LATIN AMERICA ADVISOR

FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

October 8-21, 2020

FEATURED Q&A

Can Brazil Bring More Liquidity to Its Capital Markets?

Brazil's Securities and Exchange Commission, or CVM, expanded Brazilian depositary receipts, or BDRs, this year. The B3 stock exchange in São Paulo is pictured above. // File Photo: Rafael Matsunaga via Creative Commons.

Q **Amid low interest rates in Brazil, domestic investors have been seeking alternatives for their money, including international investments and more exposure to local equities. Earlier this year, Brazil's Securities and Exchange Commission, or CVM, announced the expansion of Brazilian depositary receipts, potentially increasing access and reducing barriers for local investors to invest internationally. Will this change increase the internationalization of Brazilian portfolios? What impact will this change have on local financial markets? Is further regulation needed in order to see substantial adoption?**

A **Dominik Rohe, head of Latin America at BlackRock:** "At BlackRock, we believe that the recent expansion of the Brazilian depositary receipts (BDRs) platform to allow a broader set of instruments, including exchange traded funds (ETFs), to be 'listed and traded' locally is a significant step for Brazilian capital markets and investors. This will lead to the expansion and democratization of access to global markets. The new BDR rules will lead to a broader number of products that investors can choose from and make those products more accessible to institutional and retail investors, while reducing the complexities of investing abroad. For example, retail investors will be able to access the U.S. market through diversified, liquid and low-cost ETFs at a time when the number of retail investors is growing exponentially, having more than tripled since 2018. Additionally, we believe this is particularly relevant now given rates are at an all-time low of 2 percent and investors are actively looking to internationally diversify

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New Malware Targeting Brazil Bank Accounts

Researchers at IBM have discovered a new malware variant that is targeting Brazilian bank accounts.

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Fitch Expects More Pressure for Mexican Insurance Sector

Fitch Ratings said it expects the coronavirus pandemic to continue putting pressure on Mexico's insurance sector through the end of this year as Covid-19 has led to economic contraction and increases in claims.

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PAYMENTS

dLocal Expands Network to Costa Rica, DR, Panama

Cross-border payment platform dLocal has expanded to three countries in the region. Company executive Michel Golffed said the platform will help merchants to receive local currencies for payment.

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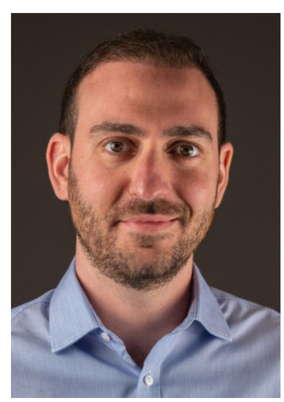

Golffed // File Photo: LinkedIn.

BANKING NEWS

New Malware Targeting Brazilian Bank Accounts

Researchers have discovered a new malware variant that is targeting Brazilian bank accounts, ZDNet reported Oct. 19. The new variant, which IBM has named "Vizom," is being used across Brazil in order to compromise bank accounts. The malware uses remote overlay techniques and DLL hijacking in order to remain hidden and compromise users' devices, according to IBM security researchers. The malware spreads through spam-based phishing and is disguised as video-conferencing software that has increased in popularity as people are working remotely amid the Covid-19 pandemic. After Vizom lands on a vulnerable personal computer that is running Microsoft Windows, the malware begins the infection chain by striking the AppData directory. Through DLL hijacking, the malware creates its own Delphi-based variants with names that a user might expect in attempts to force the loading of malicious DLLs, ZDNet reported.

INSURANCE NEWS

Fitch Expects More Pressure for Mexican Insurance Sector

Fitch Ratings said Oct. 19 that it expects the coronavirus pandemic to continue pressuring Mexico's insurance sector through the end of the year. Insurers in Mexico "demonstrated resilient financial performance and capitalization and leverage adequacy, despite a reduction in premiums," Fitch said. However, the country's insurance sector will see continued pressure due to "macroeconomic factors and by the risks inherent to the industry, such as increased claims because of the coronavirus pandemic," the ratings agency added. The factors facing insurance providers in Mexico include an expected contraction in gross domestic product, as well as higher levels of unemployment, pressure on the generation of credits, volatility of asset values, the extension of stay-at-home orders, in addition to trends on infection and mortality rates from Covid-19. "Demand for insurance products is highly correlated with economic activity, which in periods of stress puts pressure on premium volume," Fitch said, adding that contracting premiums could harm profitability. Assets that insurers manage could deteriorate in value, the ratings agency said. Last April, Fitch downgraded Mexico's sovereign rating to BBB- from BBB due to the initial impact of the pandemic. It also expects Mexico's GDP to contract by 10.8 percent this year and the country's unemployment rate to end the year at 7 percent.

A.M. Best Affirms Ratings of Panama's Aseguradora Ancón

Ratings agency A.M. Best said Oct. 16 that it has affirmed its financial strength rating of A- and its long-term issuer credit rating of a- of Panama-based insurance company Aseguradora Ancón with a stable outlook. "The ratings reflect Ancón's balance sheet strength, which A.M. Best categorizes as very strong, as well as its adequate operating performance, favorable business profile and appropriate enterprise risk management," A.M. Best said in a statement. The insurer has a strong balance sheet that is "underpinned by risk-adjusted capitalization at an assessed level of very strong, supported by a well-structured reinsurance program that covers the company's different business lines and sound underwriting practices," A.M. Best added. The positive factors for the company's ratings are offset by the "slow dynamism" of the insurance market in Panama over recent years as well as strong competition that Aseguradora Ancón faces in its main segments, the ratings agency added. Aseguradora Ancón is Panama's seventh-largest insurer and has a market share of 3.1 percent as of June. The company's property and casualty products

NEWS BRIEFS

Florida Unit of Chile's BCI Completes Acquisition of Executive National Bank

City National Bank of Florida, a subsidiary of Chile's Banco de Crédito e Inversiones, has completed its acquisition of Miami-headquartered Executive National Bank, the South Florida Business Journal reported Oct. 16. The deal was first announced more than a year ago. The terms of the deal were not announced, and a bank representative declined to comment to the newspaper on the purchase price. Executive National Bank, which has $522 million in assets, has three branches in the Miami area.

Mexico Freezes More Than 1,300 Bank Accounts in Money Laundering Probe

Mexican authorities said Oct. 13 that they have frozen 1,352 bank accounts that purportedly laundered approximately $125 million on behalf of 14 criminal gangs, including some of the country's largest drug cartels, the Associated Press reported. Mexico City police chief Omar García Harfuch said some suspects and money found in recent raids were linked to the Jalisco Cartel, though he said independent criminals have been known to use the names of cartels to intimidate victims without actually belonging to the gangs.

Federal Reserve Clears Bradesco's Acquisition of Florida Bank

The U.S. Federal Reserve has approved Brazilian lender Banco Bradesco's acquisition of BAC Florida, Bradesco said in a securities filing, Reuters reported Oct. 8. The bank said it now has all required regulatory authorizations to proceed with the transaction. Bradesco reached a deal to buy Florida-based BAC in May of last year for approximately $500 million. It is the Brazilian bank's first-ever international acquisition, according to the report.

make up 63.2 percent of its business portfolio, with the remainder made up of life insurance products, including accident and health. The company's risk-adjusted capitalization follows a positive trend, A.M. Best added.

PAYMENTS NEWS

dLocal Expands Network to Three Countries in Region

Cross-border payment platform dLocal announced Oct. 8 that it is expanding its payment network to Costa Rica, Panama and the Dominican Republic. The company said it now supports more than 300 local payment methods in 23 emerging-market countries. In Latin America, it also offers services in Brazil and Mexico. dLocal specializes in payments in emerging markets and facilitates payments by depositing domestic currency directly into their bank accounts, according to the company's website. It works with 450 clients in several industries, including online retail, digital media, entertainment and travel. "The payments infrastructure in regions such as Latin America and the Caribbean is often complex and fragmented," Michel Golffed, the company's vice president of growth, said in a statement. "Companies that enter these markets without the ability to accept locally relevant payment methods are often unintentionally limiting their reach and hindering their growth." dLocal's expansion into the three countries in Latin America and the Caribbean came after it secured $200 million in new funding. It is using

> **"The payments infrastructure in regions such as Latin America and the Caribbean is often complex and fragmented."**
> **— Michel Golffed**

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what have been significantly home-biased portfolios. We believe the impact will also extend to local capital markets and the asset management industry. This happened in Mexico, which allowed for the trading of international securities through the Mexican Stock Exchange in 2003. The platform has grown to approximately $40 billion and today represents more than 45 percent of the trading volume on the exchange. We've also seen the local mutual fund market, and the offering, evolve as managers increasingly use ETFs as building blocks to offer international solutions. We believe we'll see similar impacts for capital markets and the asset management industry in Brazil."

A **Walter O'Leary, managing partner at South Pointe Capital, and Roberto Nemr, portfolio manager at FRAM Capital:** "The update by Brazil's Securities and Exchange Commission, known as 'Resolução CVM 3,' went into effect on Sept. 1, allowing nonaccredited Brazilian investors access to ETFs and international equities. This decision, according to Marcelo Barbosa, the president of the CVM, will enable a higher degree of flexibility to both issuers and investors as demand for portfolio diversification increases due to decreases in local interest rates to multi-decade lows. These changes come on the back of decisions by several highly visible Brazilian companies, such as Stone, PagSeguro and XP, to list their shares in the United States. Liquidity is the oxygen that allows company valuations to rise, and these listings were too important for the CVM to ignore. Therefore, the new regulation was aimed at attracting more liquidity to the local market. The depositary receipt market was created in the United States in the 1990s in order to capture investor interest in international companies. In the early days, the most actively traded issues became privatized state-owned enterprises and financial institutions. Telebrás became the most actively traded issue on the New York Stock Exchange in the mid to late 1990s. Therefore, the issuance of BDRs has a tried and tested infrastructure behind it. The main risk is the market cycle. Unsophisticated investors will chase tech stocks such as Tesla as opposed to Ford and General Motors. Caveat emptor."

A **Helder Soares, chief investment officer at Claritas:** "We think the recent change by Brazil's CVM regarding Brazilian depositary receipts, or BDRs, is a step in the right direction, especially due to higher demand for international diversification from local investors, both individuals and institutional. Basic interest rates in Brazil came down from more than 13 percent in the beginning of 2017 to 2 percent currently, triggering a search for international investment opportunities as Brazilians still have the vast majority of their resources allocated in local fixed income. In this context, the recent changes in BDR regulation were welcomed. The most important change was the broadening in asset classes eligible to be offered through BDRs. Prior to the change, only listed equities (with operations primarily outside Brazil) were allowed, and now debt instruments (both of Brazilian and international companies) and ETFs were included as accepted underlying assets. Another important change was the authorization for individual investors to be allowed to invest in BDRs if the underlying asset has its higher trading volume in an organized exchange and the issuer is supervised in the same jurisdiction by a security and exchange commission. Finally, the CVM also reduced

> **"The most important change was the broadening in asset classes eligible to be offered through BDRs."**
> **— Helder Soares**

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the venture capital funding to "aggressively add more than 13 markets to its coverage in the next 18 months," dLocal said in a statement. Through the expansion, merchants using dLocal's service in Costa Rica, Panama and the Dominican Republic can accept MasterCard or Visa credit cards issued by local banks. dLocal is also adding Panama's Tarjeta Clave debit card to its payment methods, and merchants in Costa Rica who use dLocal and want to add cash as a payment option will be able to accept Tucán Cash, a banking platform of Banco de Costa Rica that allows customers to make cash deposits at more than 4,300 service points including supermarkets and hardware stores, said dLocal.

POLITICAL NEWS

Mesa Concedes Defeat in Bolivia Presidential Election

Former Bolivian President Carlos Mesa on Oct. 19 conceded defeat in the country's presidential election, acknowledging that Luis Arce, the handpicked candidate of former President Evo Morales, had won, The Wall Street Journal reported. Quick counts that polling firms conducted showed that Arce, of Morales' Movement Toward Socialism, or MAS, party, had won the race. "The results from the quick count are overwhelming and very clear," said Mesa, who exit polls showed came in a distant second. "The difference between the first candidate and us, Citizens Community, is ample." Although the official results may not be available for days, Mesa said they will not change the outcome. "It's a result that we accept and it's a result that we believe, because of the difference between the first and second [finishers], will not be modified when we know the final results." Mesa's concession followed a statement early Oct. 19 by conservative interim President Jeanine Áñez, who tweeted congratulations to Arce. Áñez withdrew last month from the race, saying she wanted to help unite opposition against the MAS candidate. Arce, a former economy minister, won more than 50 percent of the vote, according to exit polls, while Mesa garnered around 30 percent, Reuters reported. [Editor's note: See related Q&A in the Oct. 20 issue of the daily Advisor.]

Arce (center) // Photo: Arce Campaign.

ADVISOR Q&A

Can Latin American Countries Replace Jobs Lost in the Pandemic?

Q The United Nations International Labor Organization said last month that at least 34 million jobs have been lost across Latin America due to the coronavirus pandemic, and it urged countries to adopt "immediate strategies" in order to deal with the unprecedented problem. What strategies and tactics can countries use to more quickly recover jobs? Which industries will governments in the region target for support, and should they invest more in strategic or nontraditional sectors to create new employment opportunities? To what extent will the jobs that have been lost come back once the pandemic eases, and what other problems will stem from the job losses?

A Salvador Paiz, president of FUNSEPA and board member of FUNDESA in Guatemala City: "We have been overwhelmed with data on infection rates and fatality rates stemming from the Covid-19 pandemic. However, the fatality rate of corporations, surging from the pandemic or the public policies to contain it, has not received the same level of attention. Corporations are at risk, particularly those with pre-existing conditions such as having exposure to tourism, or those in younger age-brackets, or those with smaller and medium-size builds. The death of these small- and medium-sized businesses has led to unfathomable amounts of job losses. Unlike a 'normal' crisis or macroeconomic cycle, this one has left behind massive economic tissue damage, which warrants a commensurate response. Countries in Latin America must act quickly to prevent permanent stunting and should take advantage of the dislocations caused by 'near-shoring' and the search for resiliency in global supply chains. Deliberate and country-specific efforts must be made toward identifying and stimulating synaptic growth toward sectors with high global demand and high market access, adjacencies in the product space and products with revealed comparative advantage, all as per Ricardo Hausmann's research. In addition, economic actors must be incentivized to make 'big bets' and to leapfrog into the product spaces of the future. The U.S. International Development Finance Corporation could play a critical role by bringing economic science and focusing resources to the post-Covid recovery. The region's governments are highly leveraged, and direct stimulus packages have all but dried up. The future policies must recognize those constraints and stimulate the regenerative growth of new and existing firms. Jobs will hopefully follow."

EDITOR'S NOTE: More commentary on this topic appears in the Oct. 15 issue of the Latin America Advisor.

NEWS BRIEFS

Thousands of Indigenous Protesters Demand Meeting With Duque

Thousands of Indigenous protesters took to the streets of Bogotá on Oct. 19, demanding a public meeting with Colombian President Iván Duque over reforms they say are crucial for their survival, the Associated Press reported. The group of nearly 5,000 protesters had traveled for more than week in buses and pickup trucks in a procession known as "the minga," an Indigenous term that refers to joint community action. The groups are protesting mining concessions and an increase in violence since the government's 2016 peace deal with the FARC rebels, the AP reported.

Protesters Set Fires, Loot Stores in Santiago Ahead of Vote on Constitution

Protesters in the Chilean capital of Santiago set fire to two churches, looted stores and confronted police on Oct. 18, a year after massive, months-long anti-government demonstrations unleashed and a week before the country is to hold a referendum on whether to rewrite its dictatorship-era constitution, The Wall Street Journal reported. Santiago's archbishop and the government of President Sebastián Piñera condemned the attacks.

Costa Rica to Open Borders to Tourists From Around the World Nov. 1

Costa Rica will open its borders to tourists from all over the world starting Nov. 1, Tourism Minister Gustavo Segura announced Oct. 16, the Tico Times reported. To be allowed into the country, visitors will have to purchase travel insurance and present a negative Covid-19 test taken 72 hours before departure. The changes to restrictions apply only to the country's air borders, and its land borders with Panama and Nicaragua will remain closed.

Ex-Mexican Defense Chief Accused of Taking Drug Money

Former Mexican Defense Minister Gen. Salvador Cienfuegos allegedly accepted bribes from a drug cartel in exchange for allowing it to ship tons of drugs, including cocaine, to the United States and also is accused of using his position to transmit information about investigations to organized crime leaders, according to an indictment unsealed on Oct. 16, The Wall Street Journal reported. Cienfuegos, 72, was arrested the previous day after he and family members landed at Los Angeles International Airport. Cienfuegos, who was Mexico's defense minister from 2012 to 2018 under then-President Enrique Peña Nieto, is the highest-ranking Mexican official ever to have been charged with drug-related offenses. Mexican President Andrés Manuel López Obrador said Cienfuegos' arrest showed that corruption is Mexico's largest problem. "I always said that it wasn't just a crisis, but a decadence that we were suffering from," López Obrador told reporters. Cienfuegos was unavailable to comment to The Wall Street Journal on the allegations, and Mexico's army declined to comment to the newspaper. The indictment, which alleges that corruption is deeply rooted in Mexico's military, claims that Cienfuegos used his position to aid the H-2 drug cartel, which is more commonly known in Mexico as the Beltrán Leyva organization. Cienfuegos was arrested on the request of the U.S. Drug Enforcement Administration and is expected to be transferred from Los Angeles to New York, where the case against him originated, the Associated Press reported. The case is seen as a major blow to Mexico's military, which recent presidents have deployed against drug cartels. Cienfuegos, nicknamed "the Godfather," engaged in direct conversations with the cartel's leader, U.S. prosecutors alleged. López Obrador added that Martha Bárcena, the Mexican ambassador to the United States, told him approximately two weeks before Cienfuegos' arrest that there was an investigation involving the former defense minister, the Associated Press reported. López Obrador also expressed confidence in the Mexican military's current leaders, whom he called "incorruptible." The president added that the current heads of the army and navy are not people Cienfuegos had recommended for their positions. [Editor's note: See related **Q&A** in the May 22 issue of the daily Advisor.]

ECONOMIC NEWS

Brazil, U.S. Reach Agreement on Limited Trade Deal

Brazil and the United States have reached an agreement on a limited pact that is expected to ease trade barriers, strengthen regulatory practices and fight corruption, officials from the two countries said Oct. 19, The New York Times reported. After seven months of negotiations, however, it is unclear to what extent the new deal will actually increase trade between the hemisphere's two largest economies, given its limited scope. During an event hosted by the U.S. Chamber of Commerce, Brazilian President Jair Bolsonaro on Oct. 19 said the agreement would begin a "new chapter" in U.S.-Brazil relations, adding that negotiators had completed talks "in record time." He also said the deal would "slash red tape and bring about even more growth to our bilateral trade." Brazil was the United States' eleventh-largest trading partner in goods in 2018. That same year, the United States exported $67.8 billion of goods and services to the South American nation, and it imported $37.2 billion of goods, The New York Times reported. Also on Oct. 19, U.S. Secretary of State Mike Pompeo said that the two countries should reinforce their business partnership, in order to "decrease each of our nations' dependence on critical items" from China, Reuters reported. "Each of our two peoples will be more secure, and each of our two nations will be far more prosperous, whether that's two or five or 10 years from now," Pompeo added. [Editor's note: See related **Q&A** in the June 15 issue of the daily Latin America Advisor.]

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the hurdles in the process of authorizing BDRs. Translation of the information regarding the issuers or ETFs is no longer required. The CVM also allowed ETFs to postpone for up to three months the disclosure of its full composition, making possible the existence of active ETFs in form of BDRs. BDRs of ETFs are granted automatic registration, significantly expediting the listening process."

A **Isabel Costa Carvalho, office managing partner at Hogan Lovells in Brazil, and Camila Ornellas Smith de Vasconcellos, visiting international attorney at Hogan Lovells in New York:** "Brazil's Securities and Exchange Commission has been softening requirements for fundraising by companies and expanding access to foreign markets for Brazilian investors. As of September, the CVM expanded the scope of BDRs' coverage, including by allowing BDRs to be backed by foreign shares issued by foreign companies; as well as by allowing titles of foreign debts traded in the foreign markets and issued by foreign companies or by publicly held Brazilian companies; and by allowing ETFs to be traded in the foreign market. Surely, these regulatory changes will increase access and reduce barriers for local investors to invest internationally, will foster Brazilian capital markets and increase the internationalization of Brazilian portfolios. At the same time, Brazilian companies have been offering shares in the international capital markets, especially in the United States, in addition to tapping the local market. Also, to the extent that such changes to the regulations make it easier for companies to raise money through the Brazilian stock exchange, an increase in liquidity in the local capital markets is likely to occur and may also affect allocation of local versus international offerings by Brazilian companies. The changes and purpose of the CVM's changes can only benefit the market, locally and internationally."

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

JOB POSTINGS

EDITOR'S NOTE: We are pleased to share Latin America-related job postings that companies reading the Advisor and others have posted recently.

Macquarie Group: Vice President, Energy (Renewables) Principal Investments, Latin America

Morgan Stanley: Executive Director, Fixed Income Research

Biotech Industry Organization: Biotech Industry Organization

Abbott Laboratories: Marketing Director, Americas

JP Morgan, CIB: Global Corporate Banking - Central America & Caribbean Coverage - VP

Center for Global Development: Director of Global Health Policy

Wilson Center: Mexico Institute Director

FINANCIAL SERVICES ADVISOR
is published biweekly by the
Inter-American Dialogue, Copyright © 2020

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Financial Services Advisor is published biweekly, with the exception of major holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
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