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THEDIALOGUE

FEATURED Q&A

Has Mexico Found a Good Solution to Bank 'De-Risking?'

The new program of Banco de México (pictured above) will allow businesses to send dollars to each other through a new electronic clearinghouse. // File Photo: Alfonso21 via Creative Commons.

Q Mexico's central bank is unveiling a program designed to facilitate the transfer of dollar-denominated assets between Mexican businesses, as international banks are beginning to 'de-risk' from Mexico. Does the program offer a good solution to the negative consequences of de-risking? How successful will a dollar transfer program such as this one be in cracking down on money-laundering in Mexico?

A **Jan Smith, partner at KoreFusion in Mexico City:** "Since 2012, international banks trading with Mexico have been fined $2 billion for failing to comply with anti-money laundering regulations. This is less than one percent of the dollars that originate and end in Mexico and pass through U.S. banks. Coldly speaking, a one percent fine should be an acceptable level of risk (credit defaults are much higher). Let's assume the lack of criminal convictions and absence of revoked banking licenses that have accompanied these fines implies there really was no criminal intent in failing to comply. Ergo, the fault lies in a lack of adequate controls, and that is where efforts to improve should focus. Instead, U.S. banks are severing ties with Latin American banks because the regulatory burden is too heavy. Risk management becomes risk avoidance, and with no risk there is never any reward. Quite the opposite. The result? Thousands of bona fide and legitimate business are without a bank, and tens of thousands of individuals are at risk of not receiving remittances. 'De-risking' actually increases the risk of money laundering by pushing entire segments of the economy out of the formal financial

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TODAY'S NEWS

POLITICAL

More Than 270 Killed in Ecuador Earthquake

The quake, which was centered in the northwestern part of the country, was the strongest to hit Ecuador since 1979. President Rafael Correa said the death toll could rise "considerably."

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ECONOMIC

Few Economic Reforms Implemented: Castro

Cuba's government has failed to implement many of the economic reforms it unveiled five years ago, said President Raúl Castro.

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POLITICAL

Lawmakers Advance Measure to Impeach Brazil's Rousseff

Brazil's Chamber of Deputies in a two-thirds vote advanced a measure to impeach President Dilma Rousseff. The Senate now must decide whether to suspend her and put her on trial.

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Rousseff // File Photo: Brazilian Government.

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POLITICAL NEWS

Brazil's Lower House Moves Impeachment to Senate

In a crucial vote Sunday, the lower house of Brazil's Congress easily passed on a two-thirds vote a measure that moves President Dilma Rousseff a step closer to impeachment. The Chamber of Deputies voted 367-137 with seven abstentions to advance a measure to impeach Rousseff. Now, if the Senate votes for impeachment with a simple majority, Rousseff will be suspended for up to 180 days while she is tried in that chamber. Vice President Michel Temer would step in as acting president, and if Rousseff is convicted and removed from office, Temer would serve out the rest of Rousseff's term, which lasts until 2018, Reuters reported. The Senate is expected to vote in early May on whether to suspend Rousseff and put her on trial. "To rescue the hope that was stolen from the Brazilian people, I vote yes," said Deputy Shéridan de Anchieta, The Washington Post reported. However, Deputy José Guimarães of Rousseff's Workers' Party was among those opposed to impeaching Rousseff. "This is not good for democracy," he said, CNN reported. "They want to take the government away from an honest woman." Rousseff and her supporters have said the drive to oust her is tantamount to a coup, a characterization her opponents have denied. Throngs of Rousseff supporters and opponents gathered outside Congress in Brasília, with a six-foot high security barrier separating them, Reuters reported. Pro- and anti-Rousseff demonstrators also gathered in several other cities, including São Paulo and Rio de Janeiro. Millions of Brazilians also watched the vote on live television in their homes, in bars and restaurants and on giant screens set up in streets, Reuters reported. In the impeachment effort, Rousseff is accused of manipulating the government's budget ahead of her re-election in order to conceal

Rousseff's opponents easily surpassed the two-thirds threshold needed to advance her impeachment.

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sector altogether. 'De-risking' cannot be the default preference of U.S. banks. American regulators are passing the buck south. Mexican authorities are obliged to create a clearing house within the U.S. banking system, and Mexican banks face doubling compliance costs. Mexico's response is effective, but desperate, and begs the question: What would be the response be if instead of Mexico, it was a 'de-risking' of all the international banks that were fined?"

Eduardo Canales, associate at Akin Gump Strauss Hauer & Feld, LLP: "The development of rigorous anti-money laundering and compliance regulations in financial hubs around the world to de-risk international transactions has had unintended consequences on the Mexican banking system. Even though these controls were conceived to combat illegal activities, their implementation has slowed down thousands of legal transactions burdened by the heightened standards and causing, for instance, the cancellation of international bank accounts, the severance of banking relationships between international financial institutions and their Mexican counterparts and the denial to process money wires. It is estimated that Mexico had more than $380 billion in exports and over $395 billion in imports worldwide during 2015. Mexico's integration into the global economic system as well as the interactions of thousands of Mexican businesses with firms around the world have created the need for an efficient domestic financial system that promotes observance of international anti-money laundering and compliance regulations while

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NEWS BRIEFS

Poll Shows Kuczynski in Lead Ahead of Peru Runoff

Peruvian presidential candidate Pedro Pablo Kuczynski is leading his top rival, Keiko Fujimori, who had been at the top of most major surveys until recently, according to a poll released Sunday, The Wall Street Journal reported. Pollster Ipsos said the economist and former finance minister had 44 percent support compared to Fujimori's 40 percent ahead of the second-round vote scheduled for June. The poll, which was the first to be published following the first round of voting on April 10, was published by América Televisión.

Commission Alleges Pérez Molina Took Bribes From Port Company

Former Guatemalan President Otto Pérez Molina and his vice president, Roxana Baldetti, took at least $25 million in bribes from a Spanish port company, the U.N.-backed International Commission Against Impunity in Guatemala (CICIG) has alleged, BBC News reported. The firm, TCB, had won a contract to operate a new container terminal on Guatemala's Pacific coast for 25 years. Pérez Molina was arrested in September and stepped down from office amid anti-corruption protests. He is due to appear in court next week. He and Baldetti deny wrongdoing.

Some Chile Mining Operations Suspended Following Heavy Rains

Heavy rains in central Chile have led global mining company Anglo American and state-owned copper producer Codelco to suspend their operations in two major copper mines that have a combined annual capacity of 880,000 metric tons, Reuters reported Sunday. Anglo American said it had halted production in the Los Bronces copper mine and the smaller El Soldado deposit.

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a growing deficit, an accusation she denies. However, during Sunday's debate in the lower house, few legislators mentioned the actual charges against her that relate to the budget. Instead, they described the country's economic downturn and denounced corruption. Rousseff has not been formally accused in the massive corruption scandal at state-run oil company Petrobras, but her government has been tainted by it as many others in her party and other parties have, including her mentor and predecessor as president, Lula Inácio Lula da Silva.

More Than 270 Killed in Powerful Ecuador Earthquake

A powerful 7.8 magnitude earthquake shook Ecuador Saturday night, killing at least 272 people, The Wall Street Journal reported. The quake, which struck at about 7 p.m. local time, was centered about 17 miles southeast of the coastal city of Muisne in the northwestern part of the country. It was the most powerful earthquake to hit Ecuador since 1979. in addition to the dead, more than 2,500 people were injured, officials said Sunday. "We've been hit really hard," President Rafael Correa said in a televised statement on Sunday after arriving near the epicenter to assess the damage. "The tragedy is very big, but we know how to move forward." Correa, who cut short a trip to the Vatican to return home, said the number of fatalities could rise "considerably."

ECONOMIC NEWS

Few Cuban Economic Reforms Have Been Implemented: Castro

Cuban President Raúl Castro on Saturday predicted a poor outlook for the state of the country, saying the communist government has failed to implement many of the hundreds of changes he launched five years ago to stimulate the government-controlled economy, the Associated Press reported. During a two hour-long address during the twice-a-decade meeting of the Cuban Communist Party, Castro praised the strengthening relations with the United States and the boom in tourism that has come about as a result, while lamenting the government's inability to address the structural issues that affect Cuba's most vulnerable. During the address, Castro cited the government statistic that only 21 percent of the 313 guidelines approved five years ago have been implemented. He blamed the low success rate on the government's inability to turn goals into actions. "The obstacle that we've confronted, just as we expected, is the weight of an obsolete mentality that takes the form of an attitude of inertia," he said. Despite his misgivings, Castro reaffirmed that any reforms in Cuba would be brought about "with neither haste nor pause" and that the country would never feel the "shock therapy" experienced by other socialist states. Castro also hinted that this year's congress would include reform measures to jumpstart the economy, though he emphasized that restoring capitalism to Cuba "is in no way the goal." Foreign and independent media were barred from the event.

Castro // Photo: Granma.

SUBSCRIBER NOTICE

Devry Boughner Vorwerk Joins the Board

We are delighted to announce that Devry Boughner Vorwerk has joined the Latin America Advisor's board of advisors.

Devry Boughner Vorwerk

Devry is a senior policy advisor in Akin Gump's public law and policy practice in Washington, focusing in particular on international trade and Cuba policy. She also spearheads advocacy issues related to the Trans-Pacific Partnership and currently chairs the U.S. Agriculture Coalition for Cuba, a group working to normalize trade relations between the United States and Cuba.

Devry joined Akin Gump earlier this year after serving as vice president of corporate affairs for Cargill. As a corporate officer, she led the company's international business relations team and the Latin America corporate affairs team, which included oversight for government relations, communications and corporate responsibility work across the region. Devry also managed Cargill's global government relations activities in Washington, as well as the company's international trade policy agenda. Before those positions she worked for Cargill's businesses in the Asia-Pacific region, with assignments in China and India.

Prior to Cargill, Devry worked in the U.S. International Trade Commission's Office of Industries and as an economic advisor to the chairman. She also served as a senior economist in Agricultural Affairs at the Office of the U.S. Trade Representative.

She has an M.S. in agricultural economics from Cornell University and dual B.S. degrees in agricultural economics and managerial economics from the University of California, Davis.

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providing the necessary tools that facilitate transactions into, out of and within Mexico in global currencies. Mexico's central bank is trying to address this market inefficiency and provide the basic tools to support the globalization of the Mexican banking system through the creation of the Sistema de Pagos Interbancarios en Dólares (SPID). This interbank payment system will work as a clearinghouse to facilitate dollar transactions between Mexican businesses while incorporating transparency and anti-money laundering standards. The SPID is expected to allow Mexican banks to process dollar transactions more efficiently and at a lower cost. Banxico is expected to supervise the operation of the clearinghouse as well as the SPID's relationship with an American clearing bank. Moreover, the SPID will include international best practices like the use of the Global Legal Entity Identifier System, which assigns unique identifiers to legally distinct entities and allows monitoring of their financial market activities, and heightened reporting and auditing requirements for participating domestic banks. The SPID's success will depend on the costs involved, which will drive the participation by Mexican banks and businesses, and the regulatory and enforcement mechanisms, which may help assimilate heightened rigorous anti-money laundering and compliance controls, ultimately de-risking Mexico."

Adalberto Palma Gomez, senior partner at Aperture S.C. in Mexico City: "The objective of correspondent banking relationships is to access financial services around the world and provide to third parties cross-border payment services to support international trade and financial transactions. In this scenario, central banks should contribute to an efficient international payment system. The announced system, known as SPID, seems not to be developed as a solution for 'de-risking.' At best, it is a small step toward fixing a huge problem with grave implications for international trade operations. The central bank should start working in a profound and holistic solution to the de-risking problem. An efficient financial industry needs to reduce its transaction costs and offer certainty on the requirements needed for establishing, maintaining and improving correspondent banking relationships with foreign financial institutions. A possibility exists for local and international authorities to develop an agreed-upon regulatory standard (a 'NAFTA standard') for correspondent banking relations. Establishing basic principles like: 'know your customer's customer,' exchange of information between institutions, scope and quality for customer due diligence and enhanced due diligence as well as monitoring, internal controls, training, audits and supervision. Meanwhile, the central bank should consider facilitating those products and services (payments to third parties and repatriations of dollars) that have been limited, reduced or canceled by U.S. correspondent banks to Mexican institutions. SPID, although a step in the right direction, is not structured for cracking down on money laundering. It relies on the anti-money laundering policies, procedures and responsibilities of the institutions. Not taking care of formal and supervised payment systems, flows of money could divert to alternative channels where money traceability becomes difficult, with the correspondent risk of money laundering."

> **"At best, it is a small step toward fixing a huge problem with grave implications for international trade operations."**
>
> **— Adalberto Palma Gomez**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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