2024 Amendments to Acts 52 and 273: Regulatory Implementation and Industry Response

AGENDA

- 2025 Industry X-Ray
- 2024 Amendments: Industry Impact and Response
- Proposed Regulations: Capital, Activities, Unencumbered Assets, Staffing and Local Presence
- International Banking Landscape and New Business Models
- Regulatory and Supervisory Challenges
- Looking Ahead and Strategic Initiatives

2025 Industry X-Ray

a. Current licenses:

IBE's – Act 52-1989 – number of licenses Active and Active Pending Renewal -17

IFE's – Act 273-2012 – number of licenses Active and Active Pending Renewal - 36

b. Entities in Administrative Process or Liquidation Process:

Voluntary and Involuntary Liquidation – IBE's – 4 / IFE's - 10

Administrative Proceedings – IFE's - 2

c. Entities Liquidated or the license was Cancelled

IBE's - Liquidated or Cancelled between the 2024 and 2025 – 4

IFE's - Liquidated or Cancelled between the 2024 and 2025 – 7

d. Financial Situation

Total Deposits – IBE's($2,827,764,000) IFE's ($826,727,000)

Total Assets – IBE's ($77,366,940,000) and IFE's ($1,303,101,000)

Total Equity – IBE's ($5,207,550,000) and IFE's ($350,128,000)

e. Capital Plans

Total number of capital plans submitted that met the requirements - 17

Total number of capital plans submitted but did not meet the requirements - 20

Total submitted - 37

Entities that met the capital requirements therefore did not submit plans - 14

f. Applications

In Process – One (1) application is in process to grant the Permit to Operate

Issued – One (1) IFE license was granted in 2024 and to date one (1) in 2025.

Denied - One (1) application was denied in 2024 and another in 2025.

Withdraw – One (1) application was withdrawn in 2025

2024 Amendments to Acts 52 and 273: Impact and Response

BACKGROUND, OBJECTIVES AND IMPACT ON CRITICAL ELEMENTS

- Emphasis on supervisory policy of requiring full transparency in business plans, financial reporting and compliance in operations
- Amendments sought to modernize and establish by law formal requirements for capital, employees, unencumbered assets, staffing, other areas
- OCFI supervisory policy placed greater emphasis on exams and attestations for license renewal process, and ensure responsiveness to findings
- Key role of independent assessments – ensure awareness and implementation of industry best practices
- OCFI acted on the urgent need for timely and effective intervention with weakened or non-compliant entities

2024 Act Amendments: Impact and Response – Cont. -

IMPACT: INDUSTRY RESPONSE AND ENHANCED OCFI REVIEW PROCESS

- Industry Response and Pattern of Disciplined Interaction with the OCFI
- PRIBA Membership – Industry Awareness and Collaborative Education and Participation
- Impact on Review of Applications for New IFE Licenses and Renewals:
    - OCFI's First Line of Defense / Costs / Level of Review
- Impact on Potential Acquisitions: OCFI is neutral in dealings between parties, but new investors must conduct due diligence and provide comprehensive information for approval
- OCFI Rulings must be requested for incoming & existing companies to waive, temporarily postpone, or approve reduce new requirements (case by case) under the Laws
    - Minimum paid-in capital ($10 million for depositaries)
    - *Staffing* and significant resources for office and operations in Puerto Rico
    - Yearly increase of unencumbered assets up to $1.5 million (w/ expanded range of assets)

Proposed Regulation: Capital, Activities, Unencumbered Assets, Staffing, Compliance and Strong Local Presence

Status, final consideration process, and likely approval date

> *Received comments on over 100 Items*
>
> *Roundtable for discussion prior to final approval*

Key Themes:

- Capital: Start-up, ratios
- Permitted Activities & Express Prior Approvals
- "Staffing" and scope of operational presence in Puerto Rico
- Strong Governance: Independent Director required
- Change of control – OCFI review of investors and business plans; due diligence to assess existing and potential liabilities of acquired entity
- AML/BSA/OFAC compliance program to meet risk profile; processing “red flags” and SARs
- Training of Directors and Staff

International Banking Landscape and New Business Models

- Fintechs – from the US, LATAM, Europe and Asia
  - Dual roles: Potential investors and service providers
  - Payment system providers (e.g. BaaS and Saas agreements)
  - Affiliations to issue payment and credit cards
- Expansion of activities with digital assets
  - Custody - Act 273; potential rulings under Acts 273 and 52
  - Federal guidance: OCC IL 1183, developing discussions in agencies
  - Developments in federal law (Stablecoins and GENIUS Act)
- Precautionary considerations
  - Case-by-case evaluation: Legal scope of permissible activities must be coupled with sound execution
  - Required capital investment (sustained capability to hire and maintain experienced staff/IT resources)
  - Third Party Risk Management: Selection and monitoring of service providers and payment rails
  - Tailored AML/BSA/OFAC compliance program and record-keeping

International Banking Landscape and New Business Models

- Attractive Business Model: Adding a depository institution to group or network of providers
    - Advantages of an IFE:
        - Scope of activities – including deposit-taking
        - No requirement for FDIC insurance and regulation
        - US Dollar-based business and potential access to US payment system
        - Strong compliance environment
- Factors for consideration
    - Financial support for initial and on-going investments to account for growth
    - Strong IT and compliance systems capability
    - Need to understand global market and players
    - Must be aware of cross-border legal issues (i.e., regulatory requirements in host jurisdictions)

Regulatory and Supervisory Challenges for the OCFI

a. Budget and personnel
b. Emphasis on greater rigor in examinations and compliance monitoring
c. Submitting a change of control without having performed the proper due diligence.
d. Challenge of authorizing and monitoring new activities
    - Increase in the number of licenses and adapt to greater diversity of activities
e. Access to the Federal Reserve Bank of New York (FRBNY)
    i. Master Account
    Ii. Considerations on the regulatory environment of PR
    Iii. Experience with existing accounts and new applications
f. Enforcement Authority of FinCEN
g. Accreditation status in the CSBS
h. Upcoming NMLRA of 2026 – PR in 2022 was portrayed as vulnerable

Looking Ahead and Strategic Initiatives

- Final approval and full implementation of the New Regulation
- Continue to evaluate changes required to adapt to new types of business and regulatory changes in US
- Impact of global developments and regulatory tendencies
- PRIBA Initiatives
- OCFI initiatives in its operations and IT systems
- Global Financial Center Index
- Invest PR
- Overall objectives: **Compliance/Sustainability/Value Creation**

Questions?
Thank you