INDEPENDENT RISK ADVISORY · FREE RESOURCE

Mexico Governance Exposure Primer

A Framework for Translating Legal Risk into Financial Terms

For investment committees, private equity deal teams, CFOs, and boards evaluating Mexico transactions.

FOCUS AREAS

- Independent assessment
- Financial translation of legal risk
- Corporate governance review
- Regulatory compliance analysis
- Decision clarity for boards & committees

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ABOUT THIS PRIMER

What this document is — and how to use it

A practical reference for investment committees, CFOs, board members, and private equity deal teams evaluating Mexico-based transactions. Use it to understand why standard legal due diligence is structurally insufficient for governance risk in Mexico's 2026 environment — and what a decision-grade alternative looks like.

This is not a legal memorandum. It is a framework document — a structured approach for translating governance and regulatory risk into the financially quantified terms that capital allocation decisions require. Each section builds toward a single, actionable conclusion: governance risk in Mexico can be quantified, and investment committees that insist on that quantification make better decisions.

$40.9B	7	$25K–$55K
MEXICO FDI — FIRST 3Q 2025	INDEPENDENT REGULATORS DISSOLVED	TYPICAL ASSESSMENT ENGAGEMENT

ABOUT CHAN GARCÍA ABOGADOS

Chan García Abogados is an independent advisory firm based in Polanco, Mexico City. The firm specializes in governance risk assessment and the financial quantification of legal and regulatory exposure for investment committees, private equity funds, family offices, and companies entering Mexico. Chan García does not implement solutions — it assesses and quantifies, ensuring its conclusions are structurally conflict-free. The firm's flagship Independent Exposure Assessment delivers probability-weighted scenarios, governance risk scores, exposure heatmaps, and executive committee reports.

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SECTION 1

The Quantification Gap

Why legal narratives fail investment committees

Every year, investment committees approve or reject capital commitments in Mexico based on risk intelligence that is structurally incomplete. The problem is not that investors ignore governance risk. The problem is how that risk is communicated — and what form the communication takes when it reaches the people who actually make the capital allocation decision.

Investment committees do not make decisions based on legal narratives. They make decisions based on numbers. And in most Mexico transactions, the governance risk assessment they receive contains no numbers at all.

What legal due diligence actually delivers

A standard legal due diligence memorandum in a Mexico transaction describes the target's regulatory environment, flags compliance gaps, notes potential governance concerns, and may identify areas of elevated risk. It is a competent document. It is also a document that an investment committee cannot directly use to make a capital allocation decision.

Consider what happens when a committee reviews this language: "The target company has material gaps in its anti-corruption compliance program, and the regulatory environment in Mexico has become less predictable following the dissolution of key independent oversight agencies." The committee now knows something is wrong. It does not know how much that something costs.

Without a number, the committee cannot adjust a valuation multiple, structure an escrow holdback, calculate whether the deal still clears its return threshold, or compare the governance risk exposure to other risks in the deal model. The legal narrative has described the landscape. It has not provided the map.

> ### What does this risk cost — financially?
>
> This is the question that separates adequate diligence from decision-grade intelligence. If your current assessment cannot answer it with a number — a range, a scenario, a probability-weighted estimate — your committee is deciding without its most important input.

Why the gap persists

This is not a criticism of legal counsel. Law firms are structured and trained to identify legal risk, interpret regulatory frameworks, and advise on compliance strategy. Their deliverables are designed for legal departments and general counsel — professionals who think in terms of regulatory obligations, contractual protections, and litigation exposure.

Investment committees think differently. They think in terms of probability-weighted outcomes, downside scenarios, and exposure ranges that can be priced into a deal model. The language is different. The framework is different. The output format is different. Governance risk has historically been left to qualitative analysis because no one built the bridge between the legal assessment and the financial model.

SECTION 2

Mexico's 2026 Risk Environment

Five structural shifts that changed the governance calculus for foreign investors

Mexico's governance and regulatory environment underwent structural changes between 2024 and 2026 that make qualitative risk assessment fundamentally insufficient for capital allocation decisions. The following five developments are not incremental shifts in an otherwise stable environment — they represent categorical changes in how regulatory enforcement works, how disputes are resolved, and how foreign capital is treated.

REGULATORY

01 — Dissolution of Independent Regulators

In late 2024, Mexico's constitutional reform eliminated seven autonomous oversight agencies, including the competition authority (COFECE) and the telecommunications regulator (IFT). Regulatory enforcement responsibilities were consolidated under government ministries reporting directly to the executive branch. For foreign-owned companies, this means enforcement patterns are now less predictable, more politically influenced, and cannot be reliably modeled on historical precedent. A compliance posture adequate under the prior regime may no longer be adequate today.

Financial exposure drivers: sector-specific enforcement risk · discretionary regulatory interpretation · reduced predictability of compliance timelines and penalty ranges · increased cost of regulatory engagement

JUDICIAL

02 — Judicial Reform and Its Investment Implications

Mexico's judicial reform — signed September 2024, effective 2025 — shifted the judiciary to a system of popularly elected judges, magistrates, and justices. Moody's cited this reform directly in its negative outlook assessment for Mexico, noting risks to institutional checks and balances. The practical implications for contract enforcement, arbitration recognition, and regulatory dispute resolution are material. Morgan Stanley downgraded Mexico to underweight in August 2024, citing the reform. Oxford Economics projected investment falling below baseline as a result.

Financial exposure drivers: contract enforceability uncertainty · arbitration clause effectiveness · litigation timeline and outcome unpredictability · increased cost of dispute resolution

TAX

03 — Intensified SAT Enforcement Against Foreign Entities

Mexico's tax authority (SAT) has significantly increased enforcement activity against foreign-owned entities, including retroactive audits, expanded scrutiny of intercompany transactions, and heightened examination of IMMEX program participants. The CSIS has characterized this retroactive enforcement approach as a rule-of-law issue. For companies operating under structures designed around prior enforcement norms, the financial exposure from these changes is material, quantifiable, and often not captured in standard legal due diligence.

Financial exposure drivers: retroactive tax liability · IMMEX program contingency · transfer pricing challenge risk · penalties and remediation cost modeling · operational disruption during audit

TRADE

04 — The USMCA Review: Three Scenarios, Three Risk Profiles

The mandatory six-year review of the United States-Mexico-Canada Agreement formally began in mid-2026. The review creates three materially different outcomes: full extension (regulatory continuity), annual review (rolling uncertainty), or termination (treaty expiration by 2036, potentially earlier). Each scenario carries distinct implications for the regulatory predictability and investment return profiles of Mexico-positioned capital. The U.S. Department of State notes that Mexico attracted $40.9B in FDI in the first three quarters of 2025 — a figure that is directly sensitive to USMCA outcome.

Financial exposure drivers: supply chain restructuring cost under termination · tariff exposure scenarios by product category · nearshoring investment thesis viability · regulatory framework continuity for manufacturing and operations

GOVERNANCE

05 — Corporate Governance Maturity Gaps at Acquisition Targets

Many Mexico-based acquisition targets — particularly family-owned businesses, founder-led companies, and mid-market operators — have governance structures that do not meet the standards established in Mexico's 2025 Corporate Governance Code (Consejo Coordinador Empresarial). These gaps manifest as board oversight deficiencies, related-party transaction risks, compliance infrastructure weaknesses, and decision-making accountability failures. Each of these creates direct, quantifiable financial exposure for an acquiring investor.

Financial exposure drivers: related-party transaction risk · board oversight failures leading to operational losses · compliance program adequacy gaps · institutionalization costs post-acquisition · management key-person concentration

SECTIONS 3 & 4

The IAS 37 Framework & Scenario Construction

Applying the discipline of financial accounting to governance risk assessment

The accounting foundation

IAS 37 — the international accounting standard governing provisions, contingent liabilities, and contingent assets — provides the most rigorous available framework for thinking about uncertain financial obligations. Under IAS 37, an entity must recognize a provision when three conditions are met simultaneously: (1) there is a present obligation arising from a past event, (2) it is probable that an outflow of economic resources will be required to settle the obligation, and (3) a reliable estimate of the obligation can be made. Where the probability threshold is not met, the obligation is disclosed as a contingent liability.

This framework is directly and immediately applicable to governance risk in Mexico transactions. The analytical discipline it requires — probability assessment, exposure estimation, scenario construction — is precisely the discipline that separates a governance risk narrative from a governance risk quantification.

Applying the three conditions to governance risk

Condition 1	Present obligation from a past event A compliance gap, a governance structure weakness, or a regulatory exposure identified in due diligence satisfies this condition. The past event is the company's historical operating approach. The present obligation is the legal or regulatory liability that approach has created. This condition is almost always satisfied when governance gaps are identified.
Condition 2	Probable outflow of economic resources This is where sector context, enforcement trend data, and company-specific factors are applied to assign a probability. For a company with IMMEX program exposure in a period of intensified SAT enforcement, the probability of a financial outflow is assessable — based on industry enforcement patterns, prior audit outcomes, and the specific nature of the identified gap. This is not a legal judgment. It is a financial probability assessment.
Condition 3	Reliable estimate can be made This condition requires constructing a range — not a single point estimate — based on observable data: regulatory penalty schedules, prior enforcement actions in comparable cases, remediation cost benchmarks, and operational disruption modeling. The range need not be precise to be useful. An exposure range of $1.2M to $3.8M is far more actionable than "there are compliance concerns that may create regulatory exposure."

The three-scenario structure

A committee-ready governance risk assessment presents three probability-weighted scenarios. This mirrors the standard financial modeling approach to any uncertain outcome — the same structure used for revenue forecasts, litigation reserves, and environmental remediation estimates.

SCENARIO	DEFINING CONDITIONS	PROBABILITY	ILLUSTRATIVE EXPOSURE
Base Case	Governance gaps identified; no active enforcement action; remediation underway or planned; cooperative regulatory relationship	**55–65%**	**$0.8M – $2.2M**
Moderate Case	Regulatory inquiry initiated; compliance program requires material restructuring; heightened scrutiny; possible voluntary disclosure	**25–35%**	**$2.2M – $5.0M**
Severe Case	Formal enforcement action; material penalty assessed; operational disruption; litigation initiated; reputational damage to client relationships	**10–15%**	**$5.0M – $12M+**

Ranges are illustrative. Actual quantification requires assessment of company-specific factors, sector context, enforcement environment, and applicable penalty schedules.

A worked example

Consider a target company with material gaps in its anti-corruption compliance program, operating in a sector subject to intensified regulatory scrutiny following the dissolution of COFECE. Applying the IAS 37 framework:

Past event identified	The compliance gap exists as a current condition established by historical operating practice. The company has operated without an adequate anti-corruption compliance program since at least the last three fiscal years.
Probability assigned	Sector enforcement data, the company's prior regulatory interactions, and the current enforcement posture of the relevant ministry are used to assign probabilities: 60% base case, 30% moderate, 10% severe. A compliance specialist and a financial modeler collaborate on this assessment.

Exposure estimated per scenario	Regulatory penalty schedules for comparable enforcement actions, remediation cost benchmarks for compliance program redesign, and operational disruption modeling produce ranges for each scenario: base $1.1M–$1.8M; moderate $2.4M–$3.9M; severe $6.2M–$11M.
Committee output produced	Instead of "there are compliance concerns," the committee receives: total governance exposure estimated at $1.8M–$4.2M on a probability-weighted basis, concentrated in regulatory compliance ($1.1M–$2.8M) and corporate governance structure ($0.7M–$1.4M). The committee can now act on this number.

SECTIONS 5 & 6

The Independence Problem & What Changes When You Have a Number

Why conflict of interest undermines most assessments — and what a number actually changes

The structural incentive problem

Most governance assessments in Mexico are delivered by firms that also sell implementation. The Big Four advisory practices offer governance diagnostics, compliance program design, forensic investigations, and remediation services. They are exceptionally capable organizations. They also face a structural incentive that any sophisticated institutional investor should recognize: the more governance risk they identify, the larger the remediation engagement they can propose.

This does not mean Big Four governance assessments are inaccurate. It means they are not structurally independent. The firm that tells you how much the problem costs is also the firm that will charge you to fix it. That incentive architecture does not produce conflict-free conclusions — even when the individuals involved are acting in good faith.

BUNDLED ADVISORY MODEL	INDEPENDENT ASSESSMENT MODEL
Assesses governance risk AND designs remediation program	Assesses and quantifies only — no implementation mandate
Financial interest in identifying more risk (more remediation work)	No financial interest in severity of findings — conclusions are conflict-free
Conclusions may reflect implementation opportunity as much as actual risk	Conclusions reflect only the assessment — aligned with committee interests
Report designed for legal / compliance team who will manage remediation	Report designed for investment committee who will make capital decision
Incentivized to propose ongoing monitoring and advisory engagement	Engagement is complete when assessment is delivered — no continuation incentive

What changes when governance risk gets a number

When governance risk is translated from legal narrative into financial exposure, three specific, measurable things change in a transaction:

01 **The deal model changes.**

A governance exposure range of $2M–$5M on a $40M acquisition is not a footnote — it is a direct input to the valuation. It may justify a price reduction equal to the midpoint of the exposure range, an escrow holdback tied to regulatory resolution, or an earn-out adjustment conditioned on governance remediation milestones. Without the number, none of these structural adjustments have a financially defensible basis. The committee is left choosing between proceeding on faith or walking away entirely — when repricing or restructuring may be the correct answer.

02 **The committee decision improves.**

"There are governance concerns" invites a yes-or-no vote based on intuition. "Governance exposure is estimated at $2.4M in the base case, with a 30% probability of a $3.8M moderate scenario and a 10% probability of a $6M+ severe scenario" invites an analytical conversation about risk tolerance, deal structure, and return expectations. Committee members who see a quantified exposure range can apply their own judgment — agree with the estimate, disagree, request further analysis on a specific driver, or propose a structural solution. The quality of the deliberation is fundamentally different.

03 **The fiduciary record strengthens.**

If a deal subsequently encounters governance-related losses, the committee's decision-making process is substantially better defended when it was informed by a quantified, independent assessment than when it relied on a narrative memo that flagged general concerns without attaching financial estimates. The existence of a probability-weighted exposure analysis — and the committee's documented consideration of it — is meaningful evidence of a rigorous process. "We were aware of the risk and decided to proceed with appropriate structural protections" is a far stronger position than "we were told there were concerns."

REFERENCE

What a Committee-Ready Assessment Delivers

The five components of a quantified governance exposure report

Chan García's flagship Independent Exposure Assessment is structured around five deliverables, each designed for the specific decision the committee needs to make. Together they convert governance risk from a legal narrative into a financially quantified, action-oriented intelligence product.

01	Governance Risk Score	A structured, repeatable methodology evaluating governance maturity across four dimensions: board oversight and accountability, compliance infrastructure and culture, regulatory exposure and enforcement risk, and decision-making processes. The score is calibrated against Mexico's 2025 Corporate Governance Code and can be tracked over time and compared across a portfolio. A score below threshold in any dimension triggers an enhanced assessment of that area.
02	Probability-Weighted Exposure Scenarios	Three scenarios — base case, moderate case, and severe case — each with an assigned probability and a financially quantified exposure range. Exposure is broken down by driver (regulatory compliance, corporate governance structure, tax exposure, contractual risk) so the committee can see not just the total range but where concentration lies. This is the IAS 37 analytical framework applied to governance risk.
03	Exposure Heatmap	A visual representation of where governance risk concentrates across the target's operations, regulatory obligations, and organizational structure. Each area of the business is assessed independently and mapped to a risk level (low, elevated, high, critical) with an associated financial exposure range. The heatmap allows committee members to see at a glance which areas of the business carry the most significant exposure and require deal-structuring attention.

04	Red Flag Register	A documented inventory of specific governance findings, each classified by severity (material, significant, moderate, administrative) and linked to a financial exposure estimate. This is the governance equivalent of a findings schedule in a financial audit — a deliverable the committee can review line by line, question individually, and use to direct further diligence. Each finding includes a recommended deal-structural response: escrow, price adjustment, representation, covenant, or walk-away threshold.
05	Executive Committee Report	A deliverable designed for the people who will actually read it — committee members who will vote on whether to deploy capital, not legal teams or compliance officers. The report uses financially literate language throughout. It presents scenario-based framing with explicit probability assignments. It maps every significant finding to a specific deal decision — proceed at current price, reprice to reflect exposure, restructure with protective provisions, or decline to proceed. The report is designed to be the primary governance risk input into the committee's investment decision memo.

REQUEST AN ASSESSMENT

Chan García Abogados

Independent Governance Risk Assessment & Financial Exposure Quantification — Mexico City

Our flagship Independent Exposure Assessment delivers probability-weighted scenarios, governance risk scores, exposure heatmaps, red flag registers, and executive committee reports built for the people who make capital allocation decisions in Mexico. Typical engagement: $25,000–$55,000 USD. Investment Committee Risk Opinions for active deal timelines: $15,000–$30,000 USD.

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