INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR ▸ FINANCIAL SERVICES

FEATURED Q&A

How Are New Rules Affecting Financial Firms in Latin America?

Q Regulators in the United States and Europe are hindering private-sector growth through 'contrived' and confusing rules that could thwart lending, Evan Greenberg, the chairman and CEO of Ace Ltd., said in an April 9 letter to shareholders. Greenberg made the comments as he is leading the Swiss insurer's expansion in Latin America and Asia. How have new U.S. and European regulations affected financial services firms operating in Latin America? Have the new rules hindered firms' investment in the region? Could developing countries in Asia and Latin America choose a regulatory path for financial services that differs from the United States and the European Union?

A Geoffrey Milton, Partner at C.I.S. LLC in New York: "It's somewhat ironic that the issue of private sector growth and 'contrived' rules is coming from the CEO in a business where one unregulated division in London was a primary cause of the almost complete breakdown of confidence in the global financial sector in 2008. The U.S. taxpayer was forced to support AIG (whose former chairman is Mr. Greenberg's father), as well as General Motors and General Electric due to the sudden collapse of their unregulated finance arms. One hundred percent of the deposit base of commercial banks in the United States and Europe had to be guaranteed by their governments to avoid a total collapse of the system. Faced with this experience, it is understandable that the regulatory pendulum will swing too far the other way. Yes, higher capital levels will in theory reduce real returns on equity, impact lending to engines of private sector growth and limit cross-border activity. But in the end, it is the quality of management and effective supervision that will dictate how financial firms can contribute to the economy—not the abundance of rules and level of taxpay-

Continued on page 3

BTG Pactual to Raise as Much as $1.95 Billion in IPO

Brazilian investment bank BTG Pactual, led by billionaire André Esteves, announced April 24 that it would raise as much as 3.66 billion reais ($1.95 billion) in its initial public offering. The pricing values the bank at $14.5 billion. See story on page 2.

Photo: Brazilian-American Chamber of Commerce.

Inside This Issue

FINANCIAL SERVICES BRIEFS

Peru's Credicorp to Acquire 60.6% of Chile-Based IM Trust

Peru-based **Credicorp** said April 24 that it will acquire a 60.6 percent stake in Chile's **IM Trust**, Dow Jones reported. Credicorp has been expanding and recently announced that it will acquire a 51 percent stake in Colombia's **Correval**. Credicorp will announce the acquisition price for IM Trust after winning approval from Peruvian and Chilean regulators, said Christian Laub, the head of corporate banking at **Banco de Crédito del Peru**, which Credicorp controls.

Ecuadorean Financial Institutions Boost Loans by 30 Percent

Loans from Ecuador's non-governmental financial institutions totaled $1.85 billion in March, an increase of 30 percent from the month prior, Bloomberg News reported, citing a central bank report. As of February, private banks had total outstanding loans of $12.86 billion. Credit increased 19 percent year-on-year in March, the central bank added. The average interest rate for consumer credit increased slightly to 15.96 percent.

Visa to Open New Office in Bogotá as it Eyes Expansion

U.S.-based **Visa** is planning to open an office in Bogotá as it expands its operations in Colombia and Ecuador, the company said April 16, Dow Jones reported. "Opening this new office fits with one of our global strategies, which is to derive 50 percent of our income from international markets," said Eduardo Eraña, the company's vice president for Latin America and the Caribbean. The Bogotá office will focus on expanding Visa's offerings of credit, debit and commercial products, the company said.

Financial Services News

Brazil's BTG Pactual Raising $1.95 Bn in Initial Public Offering

Brazil's **BTG Pactual** plans to raise as much as 3.66 billion reais ($1.95 billion) in its initial public offering, making it the largest IPO for an investment bank in two years, Bloomberg News reported April 24. Each unit of the offering, which represents three shares in the bank and three shares of its private-equity arm, is being sold at 31.25 reais. That pricing values BTG Pactual at $14.5 billion. BTG, led by billionaire André Esteves, previously said that it expected shares to sell at 28.75 reais to 33.75 reais apiece. BTG is selling 93.6 million new units and existing shareholders are selling 23.4 million in the offering. The IPO is the world's largest for an investment bank since **Huatai Securities** sold $2.3 billion worth of shares in Shanghai in 2010. The offering is the largest in Brazil's BM&F Bovespa exchange since **Banco Santander Brasil** raised 13.2 billion reais in October 2009. BTG's units will start trading Thursday in São Paulo and Amsterdam. The investment bank plans to use the proceeds of the offering to "continue expanding its business" and strengthen its "funding structure," Bloomberg News reported, citing a regulatory filing.

The IPO is the world's largest for an investment bank since Huatai Securities' $2.3 billion offering in Shanghai in 2010.

Santander Planning to Sell Shares in Mexican Unit

Spain's **Banco Santander** is planning to sell shares of its Mexican unit in an initial public offering within one year, *The Wall Street Journal* reported April 23, citing unnamed people familiar with the discussion. Selling a stake in **Banco Santander (México) SA** could become Mexico's largest-ever IPO. A "realistic" valuation for the Mexican unit could be $15 billion to $20 billion, the sources told the newspaper, meaning that a sale of 10 percent of the unit would raise $1.5 billion for Santander. In 2010, the Spanish bank bought the 24.9 percent of the subsidiary that it didn't already own from **Bank of America** for $2.5 billion. The sale of a portion of the unit would be the latest in a series of such moves by Santander. It sold 15 percent of its Brazilian operation for about $8 billion in 2007 and has planned, but put on hold, offerings of stakes in its British and Argentine operations. Santander has been using the cash it has raised to boost its capital during a time that loan-losses are near record highs for the bank's units in southern Europe. Santander's Mexican subsidiary contributed 10 percent of the bank's overall profits in 2011. The parent company earned 5.35 billion euros ($7.1 billion) in 2011 and is scheduled to report its earnings for the first quarter on Thursday. In recent weeks, Santander requested that investment banks make proposals for structuring the offering in the next six to 12 months, *The Wall Street Journal* reported. A Madrid-based spokesman for the bank declined to comment to the newspaper. Currently, Mexico's largest IPO was **Grupo Aeropuerto del Pacifico**'s sale in February 2006 of 91.6 percent of the company, which raised $1 billion, according to **Dealogic**.

Mexico's Banorte Eyes Consumer Credit Expansion: Chairman

Mexico's **Grupo Financiero Banorte** is focusing on increasing consumer credit, Bloomberg News reported April 19, citing an interview with the bank's chairman. "Where the bank needs to boost its share is in the consumer market," Guillermo Ortiz told the news service in Puerto Vallarta after meetings of the World Economic Forum on Latin America. "In credit cards, we have a 6 percent market share, more or less, while the bank has a 13 or 14 percent share of the total credit market." Banorte, Mexico's third-largest bank by assets, had a credit portfolio of 340 billion pesos ($25.7 billion) at the end of February. Its portfolio grew 19 percent year-on-year, Bloomberg reported, citing data from Mexico's National Securities and Banking Commission, known as CNVB. Monterrey-based Banorte is growing its market share, said Ortiz, adding that Mexico's banks are making loans "carefully." Ortiz headed Mexico's central bank from 1998 to 2009 and was finance minister from 1994 to 1998 under President Ernesto Zedillo.

Banco Bradesco Reports Profit of $1.49 Billion for First Quarter

Brazil's **Banco Bradesco** on April 23 reported profits of 2.8 billion reais ($1.49 billion), as compared to 2.7 billion reais for the same quarter last year, Dow Jones reported. The bank said its profit rose slightly from last year due to higher revenue from the bank's credit portfolio and other financial services countered increasing provisions and expenses. Bradesco's total credit portfolio increased 14.6 percent to 351 billion reais and its assets rose 16.9 percent to 789.5 billion reais. The bank added that it needed to allocate more provisions due to non-performing loans.

Banco Popular Reports Sharp Profit Increase for First Quarter

Puerto Rico-based **Banco Popular** on April 20 reported a sharp rise in net income for the first quarter, to $47.5 million, or 5 cents per share, the Associated Press reported. That compares to a profit of $9.2 million, or 1 cent per share in the same quarter last year. The bank, headquartered in San Juan, said improving credit quality helped to drive earnings. Popular's net interest income declined slightly in the first three months of this year to $337.6 million, from $343.4 million a year ago. The bank's net interest margin increased to 4.27 percent, as compared to 4.15 percent in last year's first quarter. Chief Executive Officer Richard Carrión reaffirmed the bank's guidance that it will earn between $185 million and $200 million in 2012.

Carrión

File Photo: Popular, Inc.

Redecard Reports Higher Earnings on Workforce Cuts

Brazilian payment-card processor **Redecard** announced April 18 that its profit for the first quarter increased 36 percent after the company trimmed costs by reducing the size of its workforce, Bloomberg News reported. The company's adjusted net income, excluding some items, grew to 381.2 million reais ($202.9 million) from 281.3 million in the same quarter last year. The mean estimate of nine analysts in a Bloomberg survey was for an adjusted net income of 367.1 million reais. The São Paulo-based company's CEO, Claudio Yamaguti, led a reorga-

Featured Q&A

Continued from page 1

er support. The answer is not for Asia and Latin America to compete in a race to the bottom of financial regulation. We need a uniform accounting system (including realistic treatment of sovereign debt), simpler regulation, effective supervision and a global approach in this interconnected world of ours."

A **Andrés Portilla, director of the Regulatory Affairs Department at the Institute of International Finance in Washington:** "The G20 has developed a sensible agenda for regulatory reform. However, individual regulators in Europe and the United States have often opted to 'gold plate' such measures so that the resulting requirements are excessively conservative. In many other situations, individual countries have enacted regulations with clear extraterritorial effects, affecting firms and operations well beyond their borders. E.U. and U.S. regulations have the potential to affect Latin American firms that are subsidiaries of parent companies based in those jurisdictions. The effect is clear and more visible when integrated groups, who ran capital and liquidity models centrally, are forced to cut down business and exposures worldwide to satisfy increasingly conservative requirements. With less available capital and liquidity, these firms are less able to provide financing resources worldwide. A bigger concern is the extraterritorial reach of some of the measures adopted in the United States. Two examples are the Volcker Rule limitations to market making and FATCA. Both provisions have profound and severe implications for foreign firms operating outside the United States. In the Volcker Rule, the exemption for foreign firms is so narrowly defined that many market-making activities on foreign government bonds would be affected. Governments and firms from Mexico to Japan have voiced their concerns. Similarly, FATCA affects firms worldwide, without a clear global framework for discussion of such issues. Latin American regulators can develop policies that, while ensuring the resilience of the system, do so in a way that align capital requirements to actual risk without hindering the availability of resources to fuel economic growth."

> "A bigger concern is the extraterritorial reach of some of the measures adopted in the United States."
>
> *— Andrés Portilla*

A **Marcela C. Blanco associate attorney at Diaz, Reus & Targ LLP in Bogotá:** "Solvency II will improve the competitive environment in Latin America. It will significantly tighten capital requirements, impose tougher rules to identify and monitor risk and set strict disclosure guidelines to increase transparency. These new rules will extend to Latin

Continued on page 6

nization that included the reduction of Redecard's headcount to 952 employees from 1,054 at the end of last year. "We expect the company to maintain its expenses at a lower level," **Banco J. Safra** analysts Francisco Kops and Rafael Ferraz wrote in an April 18 note to clients. Redecard said the amount of all debit- and credit-card transactions in the first quarter grew 12 percent to 57.7 billion reais. Brazil's **Itaú Unibanco Holding**, which currently owns 50 percent of Redecard, is seeking to buy out the rest of the company. In February, Itaú made an offer of 35 reais per share, or 11.8 billion reais, for Redecard. Itaú plans to hold an auction later this year to buy out the payment processor, CEO Roberto Setubal said on a conference call last week.

Mexico's Infonavit to Offer Fixed-Rate Mortgages

For the first time, Mexico's Infonavit, the country's largest mortgage provider, will offer fixed-rate loans, Bloomberg News reported April 23. The state-controlled lender, which was founded in 1972, will undergo a legal overhaul that will allow it to provide the fixed-rate 30-year mortgages as early as June. In addition, Infonavit is planning to issue mortgage-backed securities next year. Mexico's inflation rate, the second-lowest among major economies in the region, is allowing the government of President Felipe Calderón to provide the mortgages as it works to counter a housing shortage that affects 8.9 million families. Mexico's inflation rate fell this year to 3.73 percent, making a more distant memory of the country's Tequila Crisis, when inflation was at 52 percent in 1995.

Advisor Q&A

What Was Accomplished at the Summit of the Americas?

Q The Summit of the Americas ended April 15 with the gathering's host, Colombian President Juan Manuel Santos, conceding that there would be no final joint declaration because "there is no consensus." The summit was marked by discord between the United States and Latin American countries on issues including Cuba's participation, drugs and the status of the Falkland Islands. What did the summit accomplish, if anything? Did the summit hurt or help the United States' standing among other countries in the hemisphere? Will regional engagement on Cuba's participation in the summit affect the Castro government?

A Graciela C. Römer, director of Graciela Römer & Asociados in Buenos Aires: "For some, this was a broken summit, as it reflected polarization between the visions of the United States and Latin American countries on issues such as Cuba, the Malvinas and the fight against drug trafficking. For others, it was an opportunity to demonstrate the highest symmetry that exists today between the United States and Latin America. The United States did not arrive in Cartagena with a macro project for the region as a whole. Rather, it sat at the table as one country, listening to the presentations of most of the region's presidents. While the United States voiced its known position against decriminalizing drugs, it also said it was open to discussing alternatives and accepted that although drug production comes from the south, consumption and weapons come from the north. It is true that the summit produced few results, but it was still historic. Why? Because never before had a U.S. president so patiently listened to the questioning of two fundamental pillars of U.S. policy toward the region—Cuba and the fight against drugs. In both cases, Obama was able to witness how far U.S. influence in the region has waned. Without a doubt, Latin America spoke at this summit from a different position, based primarily on its economic performance over the past 10 years. Still, the road toward consolidating Latin America's success is not free of thorns and difficulties. Of these, perhaps the most difficult one to resolve is commercial protectionism and economic nationalism, a subject that seems revitalized. Also needed is greater regional integration, a necessary step toward sustained development in the region."

Editor's note: More commentary on this topic appears in the April 23 issue of the Dialogue's daily Advisor.

Economic News

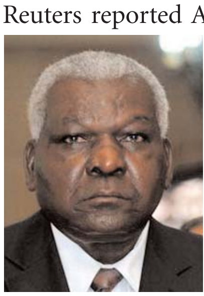
Argentina's Senate Poised to Approve YPF Takeover

Argentine senators are expected to approve on April 25 the nationalization of the country's largest energy provider, **YPF**, Reuters reported. President Cristina Fernández de Kirchner on April 16 announced that her government was seizing control of the company's management, which took effect immediately. "We need to have energy sovereignty," Fernández said in a speech the next day, Reuters reported. The legislation the president sent to lawmakers would give the government a 51-percent stake in the company, which is currently owned by Spain's **Repsol**. Political analysts say the takeover could win support from 60 of the Senate's 72 members. The measure would then go to the lower house, which is expected to debate it on May 3. YPF's nationalization has wide support in Argentina, which was privatized in the 1990s after seven decades of control by the government. Fernández and other Argentine officials have argued that the company has not adequately invested in Argentina and has sent profits abroad during a time that Argentina is being forced to import growing amounts of energy. Abroad, however, the government's seizure of the company has been strongly criticized. Spanish Prime Minister Mariano Rajoy has said the takeover was "without any justification" and vowed to retaliate. The European

Union plans to file a formal complaint with the World Trade Organization over the South American country's import restrictions and is seeking support for the suit from other countries, an unnamed source told Reuters April 24. The row over Argentina's import restrictions, which include new requirements for import licenses on all goods coming into the country, was inflamed by the government's takeover of YPF. In addition, the three major ratings agencies—**Standard & Poor's**, **Moody's Investors Service** and **Fitch Ratings**—have all expressed concerns to investors in light of the takeover. "We do foresee increased regulatory uncertainty, growing diplomatic isolation and the potential continuation of unorthodox government policies. We expect this to curtail foreign direct investment (FDI) in key sectors such as energy, utilities, and telecom," Fitch said in a statement. After the nationalization receives expected approval by both chambers of Congress, the focus will turn toward the amount the government will pay Repsol for the takeover. Argentine officials have said it will be nowhere close to the $9.3 billion the Spanish company is seeking.

Cuba to Move Nearly Half of Economy to 'Non-State' Sector

Cuba is planning to move almost half of its economy to the "non-state" sector, according to a top Communist Party official, Reuters reported April 23. "Today, almost 95 percent of gross domestic product is produced by the state. Within four or five years between 40 percent and 45 percent will result from different forms of non-state production," Esteban Lazo Hernández, a longtime member of the party's political bureau, said over the weekend in a speech to city leaders in Havana. In moving toward a mixed economy, Cuba would take steps similar to those of China and Vietnam in the final decades of the 20th century. In April 2011, party leaders approved a plan to revamp its economy in part through reducing the state workforce by a million workers.



Lazo Hernández

File Photo: Juventúd Rebelde.

Political News

Peña Nieto Leads Vázquez Mota by More Than 18 Points in Mexico Race

Enrique Peña Nieto, the frontrunner ahead of Mexico's July 1 presidential election, leads his rival, the ruling National Action Party's Josefina Vázquez Mota, by more than 18 percentage points, according to a poll released April 24. Peña Nieto, of the long-ruling Institutional Revolutionary Party, widened his lead over Vázquez Mota in the survey by **Consulta Mitofsky**, Reuters reported. The poll showed Peña Nieto with 40.1 percent support, which was down one-tenth of a percentage point from the polling firm's previous survey on April 17. Vázquez Mota's 21.5 percent support in the latest survey was down 1.1 percentage points from the previous survey. Polling in third place is Andrés Manuel López Obrador, who registered 17.8 percent support, a half percentage point higher than the previous survey. López Obrador, who narrowly lost the 2006 presidential election, alienated many Mexicans through his disruptive demonstrations to protest the outcome of the last election. Mitofsky surveyed 1,000 people in the latest poll, which had a margin of error of plus or minus 3.1 percentage points.

Colombia's National Police Chief Stepping Down

Gen. Oscar Naranjo, the head of Colombia's national police, plans to step down in July, President Juan Manuel Santos announced on April 19, the Associated Press reported. Naranjo, who has headed the police force since 2007, is tired and wants to make way for younger leaders, said Santos. "I do not think it is the moment for goodbyes," Santos told Naranjo. "You can leave the directing of the police, but you will be drafted" to continue working for the government. The president did not say who would replace Naranjo.

POLITICAL & ECONOMIC BRIEFS

Wal-Mart Executive Quits MetLife Boards Amid Bribery Claims

The Wal-Mart executive at the center of bribery allegations at the retailer's Mexican unit has resigned from his board positions at insurer **MetLife**, the Associated Press reported April 24. Eduardo Castro-Wright, the former head of Wal-Mart de México, said he was stepping down to focus on "protecting my good name and business reputation." On April 21, *The New York Times* reported that an executive identified Castro-Wright "as the driving force behind years of bribery" at the retailer's Mexican unit to aid its rapid expansion. Wal-Mart has vowed to aggressively investigate the allegations.

Flow of Immigrants From Mexico to U.S. May Have Reversed

Mexican immigration to the United States has come to a standstill and may have even reversed, according to a study released April 23 by the Pew Hispanic Center, Reuters reported. An estimated 12 million Mexicans have immigrated to the United States since the 1970s, half of them illegally. But factors including weaker job and home construction markets, tougher border enforcement and a higher number of deportations have curtailed the flow of immigrants, the report said.

Colombian Coffee Production May Fall Below 7 Million Bags: Report

Colombia's coffee harvest this season may be less than 7 million bags as a result of rainstorms, said **Volcafe**, a unit of commodities trader **ED&F Man Holdings**, in an April 20 report to clients. Colombia has seen lower production for the past four seasons as a result of rains associated with the La Niña weather pattern, Bloomberg News reported.

Featured Q&A

Continued from page 3

American subsidiaries of European companies. The subsidiaries will also need to comply with changing local regulations. Over the longer term, Solvency II will enhance Europe's competitive strength in Latin America by encouraging better management. Moreover, companies that implement Solvency II will be in a better position to react to economic changes because of improved practices for capital and risk management, reporting, disclosure and compliance requirements. Also, because Solvency II requires that European insurance companies take the lead in developing more sophisticated risk and capital-management capabilities, these companies will now enjoy a competitive advantage over their local Latin American competitors in key areas like reinsurance, portfolio management and risk-adjusted pricing. To catch up, Latin American insurers should implement their own Solvency II compliance programs. FATCA will place a significant burden on any foreign financial institution, including banks, funds, asset managers and insurance companies. FATCA requires that covered entities and parties identify, document and report a U.S. person's assets. The identification and documentation requirements for customers will become considerably more demanding. Existing client relationships will need to be identified, documented and classified. To meet FATCA's reporting requirements, firms will have to upgrade their information technology systems to properly monitor and identify covered accounts. In addition, firms will need to adjust their internal operating systems to collect relevant information, electronically filed required reports and withhold necessary taxes. FATCA will surely impact investment in the region. Notably, banks that cannot adequately meet FATCA requirements will have no choice but to refuse services to all U.S. clients. Additionally, the cost of FATCA compliance will be passed to clients by way of higher fees. In the end, U.S. persons living abroad will become less appealing as clients."

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

Financial Services Advisor

is published biweekly by the Inter-American Dialogue, Copyright © 2012

The Inter-American Dialogue's **Financial Services Advisor** is published biweekly, with the exception of major holidays, from
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org