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Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting Editor Gene Kuleta at gkuleta@thedialogue.org

FEATURED Q&A

Do New U.S. Regulations on Money Transfers Go Too Far?

Q The administration of U.S. President Barack Obama wants to require U.S. banks to report to the government all electronic transfers of money into or out of the United States, *The Washington Post* reported last month. The administration argues the move is necessary to curtail terrorism financing and money laundering. Is the proposed regulation appropriate? Would it place undue burdens on financial services companies that do business in Latin America? What concerns about security and privacy of information would arise, and how must they be addressed?

A Carlos Gonzalez and Xingjian Zhao, attorneys at Diaz, Reus & Targ in Miami: "The potential drawbacks of FinCEN's proposed requirement for financial institutions to report cross-border electronic fund transmittals, or CBEFTs, outweigh the rule's intended benefits. Although the strengthened CBEFT reporting requirements will help mitigate criminal evasion of existing enforcement mechanisms, these benefits are eclipsed by greater concerns. First, it is projected to result in an exponential increase in the annual number of reported transactions, raising serious doubts about the government's ability to properly flag targeted entries. Second, the proposal is fraught with a number of far-reaching negative externalities that cannot be justified by its marginal benefits. Finally, the proposed rule raises legitimate privacy and other civil liberties concerns. Under the new proposal, financial institutions that conduct CBETFs will be required to report international transactions equal to or in excess of $1,000—compared to the current threshold amount of $10,000. This is projected to raise the number of annually reported transactions from 14 million to 750 million. By comparison, the IRS processed a 'mere' 115 million tax returns in 2009. The increased burdens associated with the need to sort, analyze, and make sense of

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Qatar Spends $2.72 Billion for Share in Santander Brasil

Sheikh Hamad Bin Jassim Bin Jabr Al-Thani is betting on growth in Brazil's banking sector. See story on page 2.

File Photo: Reuters

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FINANCIAL SERVICES BRIEFS

Santander Ordered to Repay $150 Million to Venezuelan Bank

A judge ruled Oct. 8 that **Banco Santander** must repay the $150 million down payment it received from **Banco Occidental de Descuento**, or BOD, as part of a deal to purchase **Banco de Venezuela**, Bloomberg News reported. BOD signed an escrow contract with Santander and made the down payment while raising the funds to buy the bank, which Venezuela nationalized in May 2009 in an effort to control more lending and financial services in the country.

Brazilian Bank Workers Settle on 7.5 Percent Wage Increase

Brazilian retail bank workers on Oct. 14 announced the end of a 15-day strike after the banks' negotiators accepted a demand to increase wages, Dow Jones reported. The main bank workers union said the banks will increase wages by 7.5 percent, along with introducing other benefits. The strike, which started on Sept. 29, has had a limited impact on the financial system, largely because of the high volume of electronic transfers used by Brazilian banks and their customers.

Xoom Corp. Signs New Agreement With Itaú Unibanco

San Francisco-based money transfer company **Xoom Corporation** said Oct. 15 it has entered a partnership with Brazil's **Itaú Unibanco**, the biggest bank in Latin America. The deal gives Xoom.com's Internet clients access to 3,300 pickup locations in Brazil. Customers can send money to Brazil from any internet-enabled computer using a checking account or credit card to fund the transaction. When paying with a checking account, the cost is $4.99 to send any amount to Brazil, up to the daily transfer limit of $2,999.

Financial Services News

Santander Brasil Gets $2.72 Billion Investment from Qatar Holding

Spain's **Banco Santander** said Oct. 18 that **Qatar Holding**, the government-owned investment firm of the Middle East emirate, has agreed to invest $2.72 billion in its Brazil unit, Dow Jones reported. The deal involves Qatar Holding buying mandatory convertible bonds equivalent to 5 percent of the share capital of Banco Santander Brasil. The bonds will have an annual coupon of 6.75 percent and will convert three years after issuance at a price of 23.75 reais a share. Santander said in a regulatory filing that the investment makes Qatar Holding a "strategic partner of the Santander group in Brazil and in the rest of Latin America." Earlier this month, a Santander executive said he expects the Brazil unit's revenue growth will beat those of its rivals, **Itaú Unibanco Holding** and **Banco Bradesco**, according to Bloomberg News. "We're very well positioned in services for individuals," said the bank's vice president for finance, Carlos López Galán. "We're increasing corporate and investment banking services, taking advantage of our global platform." Santander Brasil raised 12.3 billion reais ($7.4 billion) a year ago in an initial public offering. It expects consumer services to drive its revenue growth, said López Galán, adding that the bank expects to open 600 new branches in Brazil, the region's largest economy, by 2012.

Strong Latin America Results Boost Net Income at Citigroup

New York-based **Citigroup** on Oct. 18 said that strong results in its Latin America businesses helped boost third quarter net income to $2.2 billion, its third consecutive quarterly operating profit. In Latin America, regional consumer banking profit rose 13 percent compared to the same period last year. For the company's transaction services business, net income of $920 million was down 1 percent from the prior quarter due to a low interest rate environment, but growth in Latin America and Asia offset declines in North America and the Europe, Middle East and Africa region, the company said. The company's average retail banking loans and deposits were up 5 percent and 2 percent, respectively, mainly driven by stronger business in Mexico. "Our unique footprint and strong presence in the emerging markets have us well aligned for the growth trends we see globally, and we continue to make investments in our franchise so we can serve our clients at the highest level all over the world," said company CEO Vikram Pandit.

Pandit

File Photo: Citigroup.

IDB Calls for More Transparency, Consumer Rights in Microfinance

Latin America's $12 billion microfinance industry will need to do more to instill transparency in its operations and protect client welfare, Inter-American Development Bank President Luis Alberto Moreno said at an industry conference in Uruguay Oct. 8. Moreno also called on the industry to better measure the social impact of microfinance to complement traditional financial performance indicators. Lending by microfinance institutions in Latin America and the Caribbean grew at a slower pace in 2009, following an economic slowdown triggered by the global financial crisis and changes in the business environment. The loan portfolio of microfinance institutions in the region rose 13 percent last year after growing 18 percent in 2008. Lending rose to $12.3 billion last year after reaching $10.9 billion in 2008 and $9.2 billion in 2007, according to a survey by the IDB's Multilateral Investment

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Fund. "The microfinance sector has fared much better than other sectors following the global financial crisis. It is an industry with still a lot of growth potential," said Paola Pedroza, who led the preparation of the report at the MIF. "The institutions are relatively well capitalized and have reacted to the crisis by streamlining their operations and renegotiating with customers that could not pay their loans."

Microlending in the region rose to $12.3 billion last year after reaching $10.9 billion in 2008 and $9.2 billion in 2007.

There are currently more than 700 microfinance institutions operating in Latin America and the Caribbean that added 1.1 million new customers in 2009, serving a total of 10.5 million clients, according to the survey. Mexico has the biggest market for microfinance, with 2.3 million customers, followed by Peru with 1.9 million and Colombia with 1.4 million clients. The average loan size in the region was $1,178 in 2009 and the annual average interest on microloans was 28.6 percent.

Stanford's Bank in Antigua Re-Opens Under New Ownership

The **Eastern Caribbean Amalgamated Bank (ECAB)** opened its doors on Oct. 18, replacing the operations at disgraced financier R. Allen Stanford's **Bank of Antigua**. The transition comes more than a year and a half after the Eastern Caribbean Central Bank stepped in and took over control at Bank of Antigua and set up a management company to oversee the creation of the new institution, *Caribbean 360 News* reported. ECAB said in a statement that it had been issued a banking license to conduct banking activities in Antigua and Barbuda and had also obtained the necessary regulatory approvals "to purchase and assume certain assets and liabilities of Bank of Antigua." The new entity is owned by the government of Antigua and Barbuda and five of the largest Eastern Caribbean banks. "The savings, deposits, loans and other accounts of current customers of Bank of Antigua will be transferred seamlessly into ECAB with no interruption to service provided to customers," an ECAB statement said. There will be a conversion period, during which time ECAB will continue to honor all Bank of Antigua customer checks and credit/debit card transactions. It will operate from the four branches used by Bank of Antigua. Stanford was charged in the United States with overseeing a massive fraud and has had his assets frozen. [Editor's note: See related Q&A in the Feb. 19-Mar. 4, 2009 issue of the *Financial Services Advisor*.]

Mexico's Su Casita Misses Debt Payment, Continues Negotiations

Hipotecaria Su Casita, the largest non-bank mortgage lender in Mexico, said Oct. 13 that it missed principal and interest payments on local notes for a total of about $59 million, Dow Jones reported. The company added that negotiations will continue with creditors on a restructuring plan. Earlier this month, Su Casita submitted a restructuring proposal to creditors that offered an overall recovery rate between 51 percent and 70 percent of the nominal value of the paper. On Oct. 8, **Fitch Ratings** placed the ratings of 18 bonds backed by mortgages originated and serviced by Su Casita on rating watch negative. "The current financial situation of the company could negatively impact the ... transactions due to the weakening of its servicing capabilities, which in turn could result in less collections and recoveries of defaulted loans," Fitch said in a release. Spanish bank **Caja Madrid** owns 40 percent of Su Casita.

Ecuador May Turn Securities Exchanges Into For-Profit Firms

Ecuador's government is preparing legislation that would turn the country's two securities exchanges into for-profit com-

Featured Q&A

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this voluminous data will make identification of suspect transactions more difficult, undermine efficiency and substantially increase the costs of law enforcement. Moreover, concerns have been raised about some of the rule's unintended effects. For example, such arduous reporting requirements may force international CBEFT business currently conducted in the U.S. to move away from the dollar to other currencies, increase their use of cover payments and create other competitive disadvantages for these businesses. Furthermore, burdensome reporting requirements for formal institutional transactions can incentivize consumers to move to alternative methods, such as informal 'remittance' or 'smurfing' systems, to restructure payments so as to avoid the provisions of the new rule. This not only reduces profit margins for U.S.-based financial institutions, but also opens new avenues for wrongdoers to evade detection. Finally, the new rule makes the financial lives of individuals who regularly engage in CBEFTs fully transparent for government scrutiny, without adequate provisions to restrict inter-agency dissemination of such private financial information. This raises questions about whether the proposed requirements fully comport with existing privacy standards and civil liberties laws. Consequently, the Treasury Department should consider revising the rules to more adequately address its drawbacks, and more effectively prevent its circumvention."

A Tom Haider, member of the *Financial Services Advisor* board and expert on compliance: "It is never easy to criticize a proposal that the government states is designed to combat money laundering and terrorist financing, but this proposal is one that warrants closer scrutiny and raises questions that need to be answered. The threshold question is whether the proposed regulation will

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panies, Bloomberg News reported Oct. 18. The move could lead to initial public offerings of the bourses, said Monica Villagomez, executive president of the Quito exchange. The bill that administration officials showed Villagomez would make local markets "much more attractive to foreign investors," she said.

Economic News

Colombian Congress Receives Financial Reform Bill from Admin.

The administration of Colombian President Juan Manuel Santos on Oct. 15 presented a reform bill to Congress aiming to eliminate a tax deduction for investment by next year, reduce an energy surtax for industry and combat tax evasion, Reuters reported. "We're looking to better competitiveness in the productive apparatus, better collections, lower the fiscal deficit by eliminating the deduction, which allows us to collect 0.8 percent of GDP," Finance Minister Juan Carlos Echeverry said. "We hope these changes [will] raise the country's collections." The legislation aims to combat tax evasion of a financial transactions tax, which if successful could generate about $223 million, or 0.09 percent of GDP, according to a research note circulated last week by **Eurasia Group**. It also aims to speed up reductions in tax exemptions for reinvestments in capital expenditures, which could generate about 0.8 percent of GDP.

Subscriber Notice

An Inter-American Dialogue discussion on

Migrants, Remittances and Technologies in the Money Transfers Market

with

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8:30 to 10:00 a.m.
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Please include your name and affiliation.

Argentine Senate Approves Pension Hike Despite Veto Threat

Despite the threat of a veto, Argentina's Senate on Oct. 13 passed a law to significantly boost pension benefits, Reuters reported. The bill was passed shortly after midnight when Vice President Julio Cobos, who presides over the Argentine Senate and has been at odds with President Cristina Fernández, cast a tie-breaking vote in favor of the legislation. The lower house passed the bill in August. "This law ... will be vetoed. We will not permit the state and Argentina to commit suicide," Cabinet Chief Anibal Fernández said via Twitter, according to Reuters. The measure would raise basic pensions to 82 percent of the minimum monthly wage—or to 1,427 pesos ($355) from 1,046 pesos currently. The government worries about the long-term financing of the plan, which would cost the government roughly $10 billion next year alone, Reuters reported. Despite the surging economy, voters in Argentina are fretting over rising consumer prices and economic stability. Argentines' expectations for future inflation surged in October from the previous month, according a study by Universidad Torcuato Di Tella released Oct. 14. The median projection for inflation over the next 12 months was 30 percent in October, while expectations in the previous five months had remained steady at 25 percent.

Political News

Green Party Votes to Remain Neutral in Brazilian Presidential Runoff

Delegates at Brazil's Green Party convention on Oct. 17 voted to remain neutral in the country's presidential runoff election scheduled for Oct. 31, local daily *O Estado de São Paulo* reported. In an open letter to

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the two candidates, José Serra and Dilma Rousseff, Green Party head Marina Silva, who captured nearly 20 percent of the votes in the first round election on Oct. 3, called upon the two competitors to be "guarantors of conservation." Only four delegates from among nearly 200 at the convention voted to endorse one of the two remaining candidates in Brazil's presidential race, Dow Jones reported. After her surprisingly strong performance in the Oct. 3 first-round vote, Silva might have become a sort of kingmaker in the Oct. 31 runoff, analysts had suggested. Rousseff, candidate of the ruling Workers Party, remains ahead of PSDB candidate Serra by at least four percentage points, but her lead has narrowed in recent weeks following corruption scandals in her party. Brazilian political scientist David Fleischer wrote after the convention that Silva's decision not to endorse either candidate "would seem to favor Rousseff" more than Serra. [Editor's note: See Fleischer's column on page 3 in the Oct. 19 issue of the Dialogue's daily *Advisor*.]

Peru: García's Popularity Inches Up, But 58% Still Disapprove of Admin.

Peruvian President Alan García's nationwide approval rating has jumped four points to 35 percent compared to September, state news agency Andina reported Oct. 17. The poll by **Ipsos Apoyo Opinión y Mercado**, conducted from Oct. 13 to Oct. 15, showed that García's approval rating in the capitol city of Lima, one of his centers of support, jumped three percentage points to 39 percent. Since taking office more than four years ago, García has suffered from some of the lowest popularity ratings among Latin American heads of state. While the latest poll suggests his popularity in the eastern regions of the country have risen six percentage points, to 31 percent, he remains weak in the south, with only 23 percent approval. Disapproval of the García administration stood at 58 percent nationally in the latest poll. Meanwhile, the outcome of the Oct. 3 mayoral race in Lima remained undecided as the *Financial Services Advisor* went to press. With 75.60 percent of ballots counted by Oct. 17, left-leaning Fuerza Social candidate Susana Villarán had received 38.55 percent of votes against 37.50 percent for Lourdes Flores Nano, leader of PPC-UN, according to the the National Electoral Process Office. The difference between Villarán and Flores is 0.95 percentage points, or 36,740 votes.

Arizona Governor Lashes Out at Mexico Over Amicus Brief

Arizona Gov. Jan Brewer on Oct. 13 lashed out at Mexico and 10 other countries that filed an amicus brief earlier this week supporting the U.S. Justice Department's lawsuit challenging Arizona's new immigration enforcement law, Senate Bill 1070. "Mexico's brief is nothing more than a political statement expressing its desire for lax enforcement of U.S. immigration laws," Brewer said in a statement. "Arizonans, in a bipartisan fashion, have agreed with me that Mexico should not be meddling in an internal legal dispute between the United States and one of its states," she added. Brewer also criticized the Obama administration for its lawsuit against S.B. 1070. "It is offensive that the Obama administration's Department of Justice has consented to these foreign countries participating in this lawsuit," Brewer said. The Republican governor said the 11 countries, all of which are in Latin America, oppose more enforcement of illegal immigration laws because they want their citizens to continue sending money to their families and friends back home and to "offset their countries' overpopulation and unemployment problems." Mexico was joined in its amicus brief by South American heavyweights Brazil, Argentina, Chile and Peru, which represent the lion's share of Latin America's population and economic clout. Mexico's president has advised his citizens against visiting Arizona. [See Q&A in the May 6 issue of the *Advisor*.]

Brewer.

Photo: State of Arizona.

POLITICAL & ECONOMIC BRIEFS

Mexican States Sign Security Pact With Federal Government

Nine Mexican governors and governor-elects have signed a security pact with the government of President Felipe Calderón in an effort to boost crime-fighting efforts, combat kidnapping and improve state police forces, EFE reported Oct. 13. The pact calls for creating special law enforcement units within seven months to fight kidnapping.

Chile's Lower House Approves Mining Tax Increase

The lower house of Chile's congress on Oct. 12 approved a measure to raise taxes mining companies must pay, Bloomberg News reported. The final version of the proposal from the administration of President Sebastián Piñera was approved in Chile's Senate on Tuesday. It would effect companies including **BHP Billiton** and **Freeport-McMoRan Copper & Gold**. The measure now goes to Piñera for his signature. The measure would raise more than $1 billion over three years to help pay for reconstruction after Chile's massive Feb. 27 earthquake.

Embargo Has Cost $2 Billion in Investment in Past Decade: Cuba

Cuba's government said Oct. 13 that the U.S. embargo against the communist island has cost it more than $2 billion in investment over the past decade, EFE reported. Because of the embargo, which Washington has maintained since 1962, Cuba is also unable to obtain technology from U.S.-based companies or financing from banks in the United States. The embargo has also curbed foreign companies's work in Cuba whose operations are "a complement to the national development efforts," the government said.

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Featured Q&A

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be as effective as the government hopes. We all want to prevent money laundering and terrorist financing but we need to remember that previous efforts by the government in gathering vast amounts of data for money laundering/terrorist financing analysis have been terminated due to their unwieldy nature. What has changed in the government's ability to sort through mountains of data that make this proposal more feasible? This proposal also provides a minimal reporting threshold for money transmitters of $1,000. Such thresholds always run the risk of providing 'guidance' to individuals seeking to evade detection by showing them what amount to avoid. How will the government address the likely increase in structured cross-border transactions conducted through money transmitters that will be just below the $1,000 threshold? The proposed regulations should not be too great a burden for banks and money transmitters. Likewise, the government already does a good job of securing such data as shown by their protection of Suspicious Activity Reports. But should all such information be handed over to the government merely because it's a relatively low burden on business and the government has effective safekeeping procedures in place? Shouldn't a person be entitled to some privacy expectations with regard to their financial activity? Government officials have gone on record stating the majority of cross border money laundering is conducted through the bulk shipment of currency. Furthermore, officials have also noted the small amount of money terrorists require to commit their dastardly acts and that they tend to raise those funds locally rather than rely on funding from external sources. We need to ask whether the ends will truly justify the means in this proposed regulation."

A David Landsman, executive director of the National Money Transmitters Association: "I believe law enforcement will make good use of the information, and this step is absolutely necessary as it is the only way to check for structuring across multiple financial institutions. The privacy concerns must be addressed as a separate matter, and in a larger context, but I really do not see anything wrong with handing over the entire database of our transactions to the government on a regular basis. Strictly from the point of view of fighting money laundering, we must remember that the very definition of 'transparency' means everyone's financial transactions (i.e. those transactions done with financial institutions) will be reportable to the government. Our state regulators already have the right to ask to see our entire database of transactions any time they please, and we are already accustomed to responding, so I do not think this new requirement will place any undue burden on the money transmitters. When does it get to the point where we just do not want government to have all that information? Total Information Awareness was a project the government abandoned about six years ago amid those types of concerns; the rest is shades of grey. I must recuse myself from that question, both since I am the director of the NMTA and am committed to helping law enforcement, and because I have been in the system so long I might have become inured to privacy concerns."

> "I really do not see anything wrong with handing over the entire database of our transactions to the government on a regular basis."
>
> — *David Landsman*

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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