Box 2: Simplification of the Sanctioning Framework for Monetary and Foreign Exchange Operations - Financial Markets Report, Third Quarter of 2025

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After conducting a comprehensive review of the sanctioning regimes applicable to foreign exchange and monetary operations, *Banco de la República (BanRep)* introduced a new framework of consequences for addressing non?compliance within the context of open market operations (OMOs), liquidity operations aimed at ensuring the normal functioning of the payment system, and foreign exchange intervention operations. In this context, in August 2025, the Auction System Regulations (the System) were published. The system is administered by *BanRep* through the Office for Monetary Operations and International Investments (SGMII in Spanish) and applies both to the Bank as the administrator and to the Participating Entities.

The new regime aims to simplify the framework of pecuniary consequences and preserve the incentives for compliance in operations with *BanRep*. At the same time, it seeks to promote discipline in the markets by encouraging orderly and transparent behavior that prevents sanctions and mitigates reputational or financial risks for participating entities.

Pecuniary consequences remain proportional to the risks and are based on the principle of indifference, according to which sanctions must ensure that the benefits of compliance outweigh the potential gains from non?compliance. This approach is adapted to the severity of the breach and to the associated risks related to market efficiency, as well as operational and legal risks.

On the other hand, this framework operates within the applicable legal framework, which remains robust and continues to provide regulatory certainty in advance to the participating entities, by clearly describing the sanctionable conducts and the corresponding consequences.

In addition, the new framework incorporates the recommendations made by the International Monetary Fund (IMF) formulated during its most recent technical assistance mission . After holding meetings with various financial institutions and evaluating *BanRep's* regulations on foreign exchange intervention operations, the IMF recommended streamlining (progressive fines) and simplifying the sanctioning structure, considering that excessive penalties may create distortions in incentives, thereby discouraging both market development and the implementation of appropriate risk-management policies by entities.

The implementation of the new framework and the entry into force of the Auction System Regulations required adjustments to several resolutions and external circulars issued by *BanRep*, including External Resolution (ER) 01 of 2018, ER 02 of 2019, ER 05 of 2022, as well as External Regulatory Circulars (ERC) DEFI?354, DOAM?143, DOAM?141, DOAM?148, and DGOF?481.

Additionally, the new sanctioning framework included the development of standard adhesion contracts to formalize contractual relationships between *BanRep* and the OMOs Placement Agents (OPAs) or the Foreign Exchange Market Intermediaries (FXIs).

This box presents the main modifications introduced to the sanctioning framework of *BanRep's* monetary and foreign exchange operations. Its content is for informational purposes only and does not replace or constitute part of the current regulations.

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