

Mexico

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Collateral

1 What types of collateral are available?

Security packages for international non-recourse financing associated with the development of projects in Mexico normally integrate a series of security interests over the project assets under both Mexican and foreign law (normally New York law). Mexican law allows the creation of security interests over almost all sort of assets and rights held by project companies, including in rem security interests over real estate properties, contractual rights, licences, concessions and permits, moveable property and intellectual property rights. There are, however, exceptions to this general rule. For instance, contractual rights stemming from contracts governed by Mexico's government procurement laws (i.e. all contracts with government entities and agencies) are limited on the type of security interests granted, as only account receivables may be assigned; thus, foreclosure over other contractual rights (such as typical step-in rights) is generally disallowed.

Pledges are normally created over contractual rights, account receivables, moveable property, and membership interests of the project companies. Mortgages are established over real estate properties, including land, buildings and fixtures. Pledges and mortgages grant in-rem rights in favour of the pledgee/mortgagee, as well as priority rights in bankruptcy proceedings. Most pledges and all mortgages are subject to registration for public notice purposes, which is one of the key elements determining the priority among security interests affecting a specific asset.

It is also common to see security packages that include the creation of guaranty trusts (*fideicomisos de garantía*). Under a guaranty trust, settler transfers title to a series of assets and rights to a trustee (normally a Mexican bank, as only certain entities may act as trustees under Mexican law), who holds title to the relevant assets and rights (ie, the trust estate) inasmuch as there are outstanding obligations under the financing arrangements. Meanwhile, the settler retains a beneficial interest to use and benefit from the corpus of the trust in the ordinary course of business, for as long as no defaults occur; if, however, a default occurs, the trustee is then authorised to foreclose on the trust estate through tailor-made foreclosure procedures established in the trust indenture, including out-of-court foreclosure (subject to certain due process requirements).

Similar foreclosure benefits were afforded to the so-called "pledges without dispossession" (ie, pledges in which the pledgor retains the use and possession of the pledged assets), as a result of reforms introduced in June 2003, when a series of federal statutes were amended to expedite commercial foreclosures and improve collection procedures, as a way to foster Mexico's lending environment.

On the other hand, Mexican law provides specific security interests for (i) certain types of assets, such as aircrafts and vessels; (ii) lenders providing financing under the *avio* or *refaccionario* loans contemplated in the General Law of Negotiable Instruments and Credit Transactions. The purpose of a *refaccionario* loan is to finance the start-up costs of an agricultural or industrial business. *Avio* loans, on the other hand, are aimed at financing the continued operation of the business, and, therefore, the proceeds of the loan shall be used, under the supervision of the lender, to finance the acquisition of raw materials, salary payments, and direct indispensable business operation costs. Both, *refaccionario* and *avio* loans are intended to finance production enterprises, and therefore, are not suitable for all sorts of projects. The lenders of an *avio* loan have a statutory non-possessory security interest over the goods purchased by the debtor, as well as the fruits, products and devices obtained with the use of the loan proceeds. The lenders of a *refaccionario* loan, on the other hand, have a statutory non-possessory purchase money security interest over business' real and moveable property, including machinery, instruments, and the fruits and products obtained therefrom.

Finally, Mexican banks are allowed to obtain (i) special mortgages known as "industrial mortgages" covering not only the real estate property of a certain business being financed by them, but also its concessions or licenses, as well as all personal property utilised by the enterprise in its operations and the cash and accounts receivable generated; and (ii) banking pledges, which are pledges over "durable consumer goods" (ie, goods that are not consumed as a result of their ordinary use), which does not require the delivery of the goods, but only the delivery of the invoice of purchase, with an annotation evidencing the pledge.

Because the purpose of this chapter is to provide international lenders and professionals a general view of the project finance environment in Mexico, we have excluded from the rest of our responses all aspects related to *avio* and *refaccionario* loans (as the international financing community does not normally resort to Mexican law-governed loan agreements), as well as industrial mortgages and banking pledges (as those are available only for Mexican banks).

Perfection and priority

2 How is a security interest in each such type of collateral perfected and how is its priority established? Are any fees or taxes payable to perfect a security interest?

Mortgages and guaranty trusts encompassing real estate property are perfected upon execution of the relevant deed of mortgage or deed of trust, validated by a Notary Public, and its registration at the Public Registry of Property of the location of the prop-

erty. The priority of security interests over real estate property is determined by the time of filing of the security instrument for registration with the Public Registry of Property.

Regular commercial pledges are generally perfected by the delivery of the pledged assets to either the secured creditor or a third-party depositary. Prior to 2003, when the transaction required that the debtor retain possession of the pledged assets, the lenders would typically designate an agent of the debtor to act as depositary; however, since non-possessory pledges were introduced it is no longer common to see regular commercial pledges being used in large project financing structures. Instead, lenders resort to pledges without dispossession, where the pledge is perfected upon registration with the Public Registry of Commerce.

Guaranty trusts over contractual rights require notice to all counterparties about the transfer of rights to the trust, while guaranty trusts involving personal property generally only require written form to be enforceable.

The creation of security interests over concessions, licences and similar rights, as well as certain regulated assets (eg, gas pipelines) normally requires prior approval of the governmental agency that granted such concession or licence (or at least notice). Additionally, special registrations may be required for security interests over specific assets such as aircrafts, vessels or mining properties.

Existing liens

- 3** How can a creditor assure itself as to the absence of liens with priority to the creditor's lien?

Typically, a search is conducted at the Public Registry of Property corresponding to the property's location. The creditor obtains a certificate indicating the registered owner of the property, and any registered liens over such property.

In addition, creditors should obtain copies of the registration files of the debtor at the Public Registry of Commerce – which acts as the registrar of companies – (and other applicable registries), which may contain entries related to pledges and other security interests over the debtor's assets. Not all pledges require registration.

With respect to liens over the shares or membership interests of a company, creditors should review the company's shareholders/members registry books, and in the case of shares, review the actual share certificates to confirm the absence of any endorsements or annotations related to previous liens.

Foreign exchange

- 4** What are the restrictions, controls, fees and taxes on foreign currency exchange?

Under the multiple bilateral investment protection treaties and free trade agreements to which Mexico is a party (eg, NAFTA, EU-Mexico Treaty), the Mexican government has accepted substantial restrictions on its ability to impose exchange control measures, or any sort of restrictions on transfers for the repatriation of funds. As a result, Mexican law does not currently contemplate any restrictions, controls, governmental fees or taxes on foreign currency exchange or transfers of funds to parties abroad.

Remittances

- 5** What are the restrictions, controls, fees and taxes on remittances of investment returns or loan payments to parties in other jurisdictions?

Please see question 4. We do note, however, that remittances of investment returns and interests related to loans granted by foreign residents may be subject to income tax withholdings, at different rates ranging from 0 to 28 per cent, depending on the nature of the remittance and the underlying transaction, the characteristics of the investor/lender, and the applicability of a double taxation treaty.

Repatriation

- 6** Must project companies repatriate foreign earnings? If so, must they be converted to local currency and what further restrictions exist over their use?

No, earnings need not be converted to local currency; there are no specific restrictions over their use or repatriation.

Offshore and foreign currency accounts

- 7** May project companies establish and maintain foreign currency accounts in other jurisdictions and locally?

Yes, project companies are allowed to establish and maintain foreign currency accounts both in other jurisdictions and locally. It is typical for project finance schemes that dollar-denominated accounts be setup onshore and offshore to receive the revenues of the project and pay lenders and other parties based on the financing documents waterfall.

Foreign investment and ownership restrictions

- 8** What restrictions, fees and taxes exist on foreign investment in or ownership of project and related companies? Would such activities require registration with any governmental authority?

Although 100 per cent foreign ownership is permitted in most sectors, Mexican law does provide a series of restrictions on foreign investments in projects and related companies involved in certain specific activities. For this purpose, economic activities may be classified as follows:

- activities reserved to the state; eg, oil and gas exploration and production (except for oilfield services), production of basic petrochemicals, transmission and distribution of electricity as a public service, radioactive minerals;
- activities reserved for Mexican companies with no foreign investment (eg, gasoline retail, LP gas distribution, radio and TV broadcasting);
- activities with foreign investment limited to a certain percentage (domestic air transportation, cabotage, insurance, cellular telephone services);
- activities requiring approval by the National Commission on Foreign Investment (CNIE) for participation over 49 per cent (eg, ports, shipping services, private education, oil and gas drilling);
- activities with no restriction to foreign investment; and
- acquisitions above a certain monetary threshold requiring approval.

Foreign investors may nevertheless participate in reserved activities through "neutral investment", with limited corporate rights, prior approval of the CNIE.

Foreigners are not allowed to directly own real estate for residential purposes within 50 km from the coast line and 100 km from borders; however, they may hold beneficiary rights through a trust, which nevertheless provides full control of their investment.

No special fees or taxes are applicable to foreign investments,

except for nominal fees for the mandatory registration of foreign-owned companies with the National Registry of Foreign Investment.

Government approvals

9 What government approvals are required for typical project finance transactions? What fees and taxes apply?

There are no specific fees, approvals or licenses required for typical project finance transactions, except for equity investments by foreigners in activities requiring CNIE approval. Likewise, foreign lenders may require certain registrations and tax certifications to qualify for reduced income tax rates.

Foreign insurance

10 What restrictions, fees and taxes exist on insurance policies over project assets provided or guaranteed by foreign insurance companies? May such policies be payable to foreign secured creditors?

As a general rule, Mexican law prohibits that risks in Mexico be insured by foreign insurers. Thus, policies contracted with foreign insurers not authorised to operate in Mexico are not enforceable in Mexico. Reinsurance activities, however, are not subject to this restriction. Other exceptions may apply under free trade agreements to which Mexico is a party.

Insurance policies issued by Mexican insurers may be payable to foreign secured creditors.

Foreign employee restrictions

11 What restrictions exist on bringing in foreign workers, technicians or executives to work on a project?

Except for directors and general managers, Mexican labour law requires that at least 90 per cent of a company's employees be Mexican nationals. Technicians or professionals shall always be Mexican, except when there are no Mexican individuals available to take positions of a certain specialty, in which case, employers may hire foreigners in a proportion not exceeding 10 per cent, with a joint obligation by the foreign employees and the employer of training Mexican employees in the relevant specialty. All medical doctors shall be Mexican nationals. Foreign expertise needs may, nevertheless, be dealt through company-to-company personnel services agreements, through which foreign employees may be temporarily seconded to a project in Mexico, without establishing employment relationships with the Mexican enterprise.

All foreign personnel in Mexico are required to obtain appropriate immigration visas.

Equipment import restrictions

12 What restrictions exist on the importation of project equipment?

Because of numerous free trade agreements to which Mexico is a party, the importation of equipment is rather open, except for regular customs procedures and recordings. There are, however, limitations on the overall volume of importations of specific merchandise and equipment, and licenses may be required for highly specialised equipment.

Nationalisation and expropriation

13 What laws exist regarding the nationalisation or expropriation of project companies and assets? Are any forms of incorporation or investment

specially protected?

Expropriation is permitted only for public use purposes, upon payment of indemnification at market value. In addition, under Mexico's multiple bilateral investment treaties (including chapter XI of NAFTA and the treaties with Japan and most EU countries), Mexico has various commitments concerning expropriation and even creeping expropriation, which include:

- fair and non-discriminatory treatment to nationals of other treaty countries (the "Protected Investors");
- refraining from impairing, by arbitrary or discriminatory measures, the management, maintenance, use, enjoyment or disposal of the Protected Investors' investments;
- MFN and national treatment;
- refraining from nationalising, expropriating or subjecting to measures in tantamount to nationalisation or expropriation, the investments of Protected Investors, except for expropriations made in the public interest, on non-discriminatory bases, under due process of law, and upon fair, market-value compensation paid in hard currency; and
- allowing free repatriation of funds.

In addition, under the US Mexico Agreement for the Promotion of Investment, US businesses may benefit in Mexico from the investment protection, insurance and financing programs and services offered by the Overseas Private Investment Corporation (OPIC). Mexico has not signed agreements with ICSID or MIGA, but has signed more than 26 bilateral investment treaties with its main trading partners.

Fiscal treatment of foreign investment

14 What tax or other incentives are provided preferentially to foreign investors or creditors? What taxes apply to foreign investments, loans, mortgages or other security documents, either for the purposes of effectiveness or registration?

Although there are no tax incentives specifically designed to attract foreign investment, foreign investors do benefit from reduced tax rates and tax credits recognised under multiple double taxation treaties signed by Mexico. Foreign investors also take advantage of sector-specific tax incentives in which foreign owned enterprises have taken the lead, including tax benefits for research and development projects, and special tax incentives for export-oriented assembly plants (*maquiladoras*). Foreign creditors may also benefit from reduced tax rates under double taxation treaties.

Registration fees and notarial fees are the main costs associated with the effectiveness and perfection of security documents, and those are equally applicable regardless if the parties to the transactions are foreign or Mexican.

Relevant government authorities

15 What are the relevant government agencies or departments with authority over projects in the typical project sectors? What is the nature and extent of their authority? What is the history of state ownership in these sectors?

The government agencies and instrumentalities in typical project sectors continue to play a major role in Mexico; in some sectors, such as energy, because of the prevalent role of the state-owned companies, and in other infrastructure sectors because they are typically subject to government concessions. Additionally, federal environmental and antitrust authorities are typically involved: the Federal Competition Commission (CFC) and the Ministry of Environment and Natural Resources (known as SEMARNAT). CFC is required to provide clearance for participation in certain

sectors, to oversee market behavior and economic conditions (for example, in ports and gas pipelines). SEMARNAT authorises infrastructure projects from the environmental impact and risk standpoints; lenders typically scrutinise the SEMARNAT approvals, to assess the environmental performance characteristics of the project from the standpoint of international lending community standards, including the Equator Principles.

In the energy sector, the state-owned companies: Pemex, on the oil and gas side, and the Comisión Federal de Electricidad (CFE) on the power side, continue to play a major role in infrastructure development in Mexico. This is because most activities in the oil and gas sector, from upstream, midstream and downstream, and in the transmission and distribution of power are undertaken by the Mexican government. Therefore, a considerable portion of project finance deals refer to contracts having as an anchor tenant or facilities owner either the CFE or Pemex (through its various subsidiaries in the E&P, gas, refining and petrochemical subsectors). On the regulatory side, projects developed by private investors in the natural gas and power sectors (including gas transportation pipelines, LNG terminals, IPP power plants) are regulated by the Energy Regulatory Commission (CRE). Nuclear power, which is projected to have a sustained growth in Mexico in the years to come, is regulated by the National Commission on Nuclear Safety and Safeguards. The Ministry of Energy has a limited role in project finance structures as a regulator in the area of LPG terminals and pipelines. Unlike other major oil and gas production countries, Mexico does not have an independent regulator for oil and gas exploration and production activities.

With respect to the communications infrastructure sector, including toll roads, ports, suburban trains, among others, the Ministry of Communications and Transportation (SCT) regulates the provision of services, including rate-setting, standards for services, and issues the relevant concessions to the project sponsors. In many instances, the project finance structures in this sector also interact with FINFRA, a government infrastructure development trust, which provides funding with limited recovery, and obtains certain limited rights to participate in proceeds after project lenders have been fully paid.

Waste water treatment plants and other water infrastructure facilities are usually developed by state authorities, and are thus subject to the jurisdiction of state authorities. Most projects are awarded through public tenders subject to state government procurement statutes.

Mineral extraction is regulated by the General Bureau of Mines, which issues exploration and exploitation concessions, collects fees payable by the mining companies and oversees compliance with development and exploitation plans.

International arbitration

16 How are international arbitration contractual provisions and awards recognised by local courts? Are any types of disputes not arbitrable? Are any types of disputes subject to automatic domestic arbitration?

Mexico fully recognises arbitration awards and arbitration agreements through its internal laws and international treaties to which Mexico is a party. Arbitration in Mexico is mainly governed by: (i) Mexico's Commerce Code (which substantially adopted UNCITRAL's Model Arbitration Law), and (ii) the New York Convention (in addition to a number of other international arbitration treaties such as the Montevideo and the Panama Inter-American Conventions). International treaties are deemed under the Mexican Constitution, as "the Supreme Law of the Land".

Courts have the duty to decline jurisdiction and to order that the parties in controversy submit to arbitration, if the controversy is the subject matter of a written arbitration agreement.

With respect to arbitrability of matters, mostly all commercial matters are subject to arbitration, thus, most project agreements involved in a financing package can be subject to arbitration. Controversies arising from industrial property law, antitrust, labor, criminal law, tax and administrative laws and bankruptcy are generally not arbitrable. With respect to government procurement contracts, the government procurement laws contemplate certain restrictions for cases in which a controversy can be subject to arbitration, which rules have not yet been issued. A worthy exception is Pemex and CFE contracts, where their own organisational statutes authorise submission of commercial disputes to international arbitration and even foreign law when required.

Applicable law

17 What law typically governs project agreements? What law typically governs financing agreements? Which matters are governed by domestic law?

Irrespective of Mexican conflicts of law rules, project agreements and financing agreements may be governed by their corresponding choice of law clauses, either Mexican or foreign. Unlike other jurisdictions, there is no need to have a substantial relationship between the law contractually chosen, and the parties and/or the subject matter of the relevant contract. Likewise, Mexican law follows the principle of *iuria novit curia*, and therefore, foreign law is given full faith and credit, and is binding and enforceable in Mexican courts to the extent it does not contradict Mexico's public policy or was selected to willfully defraud Mexico's public policy (*fraus legis*).

While Mexican law generally allows the parties to choose the applicable law, project agreements are usually subject to Mexican law, because (i) for infrastructure development, contracts usually have a number of regulatory and local issues, and interface with permits and concessions, and (ii) substantial performance of the contracts in Mexico plays a major role. The international lending community is usually comfortable with the choice of Mexican law for project agreements. Project agreements that stem from a government procurement process are governed by domestic federal laws.

On the other hand, pursuant to Mexico's conflict of law rule (*lex rei sitae*), real estate property rights cannot be subject to a choice of law other than the law of the realty's location. Therefore, real estate property and/or rights shall always be governed by Mexican federal or local laws.

As to the documents comprising the financing package, the loan documents, including certain offshore collateral, are usually subject to New York law (and occasionally to other laws of choice of the lenders), while security documents (mortgages, share pledges and guaranty trusts related to property in Mexico) are subject to Mexican law.

Jurisdiction and waiver of immunity

18 Is the submission to a foreign jurisdiction and the waiver of immunity of all kinds effective and enforceable?

Submission to a foregoing jurisdiction is effective and enforceable under Mexican law, if its enforcement is reciprocal (ie, its enforcement is not left to the discretion of one of the parties), the jurisdiction and venue contractually selected is where performance of the contract occurs or the court selected has personal jurisdiction over one of the parties or the relevant contract, or the subject

matter of the contract is not subject to the exclusive jurisdiction of Mexican courts (eg, real estate matters, natural resources), and the parties have unequivocally waived their corresponding jurisdiction. Federal rules of civil procedure, and those of most Mexican states, have a whole chapter governing recognition and enforcement of foreign money judgments.

Unlike other jurisdictions, there is no sovereign immunity recognised under Mexican law; there is, however, certain immunity against attachments, attachments in aid of execution, garnishments or foreclosures of certain assets which are government property or services under the exclusive control of the government.

Bankruptcy

- 19** What entities are excluded from bankruptcy proceedings and what legislation applies to them? What processes are available to seize the assets of a business outside of court proceedings?

Mexico's bankruptcy statute, the Commercial Insolvency Law (CIL), establishes that, except for Mexican insurance and bonding companies, all commercial entities may be subject to insolvency and/or bankruptcy proceedings. As to governmental entities, only those commercial companies in which the Mexican government participates may be subject to insolvency proceedings. No governmental agencies or public instrumentalities may be subject to bankruptcy proceedings and none of their assets may be seized thereunder.

Mexican law does not allow the seizure of assets outside court proceedings. Any such acts or actions aimed at seizing assets of an individual and/or company shall be undertaken and approved by the courts under applicable procedural rules.

For so long a procedure under the CIL is being undertaken, no seizure of assets is allowed, but only as a preventive measure resolved by the court to guarantee payment of credits in limited cases.

Foreign creditors are treated the same as local creditors. The law also allows the acknowledgment in Mexico of procedures undertaken abroad, and the request for assistance by a foreign authority, with respect to a procedure being undertaken in Mexico. The CIL procedures are in such case applicable unless otherwise provided by international treaties or unless there is no international reciprocity.

Title to natural resources

- 20** Who has title to natural resources? What rights may private parties acquire to these resources and what obligations does the holder have? May foreign parties acquire such rights?

Under Mexico's Constitution, the Mexican Nation has title to real property rights over the land, waters and all subsoil products (including but not limited to minerals) within Mexican territory. Nevertheless, Mexico's Constitution and the Mexican Nation also grant and acknowledge the right to private property by Mexican or foreign individuals or companies, subject to certain limitations as to the type, location and in some cases (like for agrarian property), size of the relevant land.

Rights of private parties over natural resources such as minerals (other than radioactive minerals and domestic hydrocarbons) or water, are granted by the state through concessions and/or permits for their use and/or exploitation; no property rights are granted. Moreover, no rights over subsoil products are granted to private parties. Holders of concessions and/or permits for use and/or exploitation of natural resources are limited to the

rights provided in their concession title and/or permit, as well as specific limitations set forth in the applicable statutes under which the concession or permit was granted (eg, the Mining Law and the National Waters Law). No concessions are allowed for the exploration and exploitation of domestic hydrocarbons and radioactive minerals, and for the provision of transmission and distribution of electricity as a utility service.

Royalties on the extraction of natural resources

- 21** What royalties and taxes are payable on the extraction of natural resources, and are they revenue- or profit-based?

Royalties payable for the extraction of minerals are determined on the basis of the property surface subject of the concession, with no participation based on volumes of production or net revenues of the concession holder. Fees are payable on equal terms by domestic and foreign parties, and there are no restrictions for foreign investment in mining activities. Regular income taxes apply.

Export of natural resources

- 22** What restrictions, fees or taxes exist on the export of natural resources?

The Mexican government may establish regulatory and restrictive measures to undertaking export of merchandises (including natural resources), in accordance with the Foreign Trade Law, and numerous free trade agreements that Mexico has ratified. Such measures would apply, in addition to the applicable provisions set forth in international treaties to which Mexico is a party, mainly in the event it is necessary to insure the supply of products of basic consumption by the population, the supply of raw materials to national producers and, in addition, to regulate or control Mexico's non-renewable natural resources.

Taxes applicable in Mexico for export activities are mainly the general exports tax, and customs fees. These taxes, however, are subject to the applicability or not of any international treaty (including free trade agreements and double taxation treaties) to which Mexico is a party.

Environmental, health and safety laws

- 23** What laws or regulations apply to typical project sectors? What regulatory bodies administer those laws?

EHS legal framework in Mexico comprises a number of federal, local and municipal laws, regulations and norms that are applicable to the different sectors: the General Law of Ecological Equilibrium and Environment Protection, the General Law for Prevention and Integral Management of Wastes, the General Law of Wildlife, the National Water Law, the General Law of Sustainable Forest Development, their respective implementing regulations, the Federal Labour Law, the General Health Law, the Social Security Law, Official Mexican Norms applicable for EHS matters, among others.

The regulatory bodies administering Mexico's EHS legal framework are: at the federal level, SEMARNAT, the Ministry of Labour and Social Welfare, the Ministry of Health, and the General Bureau of Norms; at the local and municipal level, the applicability and enforcement of any such local or municipal laws and regulations is entrusted to the respective local or municipal environment protection bureaus.

Update and trends

The Investment Promotion Stock Corporation (or "SAPI") is a form of corporation introduced by the new Securities Exchange Law that became effective in June 2006. In principle, SAPIs serve as vehicles to develop large investment projects with the ultimate purpose of becoming publicly traded; however, SAPIs are not required to be listed in the Mexican Securities Exchange, and are not subject to the securities exchange regulations as long as they are not listed. Some investors are using this new vehicle because of the flexibility afforded in respect of the 'internal affairs' rules applicable to a SAPI company. The main attractive of SAPIs is that they allow more latitude to establish in the company's by-laws different rights and obligations for the shareholders, as well as other covenants that are typically embodied in the joint venture or shareholders agreements entered by the shareholders sponsoring a project.

Unlike regular stock corporations (ie, SA companies), the by-laws of a SAPI may contain restrictions on the transfer of shares, exclusion or withdrawal of shareholders, limitations

on the shareholders' voting rights, different rights to participate in the company's profits, specific corporate rights, vetoes, deadlocks, impasses and liability limitations for directors and officers. The Securities Exchange Law expressly recognises the ability of the shareholders to enter into agreements establishing non-compete covenants, put and call options, drag-along and tag-along rights, cash calls, and voting agreements, among others. These types of covenants are generally not allowed or very difficult to introduce in a regular SA company, which is the most common type of Mexican company Mexico.

Whether a SAPI is indeed the best vehicle to implement a joint venture depends pretty much on the nature of the business and the parties' purposes and expectations. For instance, tax-related issues may turn a SAPI less attractive than an a limited liability company, which qualifies as flow-through vehicle for taxes and losses in some jurisdictions, has less statutory minority rights and is less regulated than regular SA companies and SAPIs.

Project companies

24 What are the principal business structures of project companies? What are the principal sources of financing available to project companies?

Business structures of project companies greatly depend on the type of activity or project to be developed. However, due to regulatory concerns and because of corporate, tax and other considerations, usually developers resort to Mexican companies, which may have considerable flexibility for management and provide the necessary corporate shield to make a project non-recourse (note that generally there is no piercing the corporate veil under Mexican law). While there are other alternatives, the most typically used as vehicles for project companies are: stock companies (*sociedades anónimas*), and limited liability companies (*sociedades de responsabilidad limitada*). The latter has been in the last few years more widely utilised, as it provides a number of benefits from the corporate governance perspective, in addition to other benefits from the tax perspective (particularly for US

developers), since they qualify as flow-through vehicles under US 'check the box' rules.

Project companies may be structured under a Mexican sub-holding company that in turn may also have other operating subsidiaries, including a personnel services company that provides staffing services to the project. This scheme brings to the project important tax and labor benefits.

In recent years, as a result of the macroeconomic stability of the Mexican economy, infrastructure developers (both domestic and foreign) have had full access to domestic and international financing sources. Sources of financing include US, European and Japanese commercial banks, as well as Mexican commercial and development banks (including in this latter case Nafin, Bancomext and Banobras). Multilateral banks such as the IFC and IDB are also active.

Mexican companies have limited access to financing by placing commercial paper or going public in the Mexican securities market. Securitisation is still not a widespread practice in Mexico,

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although it is increasingly used as an alternative for refinancing large infrastructure projects (such as toll roads and large housing construction projects) in which the planning, development and construction stages have been concluded.