

# PANEL: PUERTO RICO'S INTERNATIONAL FINANCIAL ENTITIES



Elizabeth McQueery



Michael Poignant



Ivanisse Morales

# IFEs in Brief

- Established by 2012 law building on a 1989 law establishing IBEs
- Dual purpose of providing financial services to non-residents and to Government of Puerto Rico
- Can offer a broad range of services



# IFEs Today

- 45 IFEs in operation in 2018
- Sector:
  - Assets > \$50 B
  - Loans > \$2.5 B
  - Deposits > \$18 B
  - Capital \$5



# Resources

***Expert Resource:***

Calixto Lanauze, MBA

IFE Group

[clanauze@ifegroup.org](mailto:clanauze@ifegroup.org)

+1.787.447.0254

***Expert Resource:***

Mohr World Consulting

[www.mohr.world](http://www.mohr.world)



Commissioner of Financial  
Institutions in Puerto Rico

<http://www.ocif.gobierno.pr/>





# International Bank System of Puerto Rico

*A contribution to the IMTC Conference*

*IMTC WORLD 2018*

*by Calixto Lanauze, IFE Group*

**IMTC**  
**WORLD**  
**2018**

# **International Bank System of Puerto Rico**

**November 2018**



**©2018 - Calixto Lanauze**

# Benefits of Establishing in Puerto Rico

- The Commonwealth of Puerto Rico has been a selected jurisdiction to establish International Banks because of the series of laws that have been enacted to enhance the attractiveness of establishing locally. These laws permit access to international markets while operating under the safety of the United States frame of law.



Favorable benefits offered by Puerto Rico include:

- Long-term legal and political stability, democratic form of government,
- Excellent geographical position with direct air and water access to many cities in the U.S. and other countries,
- A well-educated trained and bilingual workforce,
- Modern up-to-date communications facilities & connections to the world.

©2018 - Calixto Lanauze

## **Benefits of Establishing in Puerto Rico**

- 120 years of direct relationship with the United States of America,
- A U.S. dollar-based (\$) economy,
- Credible and consistent supervision by the Office of the Commissioner of Financial Institutions (“OCFI”); the Conference of U.S. State Bank Supervisors announced on 2016 that OCFI had been re-accredited for a period of five years, its 5th re-accreditation since 1994,
- Significant benefits for business, including customer preferences for banking institutions governed under U.S. laws, and businesses which adhere to U.S. regulations,
- Puerto Rico offers competitive advantage for attracting Latin American clients because of language and historic cultural ties within the region.

**©2018 - Calixto Lanauze**

## Benefits of Establishing in Puerto Rico

- The main economic factor which could influence the status is the sustainability of Act 273 of 2012. The Secretary of the Department of Economic Development of Puerto Rico issues the Grant of Tax Exemption to the Puerto Rico international operations, considered a contract between the International Financial Entities with the Government of Puerto Rico and the acting law between both parties,
- The official government decree for an International Financial Entity is to:
  - i. Have an initial 15-year tax decree with the Government of Puerto Rico, in which it pays a 4% income tax rate for the initial 15 years, the decree is renewable for an additional 15-year period without changes to the tax benefits, which means having the same tax rate of 4% for an aggregate period of 30 years
  - ii. There is an additional third 15-year decree (for a total of 45 years), in which period the tax benefits can be modified, but pay a low tax rate capped at 10%
- Other tax benefits

## Financial Institutions in Puerto Rico

- 11 U.S. domestic banks with presence in Puerto Rico, including FDIC-insured financial institutions, with a total asset size of \$65,907,408,000 and capital of \$7,708,628,000 as of April, 27 of 2018,
- 74 international financial institutions operating under one of two laws that regulate this activity: Act 52 of 1989 -29 IBEs-, and Act 273 of 2012 -45 IFEs-, with a total asset size of \$53,755,425,000 as of June 30, 2018,
- 114 Credit Unions in Puerto Rico, with a total asset size of \$8,802,000,000 as of June 30, 2018 according to the regulator COSSEC,
- There is an excellent opportunity to do business in Puerto Rico and expand the International Financial/Banking Entities operating; there are several other groups in the process of requesting an International Financial Entity license.

*Source: Office of the Commissioner of Financial Institutions of Puerto Rico and COSSEC as of November 2, 2018*

©2018 - Calixto Lanauze

# International Financial Institutions in Puerto Rico

## Regulatory Environment

- The international banks in Puerto Rico are regulated by the Office of the Commissioner of Financial Institutions (“OCFI”), the state regulator,
- The International Entities are incorporated under two (2) laws:
  1. Act Number 52 of August 11, 1989 (International Banking Center Regulatory Act) under which 29 are still operational as of 11/01/18,
  2. Act Number 273 of September 25, 2012, (International Financial Center Regulatory Act) under which 45 licenses are operating.

## Requirements

- Per Act 273 of 2012, at inception, an International Financial Entity's authorized capital stock and the initial paid-in capital shall be, in the case of a corporation, the authorized amount of its capital stock shall not be less than five million dollars -\$5,000,000-, or a higher amount as required by the Commissioner, out of which at least the sum of two hundred fifty thousand dollars -\$250,000- shall be fully paid at the time the license is issued, which sum shall be considered the initial paid-in capital for the purposes of this Act,
- As a requirement to obtain a license, in addition to the initial paid-in capital, every international financial institution shall possess not less than three hundred thousand dollars -\$300,000- of unencumbered assets or acceptable financial securities.

## Permitted Business for IFEs

Upon authorization of the Office of the  Commissioner of Financial Institutions of Puerto Rico:

1. Accept deposits from foreign persons in checking accounts, as well as demand or term deposits, including interbank demand deposits and fund deposits, or otherwise borrow money from international financial institutions and from any foreign person pursuant to the Regulations of the Commissioner. Every international financial institution may borrow money on loan, provided, that said transactions are not tantamount to the acceptance of deposits,
2. Accept properly collateralized deposits or otherwise borrow duly secured money from the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico,
3. Make or place deposits in, and otherwise give money on loan to, the Government Development Bank for Puerto Rico, the Economic Development Bank for Puerto Rico, any international financial institution, or any bank, including banks organized under the laws of Puerto Rico, and branches in Puerto Rico of banks that are foreign persons.

*Source: Office of the Commissioner of Financial Institutions of Puerto Rico as of November 2, 2018*

**©2018 - Calixto Lanauze**

## Permitted Business for IFEs

4. Make, procure, place, guarantee, or service loans; none of such loans may be granted to a domestic person, except as provided with regard to the activities in cases of financial securities for debt issue transactions in Puerto Rico, subject to the approval of the Commissioner,
5. Issue, confirm, give notice, negotiate, or refinance letters of credit or issue, confirm, give notice, negotiate, or refinance letters of credit in transactions for the financing of exports,
6. Discount, rediscount, deal or otherwise trade in money orders, bills of exchange, and similar instruments; provided, that the drawer and the original debtor is not a domestic person,
7. Invest in securities, stocks, notes, and bonds of the Government of Puerto Rico exempt from the payment of taxes in Puerto Rico.

## Permitted Business for IFEs

8. Carry out any banking transactions allowed by this Act in the currency of any country, or in gold or silver, and participate in foreign currency trade,
9. Underwrite, distribute, and otherwise trade in securities, notes, debt instruments, drafts, and bills of exchange issued by a foreign person for final purchase outside of Puerto Rico.
10. Engage in trade financing of import, export, barter and exchange of raw materials and finished products activities with domestic persons,
11. Engage in any activity of a financial nature outside of Puerto Rico which would be allowed to be done, directly or indirectly, by a bank holding company or by a foreign office or subsidiary of a United States bank under applicable United States law.

## Permitted Business for IFEs

12. Act as fiduciary, executor, administrator, registrar of stocks and bonds, property custodian, assignee, trustee, attorney-in-fact, agent ,or in any other fiduciary capacity,
13. Acquire and lease personal property at the request of a lessee who is a foreign person, pursuant to a financial lease agreement that complies with the Regulations of the Commissioner,
14. Buy and sell securities outside of Puerto Rico, on the order of, or at its discretion, for foreign persons and provide investment advice in relation to such transactions or separate therefrom, to such persons,
15. Act as a clearinghouse in relation to financial contracts or instruments of foreign persons, as authorized by regulations adopted by the Commissioner,
16. Organize, manage, and provide management services to international financial institutions, and other types of financial entities located outside of Puerto Rico, such as investment companies and mutual funds, provided, that the stock or participation in the capital of such companies is not distributed directly to domestic persons.

## Permitted Business for IFEs

17. Engage in such other activities as are expressly authorized by the regulations or order of the Commissioner, or are incidental to the execution of the services authorized by Act 273 and the Regulations of the Commissioner,
18. Participate in the granting and/or securing of loans that originate and/or are secured by the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico,
19. Upon approval of the Commissioner, participate in the granting and/or securing of loans originated and/or secured by any bank considered a domestic person, excluding transactions between any bank considered a domestic person and an affiliate entity. These transactions shall only be authorized for the remainder of the calendar year in which this Act is approved and the five (5) calendar years thereafter.

©2018 - Calixto Lanauze

## Permitted Business for IFEs

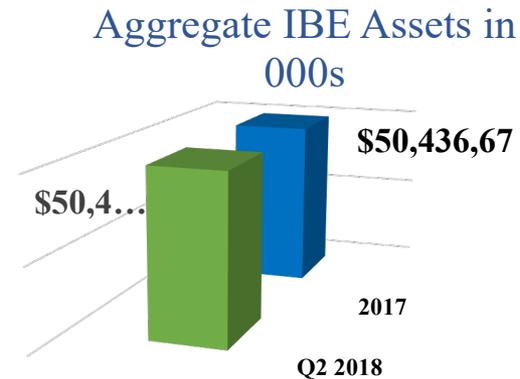
20. Upon authorization of the Commissioner, acquire classified or bad loans, as well as any personal or real property (tangible and intangible) that serves as collateral for such loans, from any bank considered a domestic person or from any branch of a foreign bank in Puerto Rico. This includes the execution of the collateral related to the aforementioned loans and the sale of property serving as collateral for said loans,
21. Finance, through loans or financial securities, projects in areas of priority for the Government of Puerto Rico in those cases designated as extraordinary by the Secretary of the Treasury and the Commissioner,
22. Establish, upon authorization of the Commissioner, branches outside of Puerto Rico, in the continental United States and its possessions, or in other foreign countries; provided, that said branches do not accept any kind of deposit.

## Permitted Business for IFEs

22. Establish a service unit or office in Puerto Rico, in which only specific operations related to the services of the international financial institutions shall be conducted, in the manner and form prescribed by regulations, but, by no means, shall said service unit or office constitute a branch,
23. Provide to other international financial institutions or to foreign persons outside of Puerto Rico, those services of a financial nature, as these are defined and generally accepted in the banking industry of the United States and Puerto Rico,
24. Engage in rendering of the following services: (i) asset management; (ii) alternative investment management; (iii) management of private capital investment activities; (iv) management of hedging funds or high risk funds; (v) pools of capital management; (vi) administration of trusts that serve to convert different groups of assets into securities; and (vii) escrow accounts administration services; provided, that such services are offered to foreign persons.

# International Banks in Puerto Rico- Act 52

- Number of International Banking Entities in Puerto Rico- 29 as of June 30 of 2018
- Number of (in 000s):
  - Assets \$50,469,943
  - Securities \$6,266,534
  - Loans \$2,405,235
  - Deposits \$18,426,633
  - Capital \$5,321,448



*Source: Office of the Commissioner of Financial Institutions of Puerto Rico as of November 2, 2018*

©2018 - Calixto Lanauze

# International Banks in Puerto Rico- Act 273

- Number of International Financial Entities in Puerto Rico- 45 as of June 30 of 2018

- Number of (in 000s):
  - Assets \$3,285,482
  - Securities \$18,902
  - Loans \$80,999
  - Deposits \$2,866,648
  - Capital \$155,822

The International FIs in Puerto come from a myriad of places around the world, including North America, Central and South America, Europe and the Far East.



*Source: Office of the Commissioner of Financial Institutions of Puerto Rico as of November 2, 2018*

©2018 - Calixto Lanauze