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FEATURED Q&A

Are Bank Subsidiaries in Latin America on Shaky Ground?

Q Moody's Investors Service on Feb. 24 placed 15 Mexican and Brazilian banks and insurance groups on review for downgrade of their short- and long-term debt and deposit ratings. The rating agency said it made the decision in part because of the 'potentially diminished capacity and/or willingness' of the banks' U.S. and European parent companies to support their subsidiaries in Latin America. To what extent do the problems of U.S.- and Europe-based banks transfer to their subsidiaries in Latin America? In what ways could these parent companies fail to provide enough support to their subsidiaries in Latin America, and how would that affect Latin America's banking systems and financial services markets?

A Daniel Marx, executive director of Quantum Finanzas and former undersecretary of finance of Argentina: "The presence of European and U.S. financial institutions in Latin America is very significant. In several of these countries, they command a leading market share. Their activities are not only restricted to retail banking but also cover other aspects like insurance and trade financing. Many of them have relatively strong balance sheets. Although, lately, tables have turned where often balance sheets and valuation parameters of Latin American operations are higher than comparable institutions in developed countries where the headquarters of the referred financial institutions are located. Elements stemming from the recent financial crisis bear implications on the outlook for those institutions that result in the following: (i) a need to raise capital and/or reduce overall leverage; (ii) exposure to the effects of difficult economic circumstances in home countries; (iii) the realization that 'ring fencing' comprising national borders and activities are more desirable than previously thought and (iv) a re-evaluation of risks incorporating the effects of second-instance relationships in financing and

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Rescuers Free Trapped Peruvian Miners After Six Days in Mine

Nine Peruvian miners who were trapped for six days in an abandoned copper mine in the country's Ica region were freed on Wednesday. President Ollanta Humala greeted them and said he ordered the mine's permanent closure. See story on page 2.

Photo: Agencia Andina.

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NEWS BRIEFS

Calderón Meets With Castro in Effort to Improve Relations

Mexican President Felipe Calderón met Wednesday with Cuban President Raúl Castro in Havana in an effort to improve the countries' strained relations and discuss new trade opportunities. The one-day visit to Cuba was Calderón's first as president and came just seven months before he is due to leave office. "We want to expand trade and investment between Mexico and Cuba," Calderón said upon his arrival in Cuba. For decades the countries enjoyed good relations, but those ties soured during the administration of Mexican President Vicente Fox.

Judge Rules Against Barring Chevron From Operating in Brazil

A Brazilian judge on Wednesday denied an injunction that would ban Chevron and Transocean from operating in Brazil on the grounds that it would interfere with the legal authority of oil regulator ANP, the Associated Press reported. The federal prosecutor who asked for the injunction has also filed criminal charges against 17 of the companies' employees and filed two 20 billion real ($11 billion) civil lawsuits.

Two Earthquakes Strike Mexico, Causing Minor Damage

A 6.9 magnitude earthquake hit the waters off the coast of Mexico just after midnight on Thursday, hours after another quake hit the western part of the country, the Associated Press reported. The earlier temblor struck a sparsely populated area, but could be felt in Mexico City. According to authorities, neither was responsible for major damages, and the quakes were not aftershocks of the powerful earthquake that hit southern Mexico last month.

Political News

Peruvian Miners Rescued Six Days After Collapse in Abandoned Mine

Nine Peruvian miners were rescued Wednesday from an abandoned copper mine in which they were trapped for six days, the Associated Press reported. The men were trapped after an explosion that they set in the Cabeza de Negro mine in the South American country's Ica region, 150 miles southeast of Lima. The miners, ranging in age from 23 to 58, walked out of the mine shortly after dawn through a reinforced tunnel that rescue crews constructed after removing more than 26 feet of rock and dirt. President Ollanta Humala, who had spent the previous night at the mine, greeted them upon their exit. Humala said he ordered the mine to be definitively sealed and said the incident showed the dangers of working in abandoned mines, in which tens of thousands of Peruvians work. The miners, who were covered in blankets and wore sunglasses as they emerged from the horizontal shaft dug into the side of a mountain, said they told jokes and sang to keep their spirits up. Conditions inside the mine were bleak, said one of the men. "It's pretty ugly inside," said Edwin Bellindo. "We slept on the ground on muddy plastic." During their ordeal, the miners were able to communicate and also receive food and medicine through a hose that had been put in place before the collapse.

Economic News

Colombian Lawmakers Approve Implementation of U.S. Trade Deal

Colombia's Congress has approved legislation to implement the country's free-trade agreement with the United States, Bloomberg News reported Wednesday. Lawmakers' approval came just days before U.S. President Barack Obama is due to arrive in Colombia for the weekend's Summit of the Americas. The accord is expected to boost U.S. exports to Colombia by as much as $1.1 billion annually and may also help Colombia increase exports of goods including oil, metals and flowers to the United States. In addition, the accord will eliminate duties on 80 percent of U.S. goods exported to Colombia and will phase out the rest of the tariffs over the next 10 years. U.S. lawmakers approved the accord last October after Colombia's government vowed to increase protections for labor unions. The United States exported $14.3 billion worth of goods to Colombia in 2011 and had imports of $23.1 billion from the South American country. **Caterpillar** and **General Electric** are among the accord's largest supporters in the United States. Then-U.S. President George W. Bush signed the trade deal five years ago, but Democratic opposition had stalled the pact's implementation in the U.S. Congress.

U.S. lawmakers approved the accord after Colombia vowed to increase protections for labor unions.

Company News

Argentina to Take Management Control of YPF: Governor

Argentina's government will take control of the management of the country's largest oil and gas producer, **YPF**, and give seats on the company's board of directors to provincial government officials, newspaper *Página/12* reported Wednesday, citing the governor of Neuquén province. President Cristina Fernández de Kirchner is expected to announce the takeover when she meets today with governors of provinces that produce oil and gas, said Gov. Jorge Sapag. "We think there is going to be news in the meeting the president has called for Thursday," Sapag told the newspaper. The company would then have both public and private sharehold-

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ers, he added. Spain-based **Repsol** owns 57.4 percent of YPF, but Argentina's Eskenazi family, which owns 25.5 percent of the company, is responsible for the company's day-to-day operations, Dow Jones reported. The remainder of YPF's shares trade in Buenos Aires and New York. Fernández has targeted YPF, saying the company has not invested enough in its operations in Argentina, which has been forced to import higher amounts of fuel. However, Fernández's critics say government price caps and a lack of financial incentives have kept energy producers from investing more. Argentine provinces have revoked several licenses belonging to oil and gas companies, primarily YPF, in recent weeks.

Fernández

File Photo: Argentine Government.

Mexico's Alpek Planning IPO, May Be Country's Largest

Mexico-based chemical company **Alpek**, a unit of Mexican conglomerate **Alfa**, is planning to sell shares in what could become Mexico's largest initial public offering, Bloomberg News reported Wednesday. The company, headquartered in San Pedro Garza, said in a Mexican stock exchange filing that it is planning to sell as many as 379.8 million shares in an offering that could raise as much as 11.2 billion pesos ($853 million). The shares are scheduled to be sold on April 25. **OHL Mexico** has the current record for largest IPO from its sale of 9.7 billion pesos worth of shares in November 2010. Alpek's offering would be Mexico's first initial public offering this year. Starting today, Alpek executives plan to meet with foreign investors in an effort to spur interest in the offering. The IPO "will allow Alpek to expand quicker in international markets such as in Asia," Pablo Duarte de León, an analyst at **Corp. Actinver** in Mexico City, told Bloomberg News. Alpek is the largest unit of Alfa and contributed half of the parent company's $14.7 billion in sales revenue last year.

Featured Q&A

Continued from page 1

derivatives involving companies and other debtors. Confronted with such circumstances, they tend to take actions demanding transfers from parts and places of their operations that are better off to the weaker ones as well as reducing potential liabilities. In this respect, it is not strange that some might interpret that ratings would be affected because of the ' "potentially diminished capacity and/or willingness" of the banks' U.S. and European parent companies to support their subsidiaries in Latin America.' In this context, knowing it might sound paradoxical to some people, certain Latin American institutions would not look relatively weaker, but rather stronger than their more traditional counterparts from Europe or the United States."

A Ricardo Ortiz Gil Lamadrid and Sumeet H. Chugani, associate attorneys at Diaz, Reus & Targ, LLP: "The ongoing financial crisis in Europe and the United States continues to raise red flags for the Latin American branches of multinational banks. Latin American financial institutions anticipate that U.S. and European banks will soon pull back from their international lending activities—causing a substantial decrease in the region's overall liquidity. As of June 2011, European banks provided $206 billion in credit lines to their Latin American counterparts—making them the largest providers of external funding to the region. The United States also provides a steady flow of credit lines throughout Latin America. A reduction of foreign credit lines will reduce the supply of dollar funding for exporters and increase the premiums charged by local financial institutions. But local subsidiaries of U.S. and European banks are well entrenched in Latin American countries. They hold a large deposit base and copious amounts of local currency. These will survive. However, the expected American and European pull-back may cause local banks to adopt a more conservative approach to credit local expansion. It will also have a detrimental impact on exports flowing in and out of the region.

> "Local subsidiaries of U.S. and European banks are well entrenched in Latin American countries."
>
> *— Ricardo Ortiz Gil Lamadrid & Sumeet H. Chugani*

The reduction of credit facilities will require Latin American countries to search elsewhere for valuable credit lines. This will give Chinese and Japanese banks new opportunities to further expand their already surging influence in the region's financial affairs."

A Jeanne Del Casino, vice president and group credit officer for Latin America at Moody's Investors Service: "Moody's review for downgrade of certain Latin American subsidiaries of European and U.S. financial institutions follows a similar action on their parent companies earlier last month. The ratings review will assess the effects of any sustained decline in the capacity or willingness of the European and U.S. parent groups to support their cross-border subsidiaries. Under our joint-default analysis methodology, these subsidiaries' debt and deposit ratings benefit from lift above their stand-alone ratings as a result of assumptions about the capacity and willingness of the parent banks to support them if required. Problems at the parent level could lead to (i) pressure to refocus on their core domestic franchises; (ii) a reassessment of a subsidiary's strategic importance or fit or (iii) a decision to withdraw from the markets in which the subsidiary operates. Financial pressures at parent banks

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Featured Q&A

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may also affect subsidiaries' standalone credit profiles to the degree that they have close financial, branding and managerial ties. Such ties include (i) funding and/or operating dependence on the parent; (ii) profitability, for example, through transfer pricing; (iii) exposures to the parent that parent companies will fail to provide support, although our assumptions as to the degree of support may change. The ultimate effects on the region's financial markets of any repositioning of the international banks is yet to be seen; however, what is notable, is that particularly during the recent financial crisis, large regional banks have stepped up their lending presence and even moved across borders to meet regional demand, which should continue in line with the region's positive economic growth outlook."

> "Large regional banks have stepped up their lending presence and even moved across borders to meet regional demand."
>
> — *Jeanne Del Casino*

and common exposures and (iv) regulatory barriers to control distribution of capital resources from the subsidiary to a parent. The Latin American subsidiaries in question are well positioned and largely focused on their respective domestic markets for their business and funding and their international parents are among the largest and most committed to the region for many years. We therefore do not anticipate major pressure on the subsidiary operations or strategies, nor

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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