



CROSS BORDER CURRENCY EXCHANGE BUSINESS OVERVIEW

Retail Currency Exchangers: Currency exchangers along the U.S.-Mexico border engage in licensed and regulated activity in both countries. Currency exchangers in both countries are designated as Money Services Businesses (“MSB”). The primary currency exchange involves the U.S. dollar (USD) and Mexican peso (MXP).

Bulk Currency Exchangers: These U.S. companies receive USD captured in Mexico by Casas de Cambio (Exchange Houses) or Centros Cambiarios (Exchange Centers) in exchange for MXP. The repatriated USD are converted to MXP through the banking system and typically wired to the MXP account of the Mexican exchange house or exchange center, or delivered physically to points of service for those entities. Generally, bulk currency exchangers conduct proprietary currency exchange arbitrage transactions using its corporate funding to obtain gains on FX discrepancies in the exchange market.

Geographic Market: The majority of the activity occurs along U.S.-Mexico border towns (SanYsidro-Tijuana, Calexico-Mexicali, McAllen-Reynosa, El Paso-Ciudad Juarez). In Mexico, Exchange centers abound at airports, tourist locations and U.S.-Mexico border localities. The physical currency most often traded is the U.S. Dollar, although exchange centers also capture Canadian Dollars, Euros, Pounds and other currencies. Bulk currency exchange providers also service non-currency exchangers (supermarkets, casinos, pharmacies, department stores and other businesses that capture USD along the U.S.-Mexico border).

Regulatory Trends: Prior to the stricter 2009-2011 regulations imposed on banks and other financial service companies in Mexico, there were over 7,000 duly registered exchange centers in Mexico. After the regulations, around 3,000 were formally registered. A growing concern is that a good number of the other 4,000 previously registered exchange centers have “gone underground” and may be facilitating money laundering activities. Under recently passed Mexican regulations, exchange centers are legally limited in the amounts of U.S. dollars they can deposit into bank accounts in Mexico. As a result, exchange centers are in need of a financial intermediary that will receive its U.S. bank notes in exchange for Mexican pesos.

Market Description and Source of Funds: Mexico is among the top 12 economies in the world, and the 4th largest in the Americas. Its proximity to the United States has naturally made for commercial interaction between individuals and businesses. Over 12 million Mexican nationals legally work and/or reside in the United States. It is estimated that millions more work in the United States without official status.

Regardless of the immigration status of these Mexican nationals, they are responsible for a flow of U.S. dollars to Mexico which amounts to billions in U.S. bank notes crossing over to Mexico



annually.¹ Once the currency arrives in Mexico, recipients or owners of the monies must exchange it for local currency---Mexican pesos. In Mexico, currency exchange can be legally conducted at banks, exchange houses (macro currency exchangers), investment firms and exchange centers (micro currency exchangers).

Growth of Currency Exchange Market: Several important factors have contributed to the growth of the U.S. Dollar exchange market in Mexico, including but not limited to:

- Free Trade Agreements
- In-Bound Investments (small and large) from U.S. to Mexico
- Tax laws making it prohibitive for multinational companies to repatriate profits from abroad
- A \$35 billion remittance market due to the immigrants living in the United States
- A culture in Mexico of saving money in U.S. dollars because of a history of devaluation of the Mexican Peso
- A large common border that promotes trade and U.S. bank note crossings
- Tourism

Typical Cross-Border Repatriation: Through contracted services with local remittance companies and value transportation companies, U.S. bank notes are collected from exchange centers (and other financial and non-financial firms) in Mexico. The currency that is collected is predetermined on exchange deals agreed to between the U.S. MSB and the exchange centers (amount of exchange, conversion rate to Mexican pesos, date of delivery, etc.). The currency is delivered to the U.S. where it is properly declared with both Mexican and U.S. customs. Once in the U.S., the U.S. MSB contracts the services of Brink's, Loomis or some other value transportation company to count the currency and deposit it to the U.S. MSB's operations account (U.S. bank or foreign bank). On occasion, the deposits are made by the transportation company crediting the target bank's Federal Reserve account.² Once the currency is credited to the U.S. MSB's account, a transfer is made to an FX account operated by the U.S. MSB for conversion to Mexican pesos. Delivery of the pesos can be accomplished in two ways: One, the pesos are wired to a contracted Mexican remittance company or other financial intermediary that, in turn, settles the cycle by delivering the Mexican pesos to each respective exchange center as

¹ Recent articles have also reported that many U.S. companies maintain cash reserves outside the U.S., including in Mexico, totaling in the billions of dollars. These companies include Microsoft, General Motors, Ford, General Electric, Exxon/Mobil, Pfizer, Google and Cisco.

² Deposits can also be accomplished by the delivery of funds to the target bank's designated cash counting room or vault.



per the instructions of the U.S. MSB. Or, two, the pesos are wired to an account of the exchange center in Mexico.

Compliance Obligations and Risks: Although financial service firms involved in the cross-border currency exchange market must have in place KYC/AML vetting procedures, the reality is that controls vary from entity to entity. Additionally, the “bulk” nature of the USD repatriation often makes difficult a retail analysis of the origin of the funds.

Current Status: Given the recent regulations in Mexico limiting the amount of bank notes that financial institutions can deposit, if at all, opportunities continue to expand for financial intermediaries well-versed in currency exchange and the Mexican market. U.S. MSBs can fill a void in the exchange market of U.S. dollars for Mexican pesos.

Banking Needs: MSBs servicing Mexican exchange centers, or other companies in need of USD repatriation services, must establish a relationship with a bank that has a strong compliance background and/or is willing to implement strategies and programs that will allow it to service the MSB’s banking needs consistent with regulations. Such banks would be the bank of first deposit for the MSB’s operations.

Law Enforcement Actions: The 2009 case involving Consultoria en Cambios Falcon S.A. of Huixquilucan, Mexico and the 2013 Florida federal prosecution of Casa de Cambio Unica executives, Martin Diaz and Enrique Guerra, as well as other cases, highlight the risks of money laundering and other illicit activity that can occur through this market.

Compliance Controls: A “closed loop” strategy is recommended for U.S. MSBs and banks to serve this market. A “closed loop” strategy is aimed at accounting for every bank note that is received for exchange, from the receipt at an exchange center, through the repatriation and exchange cycle, and concluding with the delivery of the exchanged currency back to Mexico. The retail level analysis at the point of customer capture is fundamental to the “closed loop” analysis.

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