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THEDIALOGUE

FEATURED Q&A

Are Tougher Rules a Burden to Banks in the Caribbean?

Recently enacted regulations such as the Foreign Account Tax Compliance Act (FATCA) have meant stricter reporting requirements for banks outside the United States. // Image: Pixabay.

Q Royal Bank of Canada in recent months has closed wealth-management offices across the Caribbean. The closures come amid growing pressure on banks by regulators who are fighting money laundering in the region. Are stepped-up regulatory pressures making Caribbean markets less attractive for banks? Are increased regulations well-placed, or are they proving to be too much of a hindrance for businesses? What do the changes mean for consumers in the Caribbean?

A Earl Jarrett, general manager of the Jamaica National Building Society: "Over the last decade, the Caribbean has changed significantly as the region adjusts to the changes to its banking laws due to the requirements of the U.S. Foreign Account Tax Compliance Act, which demands greater levels of transparency and increased supervision of banking entities to reduce the risk of money laundering and counter the financing of terrorism. Banks are under increasing pressure as the region is geographically situated as a logistics hub for drug running and other crimes. The risks associated with wealth management and trust services within the region are compounded by the potential for substantial fines to be imposed by regulators in Canada and the United States, as well as the increasing cost of employing professional staff in auditing and compliance to oversee and monitor operations of the banks. Many banks have determined that the risks far outweigh the returns on investment and have decided to exit the region. International financial institutions operating in the region are also faced with the added burden of monitoring and reporting on U.S. persons who maintain

Continued on page 3

TODAY'S NEWS

POLITICAL

Latin American Countries Open Probes in FIFA Graft Case

At least three Latin American countries have opened investigations following the U.S. indictments of 14 people alleged to be connected to corruption at international soccer organization FIFA.

Page 2

POLITICAL

Bolivia Captures Escaped Former Advisor to Humala

Bolivian authorities on Thursday captured former Peruvian presidential advisor Martín Belaunde.

Page 2

ECONOMIC

Colombia's Santos Unveils Economic Stimulus Plan

Colombian President Juan Manuel Santos on Thursday announced a package of new economic stimulus measures, which are designed to boost the Andean nation's growth amid weaker investment and lower prices for oil exports.

Page 3

Growth projections have fallen, said Santos. // File Photo: Colombian Gov't.

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POLITICAL NEWS

Latin American Countries Open Probes in FIFA Case

At least three Latin American countries have opened investigations following the U.S. indictments of 14 people alleged to be connected to corruption at international soccer organization FIFA. In Brazil, police officers and prosecutors searched the Rio de Janeiro offices of a sports-marketing firm owned by a prominent business leader, The Wall Street Journal reported. The businessman, Kleber Leite, owns Klefer Marketing Esportivo and is also the president of the Clube de Regatas do Flamengo soccer club in Rio de Janeiro. Leite was not named in the indictment that the U.S. Justice Department announced Wednesday, but he said he was being investigated in relation to an agreement that he had with José Hawilla, a Brazilian who was named in the indictment, the newspaper reported. Leite denied wrongdoing and said he was cooperating with authorities. Hawilla's attorney said Wednesday that his client is cooperating with U.S. authorities. The Justice Department has said that Hawilla has admitted committing money laundering, fraud and other crimes and has agreed to forfeit $151 million. Meantime, Argentina's tax agency said it had filed a criminal complaint, accusing three businessmen named in the U.S. Justice Department indictment of conspiracy, money laundering and tax evasion. The tax agency also said it had sought FIFA's assistance to probe claims that foreign soccer clubs had used tax havens to avoid paying taxes on the transfer and sale of Argentine soccer players. It also said that it told FIFA President Sepp Blatter in April that FIFA was not helping to improve transparency in the sport. "FIFA never collaborated with fiscal transparency in soccer," the Argentine tax agency said Thursday. FIFA did not respond to the statement. In addition, Costa Rican authorities have opened a probe into the activities of Eduardo Li, the head of the Central American country's soccer organization, BBC News reported. Li was among those arrested early Wednesday by Swiss authorities at the posh Zurich hotel where FIFA officials had gathered for their annual meeting. On Thursday, the head of Brazil's national soccer federation, Marco Polo Del Nero, left Switzerland on the eve of today's secret-ballot vote in Zurich to determine whether Blatter will remain at the helm of FIFA, USA Today reported. Del Nero has not been accused of wrongdoing, but he was reportedly panicked by the arrest the previous day of his predecessor, José Maria Marin, the newspaper reported. In the 47-count U.S. indictment unsealed Wednesday in federal court in Brooklyn, N.Y., authorities allege FIFA officials and sports marketing executives perpetrated a scheme that derived revenue through the commercialization of "media and marketing rights associated with soccer events and tournaments" and said the operation had gone on for 24 years.

The U.S. indictment alleges the scheme was carried out over 24 years.

Bolivian Authorities Nab Escaped Former Advisor to Humala

Bolivian authorities on Thursday captured former Peruvian presidential advisor Martín Belaunde, who stands accused of corruption and earlier this week escaped house arrest in Bolivia, The Wall Street Journal reported. Belaunde was captured at a private residence in Magdalena, a town in Bolivia's northern Beni department near the border with Brazil. "The coordination has immediately started for the rapid handover of Mr. Belaunde Lossio to appear before the Peruvian justice system," Peruvian Prime Minister Pedro Cateriano said. Bolivia had been preparing to extradite Belaunde to Peru when he escaped house arrest. He fled to Bolivia late last year when a Peruvian judge ordered him to be put in preventive

NEWS BRIEFS

Cuba Poised for Removal From U.S. Terror List as Deadline Passes Today

Cuba is poised to be removed from the U.S. list of state sponsors of terrorism as a 45-day period for Congress to challenge the Obama administration's removal of Cuba from the list expires today, the Associated Press reported. Cuba had identified its inclusion on the list as a main obstacle to the countries' thaw in relations.

Brazil's Lower House Advances Measure to End Presidential Re-election

The lower house of Brazil's Congress on Wednesday approved a constitutional amendment that would end re-election for president, governors and mayors by a vote of 452 to 19, Bloomberg News reported. The lower house will vote on the measure again before it moves to the Senate, where it would also need to be approved twice in order to become law. The re-election measure is part of a package of electoral changes Congress is considering this week, including revamping campaign finance laws, that respond to popular calls for political change in the country.

Ecuador Requiring Banks to Offer Electronic Currency Services

Ecuador's government is requiring banks to offer services tied to a government-created electronic currency, according to a resolution published on the Monetary Council's Web site, Bloomberg News reported Thursday. Ecuador uses the U.S. dollar as its official currency, but less than a year ago the government created a new state-run digital currency to be used voluntarily. Banks with assets greater than $1 billion as of Dec. 31 have 120 days to meet the new requirement, while smaller banks will have up to a year.

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custody while facing charges of conspiracy to commit crime, money laundering and embezzlement. Peruvian prosecutors allege that Belaunde was part of a vast criminal network with links to public officials, which he denies, Reuters reported. Belaunde helped finance and was a campaign manager for Peruvian President Ollanta Humala's unsuccessful 2006 presidential bid as well as helping with some party activities in 2011, and the scandal

Belaunde // File Photo: TV Perú.

has hurt the president's popularity and raised awareness of government corruption. Humala and his wife have since distanced themselves from Belaunde and denied knowledge of his purported criminal activities. Suspicions that the two governments were collaborating to protect Belaunde led Bolivian President Evo Morales to name a new interior minister and police chief. "All state agencies have worked intensely" to find him, Bolivian Interior Minister Carlos Romero said Thursday.

FEATURED Q&A / Continued from page 1

balances of $50,000 or more in banks and trust companies. The potential risks and liabilities that could accrue to a bank if it fails to report have also led many institutions to carefully reconsider their operations within Latin America and the Caribbean. A review of Canadian international banks in the region also indicates that the financial performance of the institutions has declined in recent years, resulting in the Royal Bank of Canada selling its operations in Jamaica and Suriname, and having to book immediate losses on both transactions in excess of 130 million Canadian dollars. The risks of banking in the Caribbean have also been affected by the performance of Caribbean economies, which have been struggling since the financial crisis of 2008. Eight of the Caribbean islands are listed among the most indebted countries in the world. The outlook for the Caribbean, while positive, will only result in modest economic growth; and this in turn will affect banks and wealth management entities in the medium term."

Mario Trujillo, chairman, president and CEO of DolEx Dollar Express, Inc. in Duluth, Ga.: "Banks in the United States and Latin America continue to receive increasing pressure from regulators 'encouraging' U.S. banks to close accounts related to family remittances. U.S. money transfer companies recently received termination letters from a Mexican bank that had been in the industry for decades. (Banks such as Banamex and HSBC exited this industry over the last few years). Puerto Rico essentially only has one bank monopoly. The pressure is real, across the board, continuing and not individually risk based. This particular bank was told to close all family remittance customers' accounts or their U.S. bank correspondents would close all their correspondent accounts for their core banking business. So when faced with such a dire choice, they are (as would anyone) closing all money services business (MSB) accounts and ending their participation in family remittances. So

Continued on page 4

ECONOMIC NEWS

Colombia's Santos Unveils New Stimulus Plan to Boost Growth

Colombian President Juan Manuel Santos on Thursday announced a package of new economic stimulus measures, which are designed to boost the Andean nation's growth amid weaker investment and lower prices for oil exports, Reuters reported. The so-called PIPE 2.0 program is an effort to use oil and mining revenues to increase homebuilding and road construction while also providing more support to education. "Growth projections have been falling," Santos said in Bogotá, the wire service reported. "It's exactly with that perspective, and still waving the banner of high growth in the region, we've decided it's opportune to make an effort to boost the economy." Colombia implemented a similar stimulus measure in April 2013, before the plunge in global crude prices. That stimulus package led to an economic growth rate of 4.6 last year in Colombia.

BUSINESS NEWS

Argentina Approves Plan to Break up Telco Investor Group

Argentina's competition regulator has given the green light to break up the Telco investor group, the largest investor in Telecom Italia, paving the way for Vivendi to become the largest shareholder in the communications company, Bloomberg News reported Thursday. Telco, which was set up in 2007 as Telecom Italia fought off a takeover bid from AT&T and Carlos Slim's América Móvil, holds a 22.5 percent stake in Telecom Italia. Telco is led by Spain's Telefónica and also includes Italian financial companies Generali, Intesa and Mediobanca, Reuters reported. The group agreed more than a year ago to break up, but was awaiting regulatory approval. "The demerger will materialize through the transfer to four new companies, each owned by Telco's actual shareholders," the CNDC watchdog said in a document on May 22. The move paves the way for Telco's shareholders to sell their stakes in Telecom Italia. French media company Vivendi will take a 5.7 percent stake in Telecom Italia when the sale of its Brazilian unit GVT to Telefónica closes. Argentina's regulator's approval was needed because of concerns about domestic competition between Telefónica and Telecom Italia.

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FEATURED Q&A / Continued from page 3

when most or all of these licensed, highly regulated and electronic/digital channels are indiscriminately closed and people revert to sending or moving physical money in cash, will that be better or worse to detect, prevent and prosecute violators of money laundering and terrorism financing laws?"

Benjamin Rosenberg, associate attorney at Diaz, Reus & Targ, LLP: "Pressure has been mounting against banks and financial institutions in the Caribbean as a result of recent efforts by regulators to combat money laundering in the region. In response, banks are faced with two choices: they can submit to the regulatory pressures and 'ramp up' compliance at significant cost; or, they can withdraw from the region. A timely example of a multi-national bank selecting the latter option is Royal Bank of Canada. In recent months, RBC has closed its wealth-management offices across the Caribbean largely in reaction to the pressure placed on banks by regulators who are fighting money laundering in the region. As the potential for profits is outweighed by the cost of compliance and increased risk associated with enhanced money laundering oversight, large-scale cutbacks are a real possibility. The enhanced regulatory environment in the Caribbean has unquestionably created a more difficult and more costly environment for banks and could further diminish international banking in the region. Two other large Canadian banks, Scotiabank and CIBC, recently posted $123 million and $109 loan losses, respectively. This is potentially significant given that these three banks (RBC, Scotiabank and CIBC) account for nearly 60 percent of bank assets in the Caribbean. Scotiabank has already reduced its operations in Latin America, and it is possible that it too will join RBC in exiting the region altogether. It is unknown whether regulatory pressures will lessen the attractiveness of the Caribbean for international banking purposes. However, if the regulators continue these efforts, business growth and foreign investment within the Caribbean banking sector could be significantly impaired."

> **"The pressure is real, across the board, continuing and not individually risk based."**
>
> **— Mario Trujillo**

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