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FEATURED Q&A

How Well Is Mexico's New Anti-Money Laundering Law Working?

Q A new law designed to prevent money laundering took effect in Mexico in July. The law requires businesses to report suspicious money transfers and outlaws cash transactions of more than $40,000. Is the law being successfully implemented? Will the measure prove to be effective in fighting money laundering in Mexico? How is the new law affecting the businesses of financial services companies in Mexico and elsewhere?

A Nicolás Mariscal, member of the *Advisor* board and chairman of Grupo Marhnos in Mexico City: "For years, Mexico has struggled with legislation to comply with recommendations from the Financial Action Task Force to fight money laundering. Current legislation is the latest attempt. The upcoming review in 2014 using the new Financial Action Task Force methodology will unveil how close the country has come to full anti-money laundering compliance. As it stands, if effectively implemented, it will close gaps still present in the Mexican financial system. It is a step in the right direction in the anti-money laundering struggle. The law will be of some nuissance to financial services companies due to new reporting requirements on otherwise legitimate financial transactions; however, successful implementation depends on the commitment of the authorities and it is too early to tell if that is present. Will the law prove effective in Mexico's anti-money laundering efforts? Mexico and the world at large, as represented by Financial Action Task Force, have placed the anti-money laundering emphasis on transactions within the financial system, and this focus has reduced money laundering possibilities over the past two decades. Recent money laundering scandals are the result of blatant disregard for anti-money laundering best practices by the bank's top management, not of weak regulations. In reality, most of the money laundering is not done

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Allies of Venezuela's Maduro Win Majority in Local Elections

Allies of Venezuelan President Nicolás Maduro, pictured late Sunday, won a majority in the country's local elections, though the opposition maintained control of major cities. The balloting has been seen as a test of strength for Maduro's government. See story on page 2.

Photo: Venezolana de Televisión.

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NEWS BRIEFS

Eight Killed in Car Bomb Attack Blamed on Colombia's FARC

A car bomb attack in southwest Colombia on Saturday killed eight people and injured at least another seven in the town of Inza, according to Agence France-Presse. The explosion, which killed two civilians, a police official and five members of the military, was quickly blamed on the FARC rebels' Sixth Front. Colombian president Juan Manuel Santos condemned the attack, but it was not clear if it will have any effect on the ongoing peace talks between the government and the FARC.

Six Arrested in Mexico After Theft of Truck Transporting Cobalt-60

Six men have been detained by Mexican authorities after being admitted to a hospital in the state of Hidalgo for possible symptoms of radiation poisoning, BBC News reported Friday. The men are suspected of involvement in the theft of a truck on Monday that was carrying radioactive Cobalt-60 from a hospital to a disposal site. Officials had said earlier in the week that those who came in contact with the Cobalt-60, whose protective casing had been tampered with, were likely to have had life-threatening radiation exposure.

Three Injured in Brazil Soccer Stadium Brawl

Three people were seriously injured Sunday after a brawl erupted among fans at a soccer match in Brazil's southern state of Santa Catarina, BBC News reported. The fight broke out between supporters of the Vasco de Gama and Atlético Paranaense teams, which were playing in the Arena Joinville stadium. The game was halted for an hour and 10 minutes during the melee, which police ended by firing rubber bullets.

Political News

Maduro Backers Win Majority in Venezuela's Local Elections

Supporters of President Nicolás Maduro won a majority of the votes Sunday during the country's local elections in balloting that has been seen as a test of strength for the socialist president's government, Reuters reported. With three-quarters of the votes counted, Maduro's party and its allies won a combined 49.2 percent of the vote, trumping the 42.7 percent garnered by the main opposition coalition and its allies, according to electoral officials. "The Venezuelan people have said to the world that the Bolivarian revolution continues stronger than ever," Maduro said in a speech late Sunday. The ruling party and its allies won nearly 200 municipalities, particularly in poor and rural areas, the traditional bases of support for Maduro and his late predecessor, Hugo Chávez. However, as expected, the opposition performed well in urban areas, maintaining control of the mayor's offices in Caracas and Maracaibo. The opposition also won in the capital of Barinas, Chávez's home state. However, the failure of the opposition to win the overall vote was seen as a blow to opposition leader Henrique Capriles, the governor of Miranda state. Capriles had called on Venezuelans to use the elections to voice their displeasure with Maduro's government and the country's economic problems, including a high rate of inflation, blackouts and the scarcity of basic goods. "I did everything humanly possible," Capriles said late Sunday after the partial results were announced. "Remember that Venezuela does not have a single owner. A divided country needs dialogue." Activists with the opposition alleged Sunday that there were irregularities during the elections, including intimidation of some observers and the use of vehicles belonging to state oil company **PDVSA** to transport government supporters to the polls. Capriles also accused the government of intimidating and silencing local media during the run-up to the vote. "I had to go round the country practically with a megaphone in my hand," he said in a late-night speech. "This campaign saw a brutal waste of Venezuelans' resources [by the government]." But unlike the aftermath of the April presidential election, which Capriles lost to Maduro, Capriles did not call Sunday night for an appeal of the election results.

Capriles

File Photo: Venezuelan Government.

Economic News

Poverty in Region Easing at Slower Pace: ECLAC Report

The rate of poverty in Latin America and the Caribbean is easing at a slower pace, according to a report released Thursday by the United Nations Economic Commission for Latin America and the Caribbean. Approximately 164 million people, or 28 percent of the population of the region, are considered poor. That number is virtually the same as last year, according to ECLAC's Social Panorama 2013 report. "Since 2002, poverty in Latin America has dropped 15.7 percentage points and indigence 8 percentage points but recent numbers show a slowdown," Alicia Bárcena, ECLAC's head, told reporters, Reuters reported. "The only acceptable number living in poverty is zero. That's why we're calling on countries to make structural changes in their economies to achieve sustained growth with greater equality." Latin America and the Caribbean have among the world's highest rates of inequality. In the region,

> "The only acceptable number living in poverty is zero."
>
> *— Alicia Bárcena*

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Venezuela experienced the largest reduction in poverty since 2011, with the poverty rate falling 5.6 percentage points to 23.9 percent. Other countries in Latin America experiencing declines in the poverty rate included Argentina, Brazil, Colombia, Ecuador and Peru. The poverty rates of Costa Rica, El Salvador, Uruguay and the Dominican Republic were mainly unchanged, while poverty edged upward in Mexico to 37 percent from 36 percent. The latest ECLAC report used new ways of tracking poverty in addition to the traditional method that examines monetary income. "A multidimensional measurement of poverty limited to unsatisfied basic needs shows that shortages like the lack of access to drinking water or to appropriate sanitation systems still affect a significant number of people in the region," said the report. "That makes one wonder if the public policies intended to overcome poverty put enough emphasis on the achievement of minimum standards."

Company News

Holcim Eyes Recovery of Demand, Plans Expansion in Latin America

Swiss cement maker **Holcim** is planning to move ahead with its expansion plans in Latin America amid signs that demand will recover, a top executive told Bloomberg News Friday. Holcim is planning asset swaps with Mexico's **Cemex** and is seeking opportunities to add plants and re-enter countries including Peru, Andreas Leu, the company's head for Latin America, told the news service. "If there would be an opportunity to strengthen our position in Mexico, I would take it," said Leu. Holcim has a $3.8 billion business in Latin America and has overtaken cement makers **HeidelbergCement** and **Lafarge** in the region.

Leu

File Photo: Holcim Foundation.

Featured Q&A

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through the financial system, but rather through legitimate enterprises that accept cash as tender. This mechanism, not substantially addressed by the Financial Action Task Force or any government, is explained in the Chatham House paper "Organized Crime, Illicit Drugs and Money Laundering" by Sergio Ferragut. This was investigated during the Calderón administration within the Mexican Treasury Department (SHCP). The team demonstrated that money laundering happened in huge amounts within powerful 'legitimate' corporations."

A Jan Smith, director for Latin America at Edgar, Dunn and Co. in Mexico City: "This legislation is but a continuation of ongoing controls by the government to regulate movements of money in Mexico. As such, it bolsters Mexico's theoretical capacity to toughen sentences on money launderers and regulate cash purchases. The measure will likely have little impact on any business sector except by adding layers of reporting to the real-estate industry, and limiting certain agricultural purchases where cash transactions of this magnitude are still made. It will not have any serious effect on most transactions. More importantly, the law suffers from a lack of effective implementation capacity. Mexico has limited means to track drug money and monitor this type of cash transactions."

> "The law suffers from a lack of effective implementation capacity."
>
> — *Jan Smith*

A Thomas Morante, partner at Holland and Knight in Miami & Yani R. Contreras, foreign legal counsel at the firm: "The Mexican Anti-Money Laundering Law was adopted on July 17 and the required regulations and administrative rules became effective Sept. 1. Few conclusions can be drawn regarding its implementation, given that two months is insufficient to determine whether the law will prove effective in fighting money laundering. Prior to the new law, only a few provisions in other laws such as the Criminal Code addressed money laundering, financial firms were subject to anti-money laundering requirements of Mexican laws specific to their activities, and non-financial companies often were not subject to regulation. In addition, these laws were difficult to enforce. The new law requires that companies subject to, and undertaking activities contemplated by the new law, establish procedures to prevent and detect activities that may involve money-laundering. Businesses subject to the new law that engage in transactions exceeding certain monetary thresholds are scrambling to put compliant internal procedures in place. The new law requires those businesses to report 'vulnerable activities,' as defined in the new law, if they suspect that the services provided to their clients/customers or actions undertaken

> "The true success of the new law will be measured, in part, by how the authorities process the information derived from the reports and how the law will be enforced."
>
> — *Thomas Morante & Yani R. Contreras*

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Featured Q&A

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by their customers' boards, officers, employees or legal representatives may involve money-laundering activity. The vulnerable activity reports must be filed with the agencies responsible for enforcing the new law: the Tax Administration Services Agency (SAT) and the Financial Intelligence Unit (UIF) of the Ministry of Finance and Public Credit (SHCP). The true success of the new law will be measured, in part, by how the authorities process the information derived from the reports and how the law will be enforced."

Adalberto Palma Gómez, senior partner at Aperture S.C. in Mexico City: "Since July, the Federal Law for the Prevention and Identification of Transactions with Funds from Illegal Sources, that is for the prevention of money laundering, has been in effect. The law spells out the size of transactions that are considered reportable to authorities. The law's provisions extend the list of requirements with which financial companies must comply. The new law requires extensive legal and regulatory compliance with significant administrative liability and also includes penalties for those who are subject to its provisions. The Finance Ministry and attorney general's office are the entities responsible for the management of the system. The government has been very active in preventing money laundering. For businesses, the law presents an additional operating cost. However, the general security situation of the country requires greater public intervention. Many financial sector regulations have stemmed from the 2008 crisis. The complexity of the rules, which apply to all financial institutions not recognizing their different business models and vulnerabilities, has an effect on the regulated entities as much as on the authorities. A process of adjustment is needed in order to achieve the desired efficiency—in this case, with regard to illegal proceeds. Financial institutions are, of course, key actors in this system, which already has several other forms of regulation. Those include the Foreign Account Tax Compliance Act (FATCA). Globalization in the financial sector requires such actions on a national scale."

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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