

PR Governor Presents Bill to Allow IFEs and IBEs to Offer Commercial Loans; Amendments to Acts 273-2012 and 52-1982 Also Introduced

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On January 28, 2019, Governor Ricardo Rosselló presented a bill which would authorize International Financial Entities (IFEs) and International Banking Entities (IBEs) organized under Act 273-2012 and Act 52-1989, respectively, to offer commercial loans to Puerto Rico residents and companies doing business in Puerto Rico. The bill also introduces amendments to Acts 273-2012 and 52-1982. According to the Governor's press release, the proposed bill forms part of the Administration's effort to attract additional foreign capital to the Island.

Under the current statutory framework, IFEs and IBEs are not allowed to offer loans to Puerto Rico domiciled persons or entities, except in certain limited cases. The proposed legislation, however, would allow the Office of the Commissioner of Financial Institutions to authorize IFEs and IBEs to provide commercial loans in Puerto Rico. This lending activity would be subject to payment of income taxes and municipal license taxes at the same rates applied to commercial banks, but would not affect the current tax incentives for the IBEs and the IFEs.

The proposed amendments to Acts 273-2012 and 52-1982, which would affect all IFEs and IBEs regardless of whether they engage in providing commercial loans domestically, include:

- Requiring all IFEs and IBEs to set up a corporate governance structure that must include a board of directors composed of no less than three members.
- Requiring IFEs and IBEs to pay the OCFI significantly higher permit and license application fees, and also for the renewal of existing licenses. These fees would vary depending on the type of applicant or licensee.
- Requiring IFEs and IBEs to increase from \$300,000 to \$1 million the amount of unencumbered assets that must be maintained in Puerto Rico and subject to the requirements of the OCFI.
- Paying to the OCFI certain fees for transactions involving the transfer of control or the first-time transfer of 10% or more of the IFE's or IBE's capital to a non-affiliated entity.

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- Eliminating the possibility of establishing a unit by an entity that is not a bank or a subsidiary of a bank holding company.

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