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FEATURED Q&A

What Does Santander Brasil's IPO Mean for Brazil's Banking Sector?

Q On Oct. 6, the Brazilian unit of Banco Santander raised approximately \$8 billion in its initial public offering. The IPO was Brazil's largest ever and the world's largest since Visa's in March 2008. What does the interest in the offering say about Brazil's banking sector? Are the country's banks recovering from the high loan default rates seen earlier this year? What are the sector's prospects for 2010 as Brazil is expected to resume economic growth?

A António Aires, partner at Demarest & Almeida Advogados in Sao Paulo: "Although strong and well capitalized, Brazil's banking sector still has room to increase credit and banking services in both retail and corporate credit. Growth in the opening of bank accounts, in credit cards and other banking products surely is unlikely to decrease, should the prospects of GDP growth be confirmed. Brazil's central bank acted swiftly when the credit crunch occurred, improving liquidity in the market. Also, major banks absorbed loan default rates and actually helped smaller banks face the liquidity crisis by purchasing their portfolios and, in certain cases, by merging with them. Liquidity is improving. The inflow of foreign funds has been tremendous, so much so that the government adopted a 2 percent tax on financial and foreign exchange transactions in order

to slow appreciation of the real. There is still room for growth in the banking business. As a percentage of gross domestic product, credit represents only 50 percent, as compared with China (111 percent), Chile (89 percent) and the United States (210 percent). Corporate credit has been increasing at an annualized rate of almost 19 percent and retail credit has been growing at a rate of 20 percent (including credit cards). Real estate financing is still very small as compared to other countries (emerging and developed), representing only 2 percent of GDP, compared to 20

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CEO: Redecard May Start Processing Visa Transactions

Redecard, which processes Mastercard payments in Brazil, may also begin processing transactions for Visa-branded cards, Redecard CEO Roberto Medeiros said Oct. 26. See brief on page 2.

File Photo: American Chamber of Commerce.

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FINANCIAL SERVICES BRIEFS

Brazil's Redecard May Start Processing Visa Transactions

Redecard, which processes **Mastercard** payments in Brazil, may begin processing transactions for **Visa**-branded cards if San Francisco-based Visa permits it, Redecard's chief executive officer Roberto Medeiros said Oct. 26, according to Bloomberg News.

VisaNet will lose its exclusivity to process Visa payments next June and Redecard has the technical ability to process Visa transactions, Medeiros said during a conference call.

Liberty Syndicate Management Launches Two New Brazil Offices

Liberty Syndicate Management, a member of Boston-based **Liberty Mutual Group**, on Oct. 21 opened new offices in Sao Paulo and Rio de Janeiro. The offices will provide brokers access to Liberty's reinsurance products, including property, contingent lines and marine, the company said. "We think that profitable growth in such a highly dynamic environment can be achieved only by being close to the original risk, by superior risk selection and by having a clear understanding of our customers' needs," said Liberty Syndicates CEO Nick Metcalf.

Bermuda, Mexico Sign Tax Information Exchange Agreement

Bermuda and Mexico have agreed to a tax information exchange, which will allow them to share a wide range of information on civil and criminal tax cases, Bermuda's finance ministry said Oct. 17. The British territory's finance minister, Paula A. Cox, expressed hope that the agreement, signed in Mexico City, will encourage Mexican investment in Bermudian financial instruments, such as mutual and hedge funds.

Financial Services News**Credit Suisse Settles Insider Trading Allegations in Brazil**

Credit Suisse International has settled allegations of insider trading by agreeing to pay 19.2 million reais (\$U.S. 11.2 million) to Brazil's securities regulator, the *Financial Times* reported Oct. 21. The regulator, CVM, had rejected an offer last year from Credit Suisse to settle the accusations for a payment of 150,000 reais. CVM said the latest offer, which it accepted Oct. 20, was more appropriate given factors including the seriousness of the allegations and the size of the trades in question. Authorities alleged the company was involved in insider trading between October 2005 and January 2006 when Brazilian aircraft manufacturer **Embraer** was planning a restructuring of capital

The settlement was the second-largest of its kind ever made to the regulator.

that caused its shares to be traded on the Sao Paulo Stock Exchange's Novo Mercado. The CVM said a pension fund for telecommunications company employees, Sistel, which was a controlling shareholder of Embraer, had hired Credit Suisse to examine the restructuring plans. The financial services company soon after started buying shares of the aircraft maker, the CVM alleged. In September 2008, Embraer's investor relations head paid the regulator 100,000 reais to settle allegations connected to the case. The payment by Credit Suisse, which declined to comment about the settlement for the *Financial Times* report, was the second-largest of its kind ever made to the regulator. In 2007, **Banco Safra** paid the CVM 1.5 million reais and investors 28 million

reais to settle the regulator's accusations of improper activities by an investment fund.

Goldman Sachs Downgrades Shares of Three Brazilian Banks

Goldman Sachs on Oct. 23 downgraded the shares of three Brazilian banks, saying the banks' shares have already started to factor in an expected economic recovery, Reuters reported. The New York-based investment banking and securities firm cut **Itau Unibanco** and **Banco Bradesco** to "neutral" from "buy." It also downgraded **Banco do Brasil** to "sell" from "neutral," as it questioned some high expectations for the bank's earnings in the future. At the same time, Goldman said holding company **Itausa** had better prospects and raised its shares to "buy" from "neutral." [Editor's note: See related Q&A on page 1.] In addition, Goldman downgraded Peru's largest financial holding company, **Credicorp**, to "neutral" from "buy" and raised its rating of **Banco de Chile**, the South American country's second-largest bank, to "neutral" from "sell."

Guatemalan Congressional Committee Eyes Banking Reforms

A committee of Guatemala's Congress could approve as early as next month a series of banking sector reforms, local daily newspaper *Siglo Veintiuno* reported Oct. 21. The reforms include increasing the fee banks pay to the government's deposit insurance fund, limiting the amount of money banks can lend to their shareholders and barring banks with liquidity problems from paying dividends to shareholders. The reforms, which the committee began studying in July, are designed to provide more protection to bank customers.

Correction

The affiliation of commentator Gustavo Marrone was listed incorrectly in the Oct. 1-14 issue of the Financial Services Advisor. He is self regulation director at Febraban in Sao Paulo.

Scotiabank Launches Private Banking Unit in Jamaica

Canada's **Scotiabank** has launched a private banking unit in Jamaica, the *Jamaica Observer* reported Oct. 18. The unit, **Scotia Private Client Group** (SPCG), represents the bank's International Wealth Management Division on the Caribbean island. Scotiabank's private banking arm currently operates 25 offices in 18 countries, the *Jamaica Gleaner* reported. "Depending on what our private clients' needs are, we bring in a trust service through a wealth-structuring session, an offshore investor, discretionary investment management and access to a broader range of investment products

The unit also expects to open offices next year in Mexico, Costa Rica, Panama and Chile.

through partnering with Scotia Capital," said SPCG head Dan Wright, according to the *Gleaner*. He said customers who qualify for relationships with the unit have more than \$250,000 in investable assets with Scotiabank. Clients also will be able to open U.S. dollar checking accounts and use a new payroll service to pay personal assistants. SPCG currently has offices in 11 other locations in the region, including El Salvador, Peru and elsewhere in the Caribbean. The SPCG unit also expects to open offices next year in Mexico, Costa Rica, Panama and Chile. Globally, the wealth management unit manages more than \$24 billion, Wright told the *Gleaner*.

Anti-Money Laundering News

Colombian Accused of Money Laundering Extradited to U.S.

Venezuela has extradited to the United States a Colombian who is accused in connection with a pyramid scheme that swindled millions of dollars from victims,

Earnings Results

Citigroup's Latin American Revenue for Third Quarter Falls 10.6 Percent

US-based financial giant **Citigroup** reported Latin American revenue of \$2.8 billion in the third quarter of 2009, down 10.6 percent from the previous three-month period, the company said in an Oct. 15 earnings release. Citigroup, which controls **Banamex**, Mexico's second-largest bank, said its third-quarter revenue from regional consumer banking activities in Latin America increased slightly to \$1.83 billion, up from \$1.82 billion in the second quarter. The group's securities and banking segment showed the largest revenue decline in the region, dropping 33 percent from the previous quarter to \$703 million, while revenue from transaction services stayed largely stable at \$337 million. Worldwide, the bank reported third-quarter revenues of \$20.4 billion, down nearly a third from the previous three-month period, and a net income of \$101 million, which translated into a 27 cent loss per share. "This was an important quarter for us," CEO Vikram Pandit said in a statement. "The completion of the [securities] exchange offers and the significant actions taken during the last few quarters have created a strong foundation." After receiving \$45 billion in federal assistance since the financial crisis hit, Citibank is now 34-percent owned by the U.S. government, which could threaten the company's stake in Banamex. Opposition legislators in Mexico have charged that Banamex is violating a Mexican law prohibiting foreign governments from holding stakes in domestic banks. Mexico's Supreme Court, which has taken up the question at the request of the Senate, is expected to issue a ruling on Banamex in the near future.

Mapfre: Latin American Operations Drove Profits in First Nine Months

Spanish insurer **Mapfre** said Oct. 27 its net profit for the first nine months of 2009 increased 4 percent over the previous year to 743.4 million euros (\$U.S. 1.1 billion), citing strong performance of its international operations concentrated in Latin America. The firm's international business, including reinsurance, accounted for 32 percent of its total net profit and 50 percent of premiums written, which helped compensate for a contraction in the group's Spanish business. "Premiums written by Mapfre America reached 3.1 billion euros, representing a 19.2 percent increase, due to the excellent evolution of business, primarily in Brazil, Colombia and Venezuela, particularly in the health, accident and life insurance segments," the company said in a press release. Mapfre also touted a recent "strategic alliance" with state-controlled **Banco do Brasil** focusing on the property and casualty, personal and auto insurance segments. Based on estimates for the first seven months of 2009, the two companies jointly account for 16 percent of the Brazilian insurance market with about 1.5 billion euros in premiums written. Mapfre said it was planning to pay out a new dividend of 0.07 euros per share, bringing the total amount paid out this year to 0.15 euros per share.

the Associated Press reported Friday. Authorities in Venezuela transported Luis Cediél Thursday to Caracas' airport for the flight to the United States and his handover to the U.S. Drug Enforcement Administration. Cediél and three co-defendants were indicted last March in New York on charges of orchestrating the collection of millions of dollars in drug money starting in February 2008. The

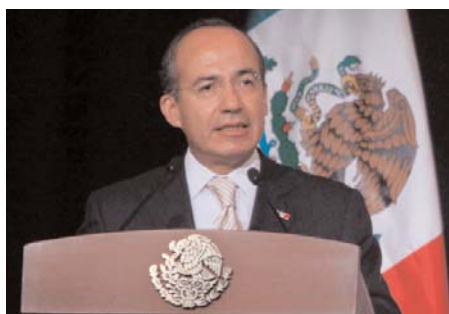
indictment alleges Cediél worked in Mexico City for **DMG Group Holdings**, which promised investors extremely high interest rates. Cediél allegedly moved money illegally into the United States. DMG collapsed in November, leading investors to storm the company's Colombian office. Colombian authorities arrested DMG leaders and closed the company. Cediél stands charged with

conspiracy to commit money laundering. If convicted, he could be sentenced to as many as 20 years in prison. The Venezuelan National Guard detained Cediel in Venezuela's Falcon state. Cediel is associated with David Murcia, who headed DMG. Murcia, who is jailed in Colombia, also stands charged in the United States with conspiracy to commit money laundering.

Economic News

Lower House of Mexico's Congress Approves Fiscal Reform Package

The lower house of Mexico's Congress on Oct. 21 approved a watered-down version of President Felipe Calderon's fiscal reforms. The package includes an increase in the country's value-added tax, which excludes food and medicine, to 16 percent from 15 percent. The reforms also include an increase in the income tax rate for high earners to 30 percent from 28 percent. Calderon originally called for a new 2 percent sales tax on all goods and servic-



Calderon

File Photo: Mexican Government.

es, but that proposal was struck from the version the Chamber of Deputies passed. The vote had been scheduled for Oct. 20 in the lower house, but it was pushed to the following day after opposition legislators protested the tax increases, Bloomberg News reported. Lawmakers from the Party of the Democratic Revolution and the Workers' Party covered the chamber's podium with signs blasting Calderon, the legislation and the Institutional Revolutionary Party, or PRI. The PRI, which has the most members of any party in the Chamber of Deputies,

Featured Q&A

Continued from page 1

percent in Chile and between 30 percent and 75 percent in developed countries. It is reasonable to expect that there is a growth trend in the industry, provided that Brazilian sound macro-economic fundamentals are maintained."

A David Fleischer, emeritus professor at the University of Brasilia and editor of *Brazil Focus*: "The Brazilian banking system is doing very well in 2009 and did not feel the shock waves of the financial/economic tsunami that impacted the banking sectors in the U.S. and Europe. The Central Bank of Brazil maintains the system under fairly rigid controls and thus Brazilian banks were well-prepared to withstand the crisis that affected the country in late 2008. The extremely suc-

had sought changes to Calderon's original proposal, including the elimination of the new 2 percent tax. The measure now faces debate in the Senate, which is expected to vote on it by Oct. 30.

In Survey, Economists Expect Higher Inflation Rate for Brazil Next Year

Inflation will grow next year in Brazil, along with the country's economy, according to a central bank survey of about 100 economists published Monday, Bloomberg News reported. In the survey, conducted Friday, the median forecast of the economists was for a 4.5 percent increase in consumer prices in 2010. The previous survey a week earlier produced a median forecast of 4.41 percent. The central bank has targeted an inflation rate of 4.5 percent, plus or minus two percent. In the survey, respondents also expected the central bank to increase the country's key interest rate to 10.5 percent in order to tame inflation. The bank has kept the rate at a record low of 8.75 percent this year. The economists' median forecast for growth was 4.8 percent in 2010 and 0.18 percent this year. In the previous week's survey, the economists expected growth of 0.12 percent this year.

cessful IPOs of VisaNet and Banco Santander this year were proof of the attractiveness of the Brazilian banking

“The extremely successful IPOs of VisaNet and Banco Santander this year were proof of the attractiveness of the Brazilian banking system for investors.”

— David Fleischer

system for investors—both domestic and foreign. The perspectives for 2010 portend an even stronger system. Consolidation of the system continues

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Colombia's Central Bank Keeps Interest Rate Unchanged at 4 Percent

Colombia's central bank on Oct. 23 kept its benchmark interbank interest rate unchanged at 4 percent, a record low. The central bank also said it would spend as much as 3 trillion pesos (\$U.S. 1.56 billion) to buy dollars and government bonds in order to pour more liquidity into the market, Bloomberg News reported. In less than a year, the bank has cut interest rates eight times, including a surprise reduction last month. On Friday, policymakers said they saw no need to increase interest rates in the "near future." The bank's policymakers also set their inflation target for 2010 in the range of 2 to 4 percent. In September, inflation stood at 3.2 percent after falling from 7.9 percent in October of last year. "The bank foresees that the inflation target fixed for 2010 will be met without pressure to increase the interest rate in the near future," the bank said in a statement, according to Bloomberg News. Colombia's recession this year is its first since 1998. Central bank chief Jose Dario Uribe has expressed confidence that the bank's interest rate cuts will boost consumer demand, leading Colombia to zero

economic growth this year and a 2.5 percent gross domestic product expansion next year. Colombia's retail sales declined 0.9 percent year-on-year in August, the country's national statistics agency announced Oct. 19.

Political News

Mujica Receives Most Votes in Uruguay, But Runoff Needed

Former guerrilla leader Jose "Pepe" Mujica on Oct. 25 won the most votes in the first round of Uruguay's presidential election, but was unable to avoid a Nov. 29 runoff vote. Mujica, the candidate of the ruling left-wing Broad Front coalition, received 47.5 percent of the vote,



Mujica

File Photo: Mujica Campaign.

considerably more than the National Party candidate, former President Luis Alberto Lacalle, who won 28.5 percent of ballots cast, the Associated Press reported. Colorado Party candidate Pedro Bordaberry received 17 percent. A candidate would need at least 50 percent to avoid the second round. Mujica acknowledged Sunday night that a runoff would be needed, Bloomberg News reported. "We have more support than the other top two parties combined," Mujica told reporters in Montevideo after the polls were closed. "How can we not be happy about the indisputable fact that we are headed to a victory." Mujica, 74, has vowed to continue policies of President Tabare Vazquez. The current president's administration has slashed unemployment from 12.3 percent in 2005 to 7.2 percent in 2008, according to data from the National Statistics Institute, Bloomberg News reported. Lacalle, 68,

who was president from 1990 to 1995, has sought to paint Mujica as a radical and has said the country needs a stable leader. Mujica in the 1960s and 1970s was among the leaders of the Tupamaros guerrilla movement that fought military rule in Uruguay. Mujica was imprisoned during the military dictatorship but was freed in 1985 after democracy was restored in the country. About 90 percent of Uruguay's 2.6 million voters cast ballots in the first round, according to the country's National Statistics Institute.

Nephew of De Facto Honduran President Shot and Killed

The nephew of de facto Honduran President Roberto Micheletti has been shot and killed, police said Oct. 26, according to the Associated Press. The body of Enzo Micheletti, 24, was found Sunday in a wooded area near the northern Honduran town of Choloma, according to police. Authorities have found no evidence that the killing was related to the June 28 coup that deposed President Manuel Zelaya and brought Roberto Micheletti to power, police spokesman Orlin Cerrato told the AP. Enzo Micheletti was not believed to have been politically active. His hands were bound behind his back and he was shot in the head and chest. The body of another man, whom police did not identify, was discovered nearby. Honduras has Central

Enzo Micheletti was not believed to have been politically active.

America's highest homicide rate. Last year, more than 7,200 people were murdered in Honduras, a country of 7.7 million. The 2008 homicide rate was 25 percent higher than that of the previous year. In related news, top U.S. officials will travel this week to Honduras in an effort to help bring an end to the stalemate that has lasted since the coup. U.S. Secretary of State Hillary Clinton spoke with the de facto and ousted presidents Oct. 23, urging them to compromise.

POLITICAL & ECONOMIC BRIEFS

Ecuador's Correa Orders Cheap Reproduction of Patented Drugs

Ecuadorean President Rafael Correa on Oct. 26 issued a decree allowing the government to grant "compulsory licenses" to local drug manufacturers to reproduce patented medicines cheaply, the Associated Press reported. The decree said access to medicine is in the "public interest" but did not specify the types of diseases or drugs that would be targeted. The president ordered Ecuador's intellectual property authority, IEPI, and the country's health ministry to establish regulations for compulsory licensing.

Visitors Spending Less Time, Money in Costa Rica

Tourists are spending less time and money this year in Costa Rica due to the effects of the global economic crisis, local daily *La Nacion* reported Oct. 26. The average length of stay fell slightly to 9.5 days so far this year from 10 days in 2008, according to averages from local hotel and tourist chambers. Meanwhile, visitors spent on average \$855 in 2009, down 18 percent less from last year's figure. Lower tourist spending will likely translate into a 25 percent decrease in foreign reserves this year, according to the newspaper's estimates.

Mexico's Retail Sales Slid 5.5 Percent in August

Retail sales in Mexico slumped 5.5 percent in August as compared to the same month last year, the country's national statistics agency said Oct. 22, Reuters reported. Sales fell 1.4 percent in August from July. While Mexico's recession is expected to be its worst since 1932, the country's central bank believes the recession actually ended in this year's third quarter.

Featured Q&A*Continued from page 4*

with more mergers and incorporations of smaller banks into larger ones. However, no mega-mergers like Itau-Unibanco last year are in the offing. Some banks complained when the central bank lowered the benchmark Selic rate earlier this year to a record 8.75 percent, but this move did not have any impact on the banks' activities. The Finance Ministry has been 'jawboning' banks to reduce their spreads, which are among the highest in the world, to no avail. The central bank is trying to avoid any 'intervention' by Cade (the federal competition promotion unit) regarding bank mergers and customer relations. The Superior Justice Tribunal is to decide this question soon. Also, the Finance Ministry is concerned with the very overvalued real exchange rate that has had a negative impact on Brazilian exports and last week imposed a 2 percent financial operations tax on all foreign portfolio investments. Most banks called this move 'innocuous' and some predict that foreign investors might use the route of American depository receipts on the New York Stock Exchange to sidestep this new tax, rather than investing at the Bovespa."

A Peter Shaw, managing director for financial institutions in Latin America at FitchRatings in New York: "The Santander IPO, as well as several other debt issues by Brazilian banks both large and small (prominent among them Banco do Brasil's \$1.5 billion Tier I hybrid issuance and Bradesco's \$750 million Tier II hybrid) are clear signals that the markets view the future of the Brazilian banking system as bright. Like the Brazilian economy as a whole, the banking system faced a difficult outlook in last year's fourth quarter and into 2009. Thanks in part to decisive, timely and broad action by Brazil's central bank, the liquidity pressures in the domestic market were relatively quick to abate, and local markets are now functioning well; with their funding bases largely 'made in Brazil,' the Brazilian banking system's exposure

to international capital markets was limited. Asset quality of the banks came under sharp pressure as loan growth ground to a halt and the economy shrank sharply, affecting bank results as loan loss provisions weighed heavily on revenues that were also dragged down by the halt in lending. Nevertheless, margins proved robust enough to absorb sharply higher credit costs while produc-

“The markets view the future of the Brazilian banking system as bright.”

— Peter Shaw

ing results that were well down from historic highs, but still compared well with the global banking industry. With the quick recovery of the local economy, asset quality pressures show signs of easing; recent central bank data point to a reversal of the upward trend in delinquencies among individual borrowers, and a slowing of the growth in delinquencies among corporate and small- and medium-sized enterprise borrowers. While credit costs may remain high over the balance of the year, the outlook for 2010 is much brighter, as loan growth is already resuming, and credit costs should abate going forward. Banks are well capitalized by global standards, and local markets have proved up to the task of helping to finance lending growth. While heated competition among banks and interest rates at or near historic lows, margins will be under pressure, but volume growth should, at least in part, compensate, and the trend of rising credit/GDP seen before the crisis should resume, albeit at a smaller pace."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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