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FEATURED Q&A

Would the Region's Banks Benefit From U.S. Law Changes?

U.S. Treasury Secretary Steven Mnuchin has proposed major changes to the Dodd-Frank regulations, which were implemented after the 2008 financial crisis. // File Photo: U.S. State Department.

Q In a 149-page report released in June, U.S. Treasury Secretary Steven Mnuchin proposed sweeping changes to the Dodd-Frank regulations, which were implemented after the 2008 financial crisis. The report is part of the Trump administration's push to reduce and eliminate regulations in the country's financial services industry. What are the biggest implications for banks and other financial services providers in Latin America and the Caribbean of changes to Dodd-Frank? Will such changes present new opportunities for financial services companies in the region? Would changes to or elimination of Dodd-Frank mean any drawbacks for Latin American and Caribbean banks?

A Gene M. Smith, president and CEO of Smith Brandon International: "The Dodd-Frank Wall Street Reform and Consumer Protection Act was passed in 2010 to address issues related to the financial crisis of 2007-2008, including the accepted premise that many U.S. banks and financial institutions were too big to fail. The Dodd-Frank Act is a complex piece of legislation that amended and extended many earlier financial protections and regulations. Efforts have been underway under the Trump administration to replace this legislation with the equally complex Financial CHOICE (Creating Hope and Opportunity for Investors, Consumers and Entrepreneurs) Act. The House version of the bill passed in June 2017 on a party line vote. Under the leadership of Sen. Mike Crapo (R-Idaho), the Senate version is expected to contain substantial revision of the House bill. Political gridlock is

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Petrobras Official Suspended Over Potential Conflict

The Brazilian state oil company suspended its top compliance official over a potential conflict of interest stemming from a no-bid contract awarded to auditing firm Deloitte.

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Guatemala Leader Reportedly Seeks CICIG Head's Ouster

Guatemalan President Jimmy Morales is reportedly seeking the ouster of the chief of the U.N.-backed anti-graft chief in the country.

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POLITICAL

Venezuela's Ortega Claims to Have Evidence of Corruption

Luisa Ortega Díaz, who was fired as Venezuela's attorney general, claimed to have evidence of corruption involving Maduro and other top ruling party officials.

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Ortega // File Photo: Venezuelan Government.

POLITICAL NEWS

Venezuela's Ortega Claims to Have Evidence of Graft

Fired Venezuelan Attorney General Luisa Ortega Díaz claimed on Thursday to have evidence that President Nicolás Maduro and other top ruling party officials were involved in a corruption scheme with Brazilian construction conglomerate Odebrecht, Reuters reported. Ortega made the announcement from Brazil where she fled after she broke from Maduro's government and Venezuela's new powerful constituent assembly removed her from her position. While Ortega did not present proof of corruption by Maduro or his associates, she claimed to have evidence that Socialist Party official Diosdado Cabello received approximately $100 million from Odebrecht, which has admitted to bribing officials in several Latin American countries. She also alleged that Maduro and the ruling party's Jorge Rodríguez were also involved. "The international community must investigate such cases," she said. Venezuelan authorities did not respond to Reuters' request for comment. Maduro's government has accused Ortega of corruption, and on Wednesday, state-controlled television showed images of what it said were the inside of her apartment, showing marble floors, large paintings of Ortega, expensive clothes and high-end wines. Ortega has said the graft claims against her are politically motivated.

BUSINESS NEWS

Petrobras Suspends Compliance Official Over Contract

Brazilian state oil company Petrobras on Wednesday suspended its top compliance official over a potential conflict of interest, The Wall Street Journal reported. Petrobras' board voted to temporarily suspend João Adalberto Elek Jr. after determining that his division had awarded a no-bid contract to Deloitte while the

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widely anticipated. James Gorman, the CEO of Morgan Stanley, has said repeatedly that he thinks banks would be served well with some tweaks to Dodd-Frank, as opposed to its repeal. Other Wall Street professionals concur. Most of the Financial CHOICE Act's changes are domestic in focus (for example, reducing leverage requirements, addressing too-big-to-fail and cutting the Consumer Financial Protection Bureau) and may not specifically affect foreign banks. But a principle incorporated in the proposed act is a greater acceptance of both risk and failure, which could re-expose foreign banks to old financial risks, should U.S. banks fail. From our perspective, each financial institution needs to understand its own strengths and vulnerabilities. In Latin America, Brazil and the Caribbean, these entities need to ensure proper enforcement of know-your-customer, anti-money laundering and anti-fraud programs, and work to mitigate their individual risks. Dodd-Frank and the Financial CHOICE Act are at play in a dynamic, difficult environment where learning from the past does not seem to be the priority."

A **Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach:** "The deregulatory proposal presented by Secretary Mnuchin is focused on the U.S. domestic market, but given the degree of integration of the world financial system and the weight the United States carries in that system, any change in U.S. regulatory policy is bound to affect banks worldwide, including Latin American banks. On the plus side, the proposed reform is a breath of fresh air for small and community banks that are the sources of credit for small- and medium-sized enterprises. To be

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NEWS BRIEFS

Guatemalan President Reportedly Seeking Ouster of CICIG Chief

Guatemalan President Jimmy Morales plans to ask the U.N. Secretary General António Guterres to remove the head of the U.N.-backed International Commission against Impunity in Guatemala, or CICIG, which has been investigating corruption in the country, including probing Morales' family for suspected graft, two government officials said Wednesday, Reuters reported. Officials said Morales will travel to New York this week and ask Guterres to replace CICIG chief Iván Velásquez Gómez.

Brazilian Government Launches Plan to Privatize State Assets

The government of Brazilian President Michel Temer on Wednesday launched a plan to privatize highways, ports and the country's mint in order to raise revenues and boost investment in infrastructure, the Financial Times reported. Altogether, the government is eyeing 57 assets for possible auction, including São Paulo's city airport, Congonhas.

BTG Pactual's Broker-Dealer to Begin Operations in Two Weeks

São Paulo-based investment bank BTG Pactual's broker-dealer in Argentina will begin operations in the next two weeks, as the company looks to boost exposure to potential capital markets expansion in the country, Reuters reported Wednesday. BTG Pactual's head of sales and trading said the decision to open a broker-dealer in Argentina came after President Mauricio Macri enacted a series of business-friendly reforms, including lifting capital controls and carrying out a $120 billion tax amnesty. BTG Pactual is among the international banks expanding their trading and asset-management operations in Argentina.

auditing firm was in the process of hiring Elek's daughter. The one-year, $8 million contract had been awarded on an urgent basis in December 2015. Petrobras said it had hired Deloitte to investigate allegations of graft that the company had received via its corruption hot line. The director of governance and compliance's suspension came a day after Brazilian prosecutors filed charges against Petrobras' former chief executive officer, Aldemir Bendine, on accusations of soliciting bribes from construction conglomerate Odebrecht. Both Bendine and Elek had been brought on to Petrobras' management in 2015 with the stated purpose of helping to clean up the rampant corruption and mismanagement at the oil firm that had led to the "Operation Car Wash" corruption probe, which has implicated politicians and officials throughout Latin America. Bendine has denied wrongdoing. Petrobras did not immediately respond to a request for comment by Elek.

Elek // File Photo: Petrobras.

ECONOMIC NEWS

Brazil's Oil Regulator Releases Details of October Oil Auction

Brazilian oil regulator ANP on Wednesday unveiled the details of the country's upcoming pre-salt oil exploration auction set for Oct. 27, Reuters reported. Oil firms will be able to bid on production-sharing contracts in the Santos and Campos basins. Petrobras has extended its preferential rights on three of the blocks up for auction, meaning the state-run oil company can take at least a 30 percent stake in each of the blocks and share them with the winning bidders. Under the rules published Wednesday, however, Petrobras will have 30 minutes after the winning bidder is announced to decide whether it still wants to participate with the winning consortiums in the three fields. The new rules also change the criteria for choosing the operators as well as the system for submitting bids in the auction. The government is hoping the new rules will help speed up oil exploration and boost economic activity as Brazil struggles to emerge from its worst-ever recession.

THE DIALOGUE CONTINUES

What Did U.S. Vice President Mike Pence Accomplish on His Latin America Trip?

Q U.S. Vice President Mike Pence last week visited South and Central America, where he sought to reassure the region following comments from President Donald Trump of a possible military intervention in Venezuela, as its government teeters on the brink of dictatorship. Pence also looked to strengthen diplomatic, economic and security ties with U.S. allies in the region, including Argentina and Colombia. Was Pence successful in his damage-control efforts following Trump's threats of military intervention? What does Pence's visit signal about U.S. foreign policy priorities in the region? How strong will Latin American ties with the United States be during Trump's presidency?

A Juan Cruz Díaz, managing director, and Megan Cook, political risk specialist, at Cefeidas Group in Buenos Aires: "Pence's trip to Latin America continues a recent 'tradition' in U.S. politics of the office of the vice presidency taking a leading role in managing U.S. relations with Latin America, as happened under the Obama and Clinton administrations. The four-nation trip was afflicted by poor timing (coming on the heels of Trump's comments about military intervention in Venezuela and being overshadowed by events in Charlottesville). The crisis in Venezuela was a key theme in Pence's discussions with presidents. However, leaders across the board rebuffed Trump's insinuations of military intervention, saying force is not an option and that change must come peacefully. Nevertheless, the visit was a positive effort by the Trump administration to engage with key U.S. allies in the region and helped to smooth over some feathers ruffled by Trump's comments. Pence had to walk a fine line between not rebuking many of Trump's assertions and maintaining a united front with the president, while at the same time seeking to reassure the region that the United States can be a reliable ally. Although trade was a common focus of the visit, the U.S. administration has yet to articulate a clear and overarching set of objectives for its relationship with Latin America. As such, the bilateral announcements made during Pence's visit—including to allow Colombian Hass avocados into the United States and to restart U.S. pork exports to Argentina—were fairly limited in scope. Also in Argentina, Pence built on Trump's previous praise of the presidency of Mauricio Macri and his government's economic reforms, calling Argentina 'an inspiration for the continent and the world.' Although the vice president maintained a relatively low profile in Argentina, the visit demonstrated commitment from both sides to pursuing a strong bilateral relationship. For Argentina, this takes on particular importance ahead of its G20 presidency and the 2018 summit, where effective U.S. participation would be an indicator of success."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Wednesday's Advisor.

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sure, excessive regulatory burdens were drying this spring. SMEs are the vectors through which innovation runs into the economic nervous system, and choking them out of credit inflicts a severe blow to productivity increases over the medium and long run. Other aspects of Dodd-Frank include limits to shadow banking practices, protecting retirement savers from abuse; and disclosure requirements on derivatives and on payments to foreign governments, which is important for oil companies. Repealing Dodd-Frank could make bribery and other corrupt practices easier, as oil companies, which together with mining and infrastructure building companies are favorite targets for corrupt practices, will cease to have to report payments to foreign governments. Imagine what operation Lava Jato in Brazil would have been without the support of the U.S. Treasury in sharing information about Petrobras' financial transactions in the United States."

A **Jan Smith, partner at KoreFusion in Mexico City:** "There is perhaps misguided optimism about a repeal of Dodd-Frank creating a reverse of de-risking among U.S. banks dealing with Latin America, and Latin American banks being able to reduce the cost of compliance. First, the U.S. Senate must approve any changes, and the current political quagmire in Washington endangers the likelihood of this occurring. In the eyes of Latin American financial institutions, political instability in Washington implies that any changes to Dodd-Frank may only be temporary, and therefore there is little appetite to change the status quo. Indeed, the trend in Latin American is to increase the robustness of financial oversight laws within the context of money laundering and political transparency. A possible exception pertains to Chapter 14 of NAFTA relating to financial services, but if this actually occurs, it will be as a subordinate set of discussions. Our feedback from American financial institutions is that there was originally hope that a repeal would lighten the cost of compliance, but that has now evaporated and overshadowed by the fines brought against Citibank/Banamex for engaging in criminal activities and failing to investigate suspicious transactions."

A **Kai Schmitz, leader of FinTech Investment for Latin America at the IFC Global FinTech Investment Group:** "The Dodd-Frank regulation was an emergency response to the financial crisis and was created before the cause of the crisis was fully understood. The regulation contains many regulatory requirements that are unrelated to the crisis and arguably have proven to be ineffective and costly for banks. It makes sense to review the regulation and see what has not worked (or is no longer politically desired). Dodd-Frank extends to foreign banks through enhanced prudential requirements for systemically important foreign banks. The asset threshold set is the same as for U.S. banks, $50 billion, and is applicable on global assets if the foreign bank maintains an agency or branch in the United States, irrespective of the size of risk exposure to the United States. The proposals in the June report by the Treasury to the president address this issue by proposing that the 'application of enhanced prudential standards for [foreign banks] ... should be based on their U.S. risk profile ... and should not be based on global consolidated assets.' The report also specifically lists as one of the objectives to encourage 'foreign investment in the U.S. Banking System.' It also reinforces that domestic regulatory requirements of foreign banking organizations should be taken into consideration when assessing compliance in the United States. This sounds like good news for larger banks in the region that wish to participate more directly in the United States or re-engage. The larger question is whether it will get done, given the current structural problems in Washington."

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