efforts are already in place (Taxonomía Sostenible de México), as well as the development and sophistication of a special ESG financing market being on the rise.

9 Alternative Liquidity Solutions

9.1 How prevalent is the use of continuation fund vehicles or GP-led secondary transactions as a deal type in your jurisdiction?

For investments made by publicly traded funds (in particular CKDs or CERPIs), continuation vehicles are somewhat used due to the fact that delaying liquidity for a long period could have a material adverse effect on the tax structure of the legacy fund.

9.2 Are there any particular legal requirements or restrictions impacting their use?

For CKDs, it is common for the fund to have detailed rules on how assets should be valued and divested, further limiting the manager's options in the use of continuation funds (use of third parties, external auditors, disclosure to the markets, etc).

In all cases, typical conflicts of interest restrictions should be observed.

10 Tax Matters

10.1 What are the key tax considerations for private equity investors and transactions in your jurisdiction? Are off-shore structures common?

There are no transfer taxes or value-added taxes payable in respect of share acquisitions. Nonetheless, a seller may be required to pay income tax on the capital gains arising from the sale. The tax rate and potential withholding obligations for a buyer will apply on a case-by-case basis depending on the particular characteristics of the parties (e.g., individual or corporation, residency, equity participation, access to tax reliefs or exemptions pursuant to double taxation treaties, etc.).

Potential investors may also acquire shares of target companies via a direct subscription of (new) stock. This is a structure where one or more investors decides to participate in the equity of a Mexican company without a transfer of stock by the current shareholders, only their dilution, which generally should not trigger a tax event.

Offshore structures remain common in the Mexican private equity industry; however, as a result of recent changes to local law, as of fiscal year 2021, fund managers have favoured the use of local vehicles to structure private equity funds (trust or joint venture agreements) in order to preserve tax transparency for private equity investors.

Private equity investors are usually required to provide diverse information to fund managers in order to apply tax treaty benefits or claim tax exemptions (i.e., tax residence certificate, granting of a tax payments on account (POA), incorporation documents, among other requirements).

10.2 What are the key tax-efficient arrangements that are typically considered by management teams in private equity acquisitions (such as growth shares, incentive shares, deferred / vesting arrangements)?

Management compensation arrangements usually involve the granting of stock options, warrants, earn-out payments and other forms of performance-based compensation to key members of management.

10.3 What are the key tax considerations for management teams that are selling and/or rolling over part of their investment into a new acquisition structure?

In general, the sale or roll-over of stock owned by Mexican tax-resident employees creates a tax event. The applicable tax rate will hinge on the income bracket of the specific executive, but it will usually range between 30–35%. Likewise, executives that are tax residents in Mexico and who hold on to stock will be subject to a 10% withholding tax on dividends received.
Any other form of incentive scheme involving a cash payment to management such as earn-out or performance-based compensation will likely be subject to income tax at a 30–35% rate.

10.4 Have there been any significant changes in tax legislation or the practices of tax authorities (including in relation to tax rulings or clearances) impacting private equity investors, management teams or private equity transactions and are any anticipated?

The tax reform bill enacted for the year 2021 modified tax-transparency rules for private equity funds, thus, many funds

migrated to the use of local vehicles (trust or joint venture agreements) to maintain their tax-transparent status.

Private equity funds that are effectively managed from abroad are generally able to apply a tax incentive available in Mexico in order to maintain transparency for Mexican tax purposes.

Other significant changes were incorporated in the Mexican rules applicable for the granting of a tax POA by non-residents. In general, if foreign investors of a private equity fund are required to grant a POA to a Mexican resident in order to pay taxes in Mexico on their behalf, solvency requirements must now be met for the POA to be valid for tax purposes (this includes scenarios where tax treaty benefits are being sought).

11 Legal and Regulatory Matters

11.1 Have there been any significant legal and/or regulatory developments over recent years impacting private equity investors or transactions and are any anticipated?

Yes. In Mexico, multiple legal and regulatory developments have happened over recent years, impacting private equity investors. For instance, in 2023, different guidelines applicable to pension funds (principal institutional investors in the Mexican securities market) came into effect forcing such pension funds and their managers Retirement Funds Administrators (*Administradoras de Fondos para el Retiro* "AFORES") to have specific guidelines and policies to considering ESG factors in their portfolios and investments. Likewise, different amendments to our labour laws and regulations have passed in connection with outsourcing structures, labour unions, minimum wages and personal time-off representing different cost implications and legal challenges to investors. In addition, the most relevant amendment to the Securities Market Law (*Ley del Mercado de Valores*) since 2014 is expected to pass in September of 2023, which will introduce, among other things, a new type of public offerings in Mexico called "simplified public offerings" (*ofertas públicas simplificadas*), which are intended to boost the Mexican securities market and the number of issuers in Mexico by providing a more flexible regime to conduct public offerings of equity or debt registered securities.

11.2 Are private equity investors or particular transactions subject to enhanced regulatory scrutiny in your jurisdiction (e.g., on national security grounds)?

No enhanced regulatory scrutiny for private equity investors is yet applicable in Mexico.

11.3 Are impact investments subject to any additional legal or regulatory requirements?

No detailed legal or regulatory framework exists in Mexico in respect of impact investment strategies.

11.4 How detailed is the legal due diligence (including compliance) conducted by private equity investors prior to any acquisitions (e.g., typical timeframes, materiality, scope, etc.)?

Due diligence requirements and timeframes will vary depending on the scope of the underlying business and specific requirements of the relevant private equity investor. Bare minimum due-diligence exercises will cover corporate, contractual, financing, tax, labour and employment, IP, environmental and regulatory, and AML/ABC compliance matters.

11.5 Has anti-bribery or anti-corruption legislation impacted private equity investment and/or investors' approach to private equity transactions (e.g., diligence, contractual protection, etc.)?

Recent amendments and additions to Mexico's legal and regulatory framework in respect of AML/ABC have increased investor's focus on broad diligence requirements. Moreover, detailed covenants and policies in respect of compliance, AML/ABC, fraud prevention and compliance with sanctions are commonly adopted.

11.6 Are there any circumstances in which: (i) a private equity investor may be held liable for the liabilities of the underlying portfolio companies (including due to breach of applicable laws by the portfolio companies); and (ii) one portfolio company may be held liable for the liabilities of another portfolio company?

Generally speaking, there is no piercing of the corporate veil, except in certain cases for specific tax and criminal situations (i.e., shareholders'/partners' liability is limited to their equity contributions). Note that the corporate veil is afforded to shareholders/partners and not to directors, who, as explained above, are personally liable towards the entity and its shareholders/partners.

12 Other Useful Facts

12.1 What other factors commonly give rise to concerns for private equity investors in your jurisdiction or should such investors otherwise be aware of in considering an investment in your jurisdiction?

A relevant factor in private equity operations in the Mexican securities market and key to raising capital relates to CKDs. CKDs are fixed-term equity instruments that represent a property right over assets that a trust vehicle has obtained through a restricted public offering on a stock exchange for institutional investors (mainly pension funds) and qualified investors (with capital invested in securities in the last year greater than approximately USD 8.5 million). The CKDs are issued by a trust constituted under the laws of Mexico through a banking institution that acts in its capacity as fiduciary entity.

In general, a specific period is foreseen to carry out investments and, once said period is over, the CKD can no longer carry out new investments and enters a phase of divestment. Once the certificate expires, the investor will receive the face value of his security, plus any outstanding yield. Compared to floating or variable income securities, income depends on the returns of the projects in which the CKD invests. Although profitability is not guaranteed, it is expected that the asset will maintain constant flows.

The CKD trust may invest the proceeds of the issuance in various non-exclusive assets, such as technology, infrastructure, energy, real estate, among others, through the acquisition of participation in companies or trusts tax residents in Mexico (the "Project Companies") owning the same assets, as well as can grant loans to the Project Companies if their investment thesis provides for it, in this case considering the collection rights as assets of the CKD.

It is possible that the sponsor participates in the issuance by holding or acquiring a portion of the CKDs. The trust may issue different series of CKDs.

In relation to corporate governance, the trust issuer of CKDs has a holders' meeting in charge of approving the changes and investment policy of the trust. The assembly has the power to approve investments that they intend to make when they represent 10% or more of the trust's assets. Additionally, the technical committee has the power to approve the proposals of the administration to carry out investments.

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Project Finance
Public Investment Funds
Public Procurement
Real Estate
Renewable Energy
Restructuring & Insolvency
Sanctions
Securitisation
Shipping Law
Technology Sourcing
Telecoms, Media & Internet
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Vertical Agreements and Dominant Firms

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