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FEATURED Q&A

Is the International Financial Regulatory System Broken?

Q U.S. federal prosecutors on May 28 charged seven people in connection with what authorities allege was a massive money laundering scheme run through Costa Rica-based Liberty Reserve. Authorities say the company allowed criminals to establish accounts with fictitious names and move money with almost no questions asked. What is broken in the international financial regulatory system so that such a massive criminal undertaking could have taken place? Are the right steps being taken to prevent criminals from using "virtual currency" services such as Liberty Reserve? Will the legal case put a chill on the emerging industry of alternative money transfer and payment processing companies? How do such services facilitate criminal activities and can companies and regulatory bodies reduce the illegal uses of these services without affecting legitimate users?

A Richard Fogarty, director, and Katherine Johnson, principal, at Berkeley Research Group: "The international financial regulatory system is not necessarily broken, but it has obvious cracks and gaps. One gap is the lack of regulatory oversight and controls with respect to digital currency systems across borders. The growth of anonymous online payment schemes poses obvious challenges for regulators, law enforcement and anti-money laundering specialists. Although regulations for Internet financial transactions have been increasing and efforts have been made in the United States to provide regulatory guidance for digital currencies service providers, unified international standards regarding recordkeeping, reporting and anti-money laundering compliance program requirements for online payment systems across international jurisdictions need to be implemented and enforced. Ensuring through international efforts and regulation that these service providers have the same identification and reporting requirements as other

Continued on page 3

Ecuadorean Lawmakers Approve Restrictions on Media

Ecuador's National Assembly, controlled by supporters of President Rafael Correa, on Friday approved new curbs on the country's print and broadcast media. The legislation will establish a watchdog agency that will have the power to fine media outlets. See story on page 2.

File Photo: Ecuadorean Government.

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NEWS BRIEFS

Honduran Party Taps Zelaya's Wife as Presidential Candidate

The political party led by former Honduran President Manuel Zelaya, who was toppled in a 2009 coup, has chosen Zelaya's wife as its presidential candidate, the Associated Press reported Sunday. According to opinion polls, Xiomara Castro is among the most popular presidential hopefuls in the Central American nation. Castro told the Free Party convention on Sunday that if elected, she would seek to increase popular participation in the government.

Argentina Requires Banks to Extend New Business Loans

Argentina's central bank will require the county's banks to grant a series of low-cost business loans worth a total of $3.8 billion between July and December, Reuters reported Thursday. The loans must have a 15.2 percent interest rate, well below the country's estimated inflation rate of 25 percent, and at least half are reserved for small and medium-sized businesses. The government said it loaned $6.4 billion out last year under the program.

Jamaica Considering National Insurance Plan for Athletes

Jamaica is considering the creation of a national insurance plan for athletes who represent the Caribbean country or who have reached a certain professional level in their sport, the Indo-Asian News Service reported Saturday. The plan will offer health coverage and be funded with money from areas that benefit from the high profile of the athletes, such as the Tourism Enhancement Fund. Legislation was proposed this month in the House of Representatives and is being reviewed by relevant organizations before being submitted to the Cabinet for approval.

Political News

Ecuador Lawmakers Approve Restrictions on Media

Ecuadorean lawmakers have approved a controversial measure that imposes new restrictions on the country's print and broadcast media, BBC News reported Friday. The National Assembly, which is controlled by supporters of President Rafael Correa, overwhelmingly approved the measure, and sent it to Correa, who has had a number of disputes with journalists and has been accused of trying to muzzle the press. The legislation creates a new watchdog agency that will be responsible for "surveillance, auditing, intervention and control" of the media and will have "sanctioning capacity" over newspapers, BBC News reported. Correa's opponents say the measure amounts to gagging the media, but his supporters say it is needed to prevent media monopolies and abuse. Correa's government has said it is an effort toward "socialization and democratization" of the media. In addition to establishing the media monitoring body, the legislation will revise radio and television frequencies so that a third of them are reserved for government broadcasters. Another third will be allocated to private broadcasters and the remainder will be for community groups, most of which are indigenous. The measure also will require media organizations to issue public apologies and pay fines if they are found to be guilty of "media lynching," which the legislation defines as defaming individuals or companies. "[We say] never again to monopoly, the concentration of media in the hands of the few," National Assembly Speaker Mauro Andina told *El Comercio*, saying the distribution of broadcast frequencies will be "equitable."

> "Today the death certificate of freedom of expression has been signed."
>
> — *Andrés Paez*

However, Correa's opponents said the legislation is an effort by the president to restrict freedom of expression. "Today the death certificate of freedom of expression has been signed," opposition National Assembly member Andrés Paez said in a posting on Twitter. "We are on the way to consolidating the fascist regime." Lawmakers have been debating the measure for more than three years.

Economic News

Brazil's Government to Invest $1.2 Billion to Improve Rio's Favelas

The government of Brazilian President Dilma Rousseff will invest more than $1.2 billion to improve the favelas, or shantytowns, of Rio de Janeiro, BBC News reported. The money will be used to improve three favelas, Rocinha, Jacarezinho and the Lins complex. They will be integrated into the rest of Rio de Janeiro ahead of the city's hosting of the 2016 Summer Olympics. Rio will also host the World Cup next year. The expenditures are part of Brazil's Growth Acceleration Program, which was created by Rousseff's predecessor, Luiz Inácio Lula da Silva. After taking office, Rousseff implemented the second phase of the program, a $742 billion initiative that has six major focuses: "better city," "citizen community," "my house, my life," "water and light for all," transportation and energy.

Rousseff

File Photo: Brazilian Government.

Panama's Economy Grows 7 Percent in First Quarter

Panama's economy expanded 7 percent in this year's first quarter as compared to the same period last year amid the expansion of the Panama Canal, Bloomberg News reported Friday. Although the canal's expansion initiative and construction projects drove growth in the first quarter

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of this year, the economy's first-quarter growth marked the slowest expansion in three years. Growth slowed from 10 percent in the final quarter of 2012, according to the national statistics agency. Panama is expected to post 7.8 percent growth this year, according to the median estimate of economists in a recent Bloomberg survey. Over the past two years, Panama posted the fastest growth in Latin America, and it is only "natural" for it to start expanding at a slower pace, Carl Ross, managing director at **Oppenheimer & Co.** in Atlanta, told the news service. "I don't see much getting in the way of Panama right now," Ross told Bloomberg News in a phone interview. "The canal expansion is full steam ahead and, the infrastructure projects are full steam ahead." In May, **Fitch Ratings** affirmed its BBB rating on Panama's dollar bonds, saying the country's high public investment that will likely "safeguard the economy from external shocks and the electoral cycle over the next two years." The Central American country's economic expansion is expected to rise to 8 percent and then decline to 6 percent when the $5.25 billion expansion of the Panama Canal is finished in 2015. Panama's foreign direct investment, which the canal expansion has fueled, jumped 10 percent year-on-year in 2012 to $3 billion, according to the United Nations.

Company News

Santander Unit Buying ING's Mexico Mortgage Business

The Mexican unit of Spain's **Banco Santander** said Friday that it will buy the Mexican mortgage business of **ING**, making Santander the country's second-largest provider of home loans, Reuters reported. **Santander Mexico** will pay 643 million pesos ($50.70 million) in cash for the mortgage operation, said a statement by Santander, which added that the acquisition is expected to close in the second half of this year. The deal is subject to regulatory approval. As of the end of April, Santander Mexico was the country's fourth-largest mortgage lender, with a loan portfolio of 353 billion pesos, according to the country's banking regulator.

Featured Q&A

Continued from page 1

regulated entities should be one of the first steps. Criminals were attracted to Liberty Reserve because it provided anonymity, circumvented its obligations and worked in an unregulated framework across international jurisdictions. And although criminals will always find other outlets in the cyber world to conduct their illegal transactions, more regulation, international standards and enforcement actions for non-compliant financial institutions would deter the illegal uses of these services. On the other hand, legitimate users can avoid being exposed to these schemes and the risks they entail by ensuring that they conduct business with registered, licensed and regulated businesses that do require identification, ask questions and operate within strict anti-money laundering regulatory requirements."

> "The growth of anonymous online payment schemes poses obvious challenges for regulators, law enforcement and anti-money laundering specialists."
>
> *— Richard Fogarty & Katherine Johnson*

A David Landsman, executive director of the National Money Transmitters Association in Great Neck, N.Y.: "The United States is a little behind the regulatory learning curve. We issue financial laws without taking responsibility for the supervision of providers who have no physical presence here, or laying out a clear path for them to follow. After a decade of laissez-faire silence on how to regulate the new technologies, FinCEN's Prepaid Guidance was finally issued in 2011 and the Virtual Currency Guidance was just issued on March 18. In contrast, Europe's E-Money and Payment Services Directives date back to 2009. The European Union's Single Euro Payments Area comprises 27 countries, all striving to achieve reciprocal recognition by implementing common supervisory standards. The United States has 55 licensing jurisdictions, and no such integration is anywhere on the horizon. Liberty Reserve is a criminal case, wherein U.S. criminals deliberately moved offshore to evade U.S. regulation. Yet, it took U.S. authorities seven years to catch up with Liberty Reserve, although it was already on the radar back in 2006. But there are literally thousands of (relatively) innocent, non-U.S. payment services providers who are either not aware of, or very confused by, the U.S. regulatory system. The U.S. regulation of new-technology institutions, and especially those located outside U.S. jurisdiction, is still a gray area that we must examine and address. Common standards must begin at home, include supervision and be practical enough to implement."

> "The United States is a little behind the regulatory learning curve."
>
> *— David Landsman*

A Jan Smith, director for Latin America at Edgar, Dunn and Co. "The alternative money transfer and payment processing industry, although relatively nascent, is already too-well developed for money-laundering cases such as Liberty Reserve to interfere significantly with its growth. What happened in Costa Rica could have occurred in many other places, even in the United States and Europe, as considerable loopholes still exist in pre-paid and e-wallet transactions. Cases like Liberty Reserve will spur the correct type of growth and help legitimate players establish real traction in level playing

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Featured Q&A

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fields. This is already happening in Russia where legitimate competitors like QIWI and Yandex Money, as opposed to companies like Webmoney that have been criticized for being less than transparent, have succeeded in growing their businesses by abiding by and taking the lead on anti-money laundering and know-your-customer regulations. The same holds true for international players entering Latin America, as well as for local operations looking to grow. The more serious players are deliberately establishing the right criteria for cross-border transfers and building a solid base of services. The slow build-up certainly frustrates end users and merchants, but traditional transfer services offer plenty of reliable solutions. It takes time to adapt platforms and assure anti-money laundering procedures in the existing systems, but the wait to have a smooth operation from the get-go rather than an illegitimate or Frankenstein solution is worth the while. The Liberty Reserve case proves the correctness of processors with legitimate and cautious views that accept incremental and long-term gains as better options. The very nature of these services implies that they will be able to adapt to legislation and still maintain a high degree of flexibility."

> "What happened in Costa Rica could have occurred in many other places, even in the United States and Europe ..."
>
> — *Jan Smith*

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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The **Latin America Advisor** gets **answers** to the **questions** that informed executives are asking, every business day, so that you can rest easy.

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