

(H. B. 843)

(No. 114-2001)

(Approved August 17, 2001)

AN ACT

To restructure the Shares and Deposits Insurance Corporation for Cooperative Savings and Credit Unions; redefine its ends and purposes; provide for its organization, capital structure, and eligibility standards so that cooperative savings and credit unions may avail themselves of the Shares and Deposits Insurance; authorize it to regulate the operations of cooperatives to safeguard their financial solvency and empower it to impose penalties for violations of this Act; repeal subsection (17) and renumber subsection (18) as subsection (17) of Section 4; and amend subsection (a) and the first paragraph of subsection (b) of Section 8 of Act No. 4 of October 11, 1985, as amended; to repeal Act No. 5 of January 15, 1990, as amended, known as the “Shares and Deposits Insurance Corporation for Cooperative Savings and Credit Unions Act,” and transfer all the functions and powers of the Commissioner of Financial Institutions and other public agencies related to cooperative savings and credit unions.

STATEMENT OF MOTIVES

At present, the Cooperative movement is managed by four government agencies; three of them are of a regulatory nature and the other is promotional. They are:

- The Commissioner of Financial Institutions;
- The Shares and Deposits Insurance Corporation for Cooperative Savings and Credit Unions (PROSAD-COOP);
- The Inspector of Cooperatives; and
- The Cooperative Development Administration.

This government structure is redundant and inefficient for the following reasons:

1. The dual supervision by the Commissioner and PROSAD-COOP unnecessarily increases the costs of Cooperatives, in terms of the examination fees paid individually, as well as in the cost of personnel of PROSAD-COOP, which is totally defrayed by the Cooperative Savings and Credit Unions.

2. The process for obtaining permits are delayed and complicated, specifically by the application of different parameters of evaluation.

3. Contrary to the incorporation process of a regular corporation, the cooperative entities formation process is fully regulated; therefore, it is slow, costly, and tedious.

4. The functions of the Office of the Inspector of Cooperatives have been affected by the lack of adequate resources.

This situation is incompatible with the development of the Cooperative Movement of Puerto Rico, which is vested with great public interest. Furthermore, the present structure is inconsistent with the advances of the public policy of the Commonwealth for the Cooperative Savings and Credit Unions, which is founded on the following postulates:

- To promote a fair, efficient, and effective oversight and supervision.
- To allow the free offering of products and services by the cooperatives.
- To enable the channeling of financial resources towards the financing of productive activity, particularly to small- and medium-size merchants, cooperative enterprises and self-management projects.

- To expedite the creation of corporate and cooperative structures to enable the entrance of Cooperative Savings and Credit Unions that enjoy a solid financial and managerial condition, in activities permitted to other participants of the financial market.
- To enable the economic integration of the savings and credit sector to other productive sectors.

In order to enable the implementation and advancing of these principles, this Act is hereby adopted to consolidate the supervisory powers under the cooperative and financial laws.

Pursuant to the above, the number of members of the Financial Board in the Office of the Commissioner is increased from seven (7) to eleven (11) members, including the Commissioner.

BE IT ENACTED BY THE LEGISLATURE OF PUERTO RICO:

Section 1.- Title of the Act.-

This Act shall be known as the “Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico Act.”

Section 2.- Declaration of Public Policy.-

It is the public policy of the Commonwealth of Puerto Rico to watch over the integrity, solvency, and financial strength of the Cooperative Movement of Puerto Rico. An essential part of said public policy and an essential responsibility of the State is to conduct a fair, equitable, and effective supervision and oversight of the Cooperatives, according to the following principles:

(a) The duty to fully oversee and supervise the Cooperative Savings and Credit Unions as well as their operations, products, and services shall be exclusively consolidated and unified in the Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico.

(b) The adoption of public policy and regulations of the Cooperative Movement by the Corporation shall include the representation of Insured Cooperatives, as provided below in this Act.

(c) Those matters germane to the governing processes of the Cooperatives whose affairs do not present or imply relative risks to the economic, financial, juridical, or moral integrity of said institutions or of its members shall be subject to self-regulation under those rules that are adopted by the Corporation with the approval of its Board, as provided below this Act.

Section 3.- Definitions.-

For the purposes of this Act, the following terms and phrases shall have the meaning stated below:

(a) “Shares” - means the contribution made by a member of a Cooperative to the capital of the enterprise.

(b) “Bank” - means the Government Development Bank created by Act No. 17 of September 23, 1948, as amended.

(c) “Capital” - means the money that Insured Cooperatives contribute to the Corporation pursuant to this Act.

(d) “Commissioner of Financial Institutions” - means the official designated by the Governor to direct the Office of the Commissioner of Financial Institutions pursuant to Act No. 4 of October 11, 1985, as amended, known as the “Office of the Commissioner of Financial Institutions Act.”

(e) “Cooperative” - means every cooperative entity duly constituted and authorized to operate as such, pursuant to the laws of the Commonwealth of Puerto Rico, including Cooperative Savings and Credit Unions.

(f) “Cooperative Savings and Credit Union” - means every Cooperative Savings and Credit Union entity, savings and credit federation, duly constituted and authorized to operate as such, pursuant to the laws of the Commonwealth of Puerto

Rico. This term also includes the Cooperative Bank, for the purpose of its insurability by the Corporation under the special terms and conditions provided in this Act.

(g) “Insured Cooperatives” - means the Cooperative Savings and Credit Unions that have availed themselves of the shares and deposits insurance provided by the Corporation.

(h) “Corporation” - means the corporate entity designated as the Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico, created by this Act.

(i) “Depositor” - means any natural or juridical person that maintains deposits in a Cooperative Savings and Credit Union.

(j) “Deposits” - means all assets, except shares, owned by a partner and/or depositor in a Cooperative Savings and Credit Union that are evidenced by certificates of deposits, savings accounts, checking accounts, individual retirement accounts, Christmas funds, or any other similar financial instrument.

(k) “Emergency” - means the condition of a Cooperative that implies an extremely high probability of failure or of insufficient liquidity, whether immediately, or at a short term, that would imply the disbursement of funds of the Corporation to the members or insured depositors, or the risk of losses for partners of uninsured Cooperatives.

(l) “Federation” - means the Cooperative Savings and Credit Union Federation organized pursuant to Act No. 6 of January 15, 1990, as amended, also known as the “Cooperative Savings and Credit Unions Act.”

(m) “Fund” - means the Cooperative Credit and Savings Union Shares and Deposits Insurance Fund.

(n) “Board” - means the Board of Directors of the Corporation.

(o) “Central Cooperative Body” - means those entities or cooperative bodies whose only partners, shareholders, or members are Cooperatives. This term includes the League of Cooperatives, the Cooperative Bank, the Multiple Insurance Cooperative, and the Life Insurance Cooperative.

(p) “Extraordinary losses” - means the losses incurred by the Corporation in an operating year in excess of the amount of net income of said year, including interest, plus twenty-five (25) percent of the accrued reserves balance.

(q) “Incurred losses” - means the claims the Corporation is bound to pay for shares and deposits insurance, as provided in this Act, in an operating year. When determining said losses, the claims reported and paid during said year shall be included, as well as those reported during the course of said year that are outstanding at the close of operations, plus a certified actuarial estimate of those claims deemed as incurred during said year and that have not been identified or reported, for which it is deemed prudent to acknowledge the corresponding obligations.

(r) “Executive President” - means the chief executive officer who is responsible for the direct management and daily operations of the Corporation.

(s) “Special Premium” - means the premium added to the regular premium that may be imposed on the Cooperative Savings and Credit Unions that have availed themselves of the Shares and Deposits Insurance, for the payment of extraordinary losses and special or additional coverage decreed by the Corporation.

(t) “Regular Premium” - means the annual amount to be paid by Cooperative Savings and Credit Unions for shares and deposits insurance, computed on the basis of assessment rates to be prescribed by the Corporation from time to time.

(u) “Supplementary Premium” - means the premium additional to the regular premium that may be adopted for special or additional coverage decreed by the Corporation.

(v) “Reserves” - means the accrued total of resources generated in the course of operations, excluding the capital that is encumbered to handle obligations.

(w) “Shares and Deposits Insurance” - means the insurance and guarantee to be provided by the Corporation to partners and depositors of a Cooperative Savings and Credit Union that their shares and deposits shall be protected up to a certain amount, against losses.

(x) “Member” - means every nonprofit natural or juridical person that is admitted as a member of a Cooperative.

Section 4.- Powers of the Corporation.-

(a) The corporate entity denominated “Shares and Deposits Insurance Corporation for Cooperative Savings and Credit Unions” created by virtue of Act No. 5 of January 15, 1990, as amended, is hereby redesignated as the “Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico.” The juridical, operational, and financial continuity of said corporate entity is hereby provided, subject to the provisions of this Act as of its approval.

(b) The Corporation shall have the primary responsibility of:

(1) Overseeing and supervising in a comprehensive and consolidated manner the Cooperative Savings and Credit Unions that operate or do business in the Commonwealth of Puerto Rico, exclusively ensuring the faithful compliance by said Cooperative Savings and Credit Unions of all present and future laws regarding their operations, businesses, products, and/or services.

(2) Providing shares and deposits insurance to all Cooperative Savings and Credit Unions, as required by this Act; provided, that the application of said insurance to the Cooperative Bank shall be optional and not compulsory.

(3) Seeing to the economic solvency of Cooperatives, particularly those of Savings and Credit Unions.

(4) Seeing to the rights and prerogatives of the partners of every Cooperative, protecting their financial interests, their right to be informed and preventing deceitful and fraudulent practices in the offer, sale, purchase, and any other transaction for, or with respect to, the shares of Cooperatives.

(c) In order to vest the Corporation with full powers and faculties to perform the duty of comprehensive and consolidated oversight and supervision of Cooperative Savings and Credit Unions, all the functions, powers and duties of the Office of the Commissioner of Financial Institutions, the Office of the Inspector of Cooperatives, the Secretary of the Treasury and of any other agency, body, or government entity related to the supervision, monitoring and implementation of the following provisions of law, as they apply to the Cooperative Savings and Credit Unions, their affiliates, and their businesses and operations, are hereby transferred to the Corporation:

(1) Act No. 6 of January 15, 1990, as amended, known as the “Cooperative Savings and Credit Unions Partnership Act of 1989”; Act No. 50 of August 4, 1994, known as the “General Cooperatives Association Act of Puerto Rico”; Act No. 106 of June 28, 1965, as amended, known as the “Small Personal Loans Act”; Act No. 97 of June 5, 1973, as amended, known as the “Mortgage Institutions Act”; Act No. 20 of May 8, 1973, as amended, known as the “Personal Property Lease Institutions Act”; Act No. 76 of August 13, 1994, as amended, known as an “Act to Regulate Personal Property Lease Contracts”; Act No. 106 of August 6, 1996, known as an “Act to Regulate Money Transactions Business”; Act No. 131 of July 23, 1974, as amended, known as an “Act on the Transfer of Funds Abroad”; Act No. 60 of June 18, 1963, as amended, known as the “Uniform Securities Act”; Act No. 6 of October 19, 1954, as amended, known as the “Investment Companies of Puerto Rico Act”; Act No. 17 of April 18, 1933, as amended; Act No. 10 of March 7, 1951; Act No. 68 of June 19, 1964, as amended,

known as the “Installment Sales and Financing Companies Act”; Act No. 214 of October 14, 1995, as amended, known as the “Act to Regulate the Financial Mediation Business”; Section 1169 of Act No. 120 of October 31, 1994, known as the “Puerto Rico Internal Revenue Code of 1994.”

(2) The faculties and powers of the Corporation to grant licenses, permits, and authorizations pursuant to the above cited Acts are limited to the exercise of such faculties in their application to Cooperative Savings and Credit Unions, their affiliates, and to the businesses and operations thereof.

(3) With the exception of the Office of the Inspector of Cooperatives, all property, documents, sums unspent or unencumbered funds from the appropriations, items, and other funds on hand and under the custody of the agencies devoted to the administration of the laws referred to in clause (c)(1) of this Section, specifically with regard to cooperatives, are hereby transferred to the Corporation. The transfer of functions, property, assets, and funds contemplated in this Act does not imply the transfer of personnel of any of the agencies concerned. Provided, however, that the Corporation and the transferring agencies may, by mutual accord, coordinate and agree on the assignment or transfer of specialized personnel.

(4) Every formal adjudicative procedure, whether administrative or judicial, that on the effective date of this Act has been initiated, shall conclude in, or under the control of the agency that initiated it. Any other matter for which, on the abovementioned date, a formal adjudicative procedure, whether administrative or judicial, has not been initiated, shall be remitted to the Corporation with a status report and recommendations for its subsequent processing and attention by the Corporation. The remitting of said matters must conclude on or before ninety (90) days after the approval of this Act, unless the Executive Director and the head of the

corresponding agency agree to postpone the transfer, which postponement shall not exceed one hundred and eighty (180) days.

(5) All those laws, regulations, orders, permits, memoranda of understanding, circular letters, and administrative decisions in effect on January 1, 2001, applicable to Cooperatives, issued by the transferring agencies, shall remain in effect until they are modified or rendered ineffective by the Corporation.

(d) In order to discharge its functions and responsibilities, the Corporation may exercise all the powers, privileges, and immunities required therefor, including the following:

(1) Execute all those acts and contracts that are necessary to implement this Act and to exercise the powers herein conferred thereto.

(2) Adopt, alter, and use an official seal, of which judicial notice shall be taken.

(3) To sue and be sued.

(4) Acquire, hold, encumber, transfer, or otherwise administer, use, and dispose of real and personal property.

(5) Control and decide on the nature and need of all its expenses and the manner that they shall be incurred, authorized, and paid.

(6) Accept any type of financial aid, including subsidies, grants, advances, and other transfers from the Government of the Commonwealth of Puerto Rico and of the Government of the United States of America and its agencies, departments, instrumentalities, public corporations, and political subdivisions.

(7) Grant reinsurance contracts for the total amount or part of the assumed risk, retaining the maximum risk commensurable with its resources.

(8) Issue short- and long-term obligations to execute its corporate purposes, offering its assets as security, if necessary.

(9) Act as receiver or trustee of any Insured Cooperative that is subject to a receivership or liquidation procedure.

(10) Operate as supervisory body of Cooperatives. Provided, that with respect to the Cooperative Bank, the Office of the Commissioner of Financial Institutions is the supervisory agency; with respect to insurance cooperatives, the Commissioner of Insurance is the supervisory agency; provided, further, that with respect to Cooperatives other than savings and credit unions, all oversight functions carried out by the Corporation shall be performed in close coordination with the Office of the Inspector of Cooperatives, avoiding duplication of procedures and costs at all times.

(11) Through a decision of its Board of Directors:

(a) Adopt rules regarding its own procedures and working standards.

(b) Implement through regulations, any provision; define, with the approval of the Board, any term not defined by this or other laws under its responsibility to administrate; adopt, approve, amend, or revoke those rules and regulations, orders, resolutions, and determinations needed for compliance of this Act.

(c) Establish through regulations, those fees deemed reasonable to handle consultations, issuing of opinions or administrative determinations, granting of permits authorized by law or regulations, regular or special examinations, or for the rendering of other similar services related to any of the laws and regulations that it administers or that are under its jurisdiction, pursuant to the guidelines established in Act No. 15 of July 20, 1990. Provided, that except in the case of examination fees, in no case shall the fees exceed the sum of five hundred dollars (\$500).

(d) Establish through regulations the standards under which the Corporation shall require the Cooperative Savings and Credit Unions to:

(i) Keep their accounts, records, and registers.

(ii) Maintain methods and rules to determine the worth of assets and liabilities.

(iii) Fix the market value of an asset.

(iv) Obtain insurance for damages or other risks on its property or properties.

(v) Maintain adequate insurance against all those risks deemed necessary and appropriate for the protection of partners, depositors, or the public.

(vi) Charge against its undistributed benefits, reserve funds or capital accounts, any loan, or part thereof, any asset, or part thereof, which constitutes a possible loss for the entity subject to examination.

(vii) Segregate any portion of future benefits that are necessary or convenient until said capital accounts and reserve funds have been fully restored.

(viii) Create the appraised assets reserves that are necessary or convenient.

(ix) Require every person covered by the provisions of this Act to keep and preserve those records and other documents needed to execute the same.

(12) Address, investigate, and resolve complaints filed with the Corporation.

(13) File any legal remedies, actions, or procedures deemed necessary or convenient to enforce the purposes of this or any other Act or regulation, whose compliance or oversight has been assigned thereto, whether through its legal counsel, or by the Secretary of Justice, upon prior request to such effect.

(14) Enter into contracts or agreements with public or private persons or institutions to carry out investigations, studies, or any other analysis to comply with the purposes of this Act.

(15) Acting through the Executive President, appoint all personnel deemed necessary to carry out its functions.

(16) Impose administrative fines for violations of the laws it administers, or to the rules, regulations, or orders approved or issued by the Corporation as set forth in this Act.

(17) (i) Issue, upon notice and hearing, orders to cease and desist and prescribe the terms it determines are convenient and beneficial to the public interest. When according to the Corporation, there is a situation which deserves immediate corrective action, due to its noxious nature or to the grave damage that it could cause to any Cooperative, to its partners, to depositors, to the Cooperative Movement or to specific persons, it may issue a summary order, without the requirement of prior notice and holding of the hearing, until any procedure instituted pursuant to this Section is finally provided for. Upon issuing the order, the Corporation shall notify it immediately to the concerned parties, stating the specific grounds for it. The party affected by said order may request the holding of a hearing within a term of ten (10) days from the receipt thereof. If the hearing is not requested, and the Corporation does not order it, the order shall remain in effect until it is modified or rendered ineffective by the Corporation. If the holding of a hearing is requested or ordered, the Corporation, after notifying and holding said hearing and permitting every person an opportunity to be heard and to present evidence in his/her

favor, as specified below, it may modify, extend, or render the order in question ineffective, until the matter is ultimately disposed of.

(ii) The Corporation may render ineffective or modify an order if it determines that the conditions that induced it to render the same have changed or that for some other reason it would be convenient for the public interest to do so.

(18) Resort to the Court of First Instance of Puerto Rico to request the enforcement of any cease and desist order issued by the Corporation.

(19) (i) Conduct all types of studies and investigations on matters that affect any branch of the Cooperative Movement, for which it may require whatever information that is necessary, pertinent, and essential to achieve said purposes; it may require or allow any person to present a written statement, under oath or otherwise, as it may determine, regarding the facts and circumstances germane to the matter to be studied and investigated. Provided, that in the case of studies regarding Cooperatives other than Savings and Credit Unions, they shall be conducted in close coordination with the Office of the Inspector of Cooperatives, the Commissioner of Insurance and the Cooperative Development Administration, preventing duplication of procedures and costs at all times.

(ii) Acting through the Executive President and other officials designated by him to such ends, administer oaths and affirmations, summon witnesses, compel their appearance, compile evidence, and require the presentation of books, papers, correspondence, notes, agreements, or other documents or registries deemed relevant or substantial to the investigation.

(iii) In cases of non-appearance or refusal to obey a summons served to any person, the Court of First Instance, by petition of the Corporation, may issue an order requiring said person to appear before the Corporation or the official designated by it, to produce the documentary evidence requested, or to furnish

evidence with respect to the matter in question, under investigation or study. Failure to comply with the judicial order issued to such effects may be sanctioned as contempt. The Court of First Instance shall process and dispatch the petition of the Corporation with priority.

(iv) When a person claims that compliance with a summons, or responding to any controversy, investigation or study, or alleges that the evidence required could expose him/her to an administrative procedure, or to be dismissed or suspended from his/her employment, profession or occupation, the Corporation may guarantee, upon prior consultation with the Secretary of Justice, that the information to be furnished shall not be used against said person in any administrative procedure that could entail dismissal or suspension from his/her employment, profession or occupation. When it is claimed that the information to be furnished exposes the person to a criminal or civil procedure, the Corporation may obtain, from the Court of First Instance, with the approval of the Secretary of Justice, an order through which the person is compelled to testify or furnish the required information. Once the order is issued, the person shall not refuse to collaborate in the investigation, but his/her participation in it shall be protected according to the terms of Act No. 27 of December 8, 1990, known as the “Act for the Proceedings and Granting of Immunity to Witnesses.”

(v) Except in the cases of summary orders contemplated in Section 4 (d)(17)(i) of this Act, an order shall not be rendered unless: (1) adequate prior notice is given to the corresponding persons in their place of business, or where they are personally located, or by certified mail to their last known address; (2) the interested parties are given the opportunity to be heard; and (3) findings of fact and conclusions of law are formulated in writing.

(20) Provide direct financial and managerial support to Cooperatives, for which it may create, sponsor, structure, manage, and/or administer funds and investment, liquidity and education programs.

(21) Perform all those acts needed to effectively achieve the purposes of this Act.

Section 5.- Board of Directors

(a) Composition of the Board.- The Corporation shall be directed by a Board composed of the following nine (9) members: the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico, the Secretary of the Treasury, the Inspector of Cooperatives, four (4) persons representing insured Cooperatives and one (1) private citizen representing the public interest. The Board shall be presided by the Cooperative Development Administrator.

(b) Government Representation.- None of the members of the Board of Directors may delegate their functions on another official nor hold a directive office or have financial interest in any private financial institution other than owning shares and/or deposits in an insured Cooperative Savings and Credit Union or deposits in another depository institution.

(c) Cooperative Representation.- In order to provide the Cooperative Movement with immediate representation on the Board of Directors, within the thirty (30) days following the approval of this Act, the Governor shall designate the first five (5) representatives of the Insured Cooperatives, as follows:

A. At least two (2) persons who are chief executive officers of Insured Cooperatives; and

B. At least two (2) persons who are members of the Board of Directors of Insured Cooperatives.

In order to stagger the positions of representatives of the Cooperative Movement, a director who is an executive officer and a director who is a member of a board of directors shall hold office for two (2) years; a director who is an executive officer and a director who is a member of a board of directors shall hold office for one (1) year; and the fifth director shall hold office for three (3) years. The successors of the first five representatives of the cooperative Movement shall be elected by the Insured Cooperatives as provided in subsection two (2), below.

(2) The following members of the Board that represent the Insured Cooperatives shall be selected exclusively by the Cooperatives that have availed themselves of the Shares and Deposits Insurance. Insured Cooperatives shall elect at least two (2) persons as directors who are members of the boards of directors of said Cooperatives, and at least two persons who are chief executive officers of Insured Cooperatives. Provided, however, that in no case shall more than one representative of the Cooperatives belong to the same Cooperative. The elected directors shall hold office for a term of three (3) years. No director shall hold office for more than three (3) consecutive terms. Those selected shall not hold directive offices nor be employees of any central cooperative body nor can they be employees of government agencies related to the Cooperative Movement, with the exception of those set forth in this Act.

(3) Each cooperative shall be entitled to one vote. No trustee, administrator, or director designated by a government agency shall act as representative of a Cooperative in the process of selection of directors nor hold any office whatsoever as a director of the Corporation.

(4) The selection process shall be the following:

(i) Every Insured Cooperative shall remit its nominations to the Corporation within a term of sixty (60) days counting from June 30th of every year in which representatives of the Cooperative Movement are to be elected to the Board of Directors.

(ii) Immediately after the nomination period has concluded, the board shall proceed to inform the Cooperatives of the names, as well as the information on the education and experience of the nominated candidates. The nominated candidates shall hold at least a Bachelor's degree from a university recognized by the Commonwealth of Puerto Rico, and at least five (5) years of experience in Cooperative Savings and Credit Unions, whether as a voluntary or a professional leader. Furthermore, the nominated candidates must be chief executive officers or members of the board of directors of a cooperative having a consolidated CAEL classification of three (3) or less. For the purposes of this Section, "CAEL Classification" means the classification or category of an Insured Cooperative pursuant to the Financial Analysis System adopted by regulations by the Corporation, considering the objective financial parameters related to Capital ("C"), Assets ("A"), Economics ("E"), and Liquidity ("L").

(iii) The Cooperatives, through their Board of Directors, shall cast their vote which shall be certified by its Secretary. The vote cast by the Cooperative may be remitted to the Corporation in a sealed envelope prior to the date the assembly is to be held, or handed personally, also in a sealed envelope, by the delegate of the Cooperative at the Assembly.

(iv) The votes cast shall be opened and counted at the Annual Informative Assembly by the persons designated by the President of the Corporation.

(v) In the event a vacancy arises, it shall be filled following the same procedure through which the person who held said office was elected.

(5) During the effective term of their office, the representatives of the cooperative movement must be fully compliant with the qualifications required in this Act. If a representative no longer meets any of the requirements, he/she shall cease to carry out his/her duties and shall be replaced with a designated person.

(6) In the case of a vacancy in the positions of the Board of Directors representing the cooperative movement, the Puerto Rico League of Cooperatives shall be immediately notified, and be responsible for establishing the consultation and selection mechanism among the insured cooperatives, whether it be a representative of the Board of Directors or executive officers of insured cooperatives; provided, that the person to be designated shall comply with the requirements of this Act. The representative designated through the method established by the League of Cooperatives shall hold office for the remainder of the unexpired term when the vacancy occurred.

(d) The member of the Board representing the public interest shall be designated jointly by the vote of three fourths (3/4) of the total of ten members of the Board of Directors representing the government sector and the cooperative sector. The representative of the public interest shall be appointed for a three (3)-year term, and shall hold office until his/her successor is appointed and takes office. He/She shall be a person of recognized moral integrity and be knowledgeable and interested in the cooperative and financial fields. The representative of the public interest shall not be an employee nor hold directive office in any private financial institution, in any insured Cooperative Savings and Credit Union, or in any central cooperative body. He/She shall not have any financial interest in any public or private financial institution that competes with the Cooperative Savings and Credit Unions, although he/she may be a member of a Cooperative.

The members of the Board shall not receive any compensation or remuneration whatsoever for the performance of their functions, but those who are not officers or employees of the Government of the Commonwealth of Puerto Rico may receive per diems and be reimbursed for travel expenses incurred in each meeting day of the Board or in the performance of any duty or task delegated by the Chairperson of the Board, pursuant to the regulations to be adopted to such effect by the Board. They shall also be eligible for coverage under the provisions of Section 12 of Act No. 104 of June 29, 1955, added by Act No. 9 of November 26, 1975, as amended.

Section 6.- Meetings and Quorum of the Board

The Board shall meet in regular sessions at least every three (3) months, and may hold special meetings as are necessary to attend to the affairs of the Corporation. Five (5) members of the Board shall constitute a quorum and all agreements shall be made by a majority of the members who constitute the quorum, except in regard to the adoption of regulations, which shall be governed by the provisions of subsection (a) of Section 7 of this Act.

Section 7.- Duties and Powers of the Board

The Board shall have the following duties and powers, in addition to any others established in this Act:

(a) (i) Approve the rules and regulations for the implementation of this Act to govern the affairs of the Corporation. These rules and regulations shall be approved by a two-thirds ($2/3$) vote of the total of members of the Board at a special meeting of the Board convened especially for its consideration. The regulations of the Corporation, excepting those for the internal operations of the Board, shall be adopted pursuant to Act No. 170 of August 12, 1988, as amended, known as the “Commonwealth of Puerto Rico Uniform Administrative Procedures Act.”

(ii) Prior to the approval of the regulations set forth in this Act or in any other laws under the administration and jurisdiction of the Board of Directors of the Corporation, other than those for the internal operation of the Corporation, the Executive President shall submit them before the Commissioner of Financial Institutions and the Financing Board, for their comments and recommendations, within a term of thirty (30) days.

(iii) The rules duly adopted by the Corporation pursuant to this Act or to any other laws under its administration and jurisdiction, other than those on the internal operations of the Corporation, shall not be less restrictive nor provide less protection to the consumers and users of financial products, than the rules adopted under these same laws as applied by the Commissioner of Financial Institutions.

(iv) With the exception of the adoption of rules under the present Act, under Act No. 6 of January 15, 1990, as amended, known as the “Cooperative Savings and Credit Union Associations Act of Puerto Rico,” and under Act No. 50 of August 4, 1994, known as the “General Cooperative Associations Act,” the Corporation shall abstain for a transitional period of two (2) years counting from the approval of the present Act, from adopting new rules under those other laws identified in Section 4(c)(1) of this Act. During this transitional period, the Corporation shall apply and implement with regard to Cooperatives, their affiliates and the businesses and operations thereof, the rules and regulations adopted by the Commissioner of Financial Institutions, exactly as they apply to the other participants of the financial market.

(v) Among the matters that should be adopted through regulations pursuant to this subsection, the following are included:

(a) Establish the financial analysis system of the Corporation which shall use, among other things, statistical or financial indicators that shall alert the Corporation of problems that could result in the insolvency of the Cooperatives.

(b) Establish the requirements of the risk management and proper financial administration policies of the Insured Cooperatives.

(c) Fix the rating standards, fees, and special and regular premiums to be paid by Cooperatives that avail themselves of Shares and Deposits Insurance, as well as the mechanisms for the computation, imposition, and payment thereof by the Insured Cooperatives.

(d) Establish the corresponding parameters and mechanisms for the progressive corrective action plans to be required of Insured Cooperatives that show deficiencies or risks of loss.

(e) Establish regulations and supervision mechanisms to safeguard and protect the rights and prerogatives of the members of every Cooperative, including protecting their financial interests, their right to be properly informed, and preventing deceitful and fraudulent practices in the offer, sale, purchase, and every other transaction on, or regarding the shares of Cooperatives.

(f) Establish the corresponding self-regulatory parameters and mechanisms for the governance process of the Cooperatives whose affairs do not pose or involve risks regarding the economic, financial, juridical, or moral integrity of said institutions or of their members.

(g) Establish the dates and frequency with which financial statements shall be filed, the forms to be used, the persons with the obligation to certify the same, the information to be included or enclosed, and any other convenient data or information to comply with the purposes of this Act. Provided, that every supervisory function undertaken by the Corporation regarding cooperatives other than for savings and credit unions, shall be conducted in close

coordination with the Office of the Inspector of Cooperatives, avoiding the duplication of procedures and costs at all times.

(b) Establish the investment policy of the Corporation pursuant to the provisions and limitations established in this Act.

(c) Perform actuarial studies and investigations and compile data and statistics germane to the insurance it offers.

(d) Evaluate and take the appropriate action at the close of every fiscal year regarding the annual report of the Corporation.

(e) Adopt the preventive or remedial measures needed to reduce potential losses to the insured Cooperatives and minimize the losses to the Corporation, including the granting of financial aid in cash or through exchange of financial obligations. When the exchange of obligations is used, those issued by the Corporation shall be considered as capital for the Insured Cooperative and interest shall be paid thereon, as agreed by the parties.

(f) Ensure that the Corporation effectively complies with its duty to assure the financial solvency of the Cooperatives.

(g) Request the intervention, advice, or opinion of the Secretary of Justice when deemed necessary.

Section 8.- Public Ethics and Immunity

The members of the Board and the Executive President shall be subject to the provisions of Act No. 12 of July 24, 1985, known as the “Ethics in Government Act of the Commonwealth of Puerto Rico.” The members of the Board of Directors who represent the Cooperative Movement shall refrain from discussing, analyzing, considering, evaluating, and otherwise participating in matters that pertain to the institutions in which they work as executive officers or are members of the governing bodies.

No member of the Board nor the Executive President shall reveal or use information or documents acquired in the performance of their duties for purposes foreign to the same. All members of the Board and the Executive President shall maintain the confidentiality of matters related to their functions, unless there is a petition that requires the disclosure of an issue and it is allowed by the competent authority.

Neither the Board of Directors of the Corporation, its directors or the Executive President shall be held financially liable in their individual capacity for any action taken while discharging their duties and powers under this Act, provided, they do not act intentionally, illegally, and knowing that they may cause damage, or for their own benefit, or that of a third party.

Section 9.- Executive President

The Executive President of the Corporation shall be appointed by a two thirds (2/3) vote of the total members of the Board, with the approval of the Governor of the Commonwealth of Puerto Rico. He/She shall be the Chief Executive Officer of the corporation, exercise those duties and powers established by law and that are delegated to him/her by the Board, and earn the salary that the Board authorized. The Executive President shall have the following powers and duties, among others:

(a) Establish, with the approval of the Board, the internal organization of the corporation and the systems needed for its adequate functioning and operations.

(b) Execute all administrative and managerial actions that are necessary for the implementation of this Act and of Act No. 6 of January 15, 1990, as amended, as well as the regulations that are adopted thereunder.

(c) Appoint the personnel that is necessary to execute the ends and purposes of the Act, pursuant to the job classes and the classification plan to be adopted by the Board. The Corporation shall be exempted from the provisions of Act No. 5 of October 14, 1975, as amended, known as the "Public Service Personnel

Act,” but the Board may provide for its personnel to avail itself of the benefits of Act No. 447 of May 15, 1951, as amended, known as the “Employees Retirement System of the Government of Puerto Rico and its Instrumentalities Act.”

(d) Contract the technical and professional services needed to carry out the purposes of this Act subject to the rules and regulations to be approved by the Board.

(e) Draft the expense budget of the Corporation and submit it to the Board for its approval.

(f) Establish, with the advice of the Secretary of the Treasury and subject to the approval of the Board, a complete and detailed accounting system for the registration and control of all income and disbursements of the Corporation and for the adequate control of all its operations and fiscal transactions.

(g) Adopt, with the prior approval of the Board, the rules for the use, control, and conservation of the property of the Corporation.

(h) Grant contracts and agreements or carry out transactions with public or private entities for the ends and purposes of this Act, with the prior approval of the Board.

(i) Implement and operate the financial analysis system to be adopted by the Board under Section 7(a)(i) of this Act.

(j) Invest the resources of the Corporation in any activities, assets, or purposes consistent with the purposes of this Act, except for common or preferred stock, or in any other asset that represents a patrimonial interest of an enterprise or entity that is not related to Cooperatives or Federations.

(k) Offer the insured Cooperatives technical assistance and training on administrative and managerial matters, as well as any advice that it deems necessary so that insured cooperatives may comply with the requirements that are imposed on them as a condition to avail themselves of the shares and deposits insurance or to continue to be insured by the Corporation.

(l) Assess the financial situation of the insured Cooperatives in order to foresee potential losses and to require the presentation of reports in accordance with the manner, terms, forms, and content to be established by regulations.

(m) Require the posting of bonds pursuant to legal provisions and authorize the payment of the required bond premiums.

(n) Determine, pursuant to the rules adopted by the Board and those provided by this Act and its regulations, the eligibility of any Cooperative to avail itself of the shares and deposits insurance or to continue with the insured entity, including the cases of mergers, acquisition of assets and liabilities or the consolidation of Cooperatives.

(o) Consider, approve, or deny according to the regulations in effect, every application for authorization, permit, or license required to Cooperatives pursuant to applicable laws.

(p) Enforce the Shares and Deposits Insurance guarantee, pursuant to the regulations adopted to such effect.

(q) Appoint the members of the Board of Trustees in the cases of liquidation of Cooperative Savings and Credit Unions, in which, according to the Act, the corporation is the liquidating receiver.

(r) Carry out all those functions and tasks delegated by the Board.

(s) Handle all submitted inquiries, requests for opinions and administrative determinations, and/or complaints. In said cases, the decision of the Executive President may be reviewed by the Board of Directors. The final decision of the Board of Directors may be judicially reviewed before the Circuit Court of Appeals.

Section 10.- Mandatory Coverage

Every Cooperative Savings and Credit Union that is organized and operating as such on the effective date of this Act, shall continue to avail itself of the shares and deposits insurance of the Corporation. However, those Cooperative Savings and

Credit Unions that, on the effective date of this Act, have availed themselves of the Shares and Deposits Insurance of the National Credit Union Administration shall have the option to continue under the insurance of said entity or to avail themselves of the Shares and Deposit Insurance provided in this Act, insofar as they meet the requirements established by the Corporation.

Every Cooperative Savings and Credit Union or Federation organized after the effective date of this Act, shall be required to avail itself of the Shares and Deposit Insurance prior to initiating operations, according to the requirements established by regulations.

Section 11.- Duties and Obligations of the Cooperatives

(a) Duties and obligations of every Cooperative

- (1) Observe the Cooperative principles.
- (2) Comply with the provisions of the General Cooperative Associations Act.
- (3) Comply with local and federal regulations applicable to their businesses, services, and operations.
- (4) Prevent fraudulent or deceitful practices in their operations and in the offer, underwriting, issuing, and sale of shares. The Corporation shall define, through regulations, those specific practices that are fraudulent or deceitful, for which, the Corporation shall take into consideration, among others, the provisions of Act No. 60 of June 18, 1963, as amended, also known as the "Uniform Securities Act." Regarding said rules, every Cooperative shall be deemed as an Insured Cooperative subject to primary jurisdiction and authority of the Corporation.

(b) Duties and Obligations of Insured Cooperatives

The Cooperatives insured by the Corporation shall comply with the following duties and obligations, in addition to any others imposed by this Act:

(1) Provide protection and acquire insurance against all types of insurable losses for the maximum limits that the specific circumstances of each Cooperative require and as provided by the Corporation. Said insurances shall include among others, property insurance, legal liability, fidelity bonds, legal liability insurances for the members of the Board, and any other type of coverage established by the Corporation through regulations. These insurance coverages shall be underwritten using the types of policies and the limits determined by the Corporation.

(2) Maintain the regular and special reserves required by the Cooperative Savings and Credit Unions Associations Act.

(3) Maintain the special reserves that the Corporation requires by regulations or specific orders, when it is thus justified to protect the interests of the members of the Insured Cooperatives, and to reduce the potential losses to the Corporation to the maximum extent possible.

(4) Pay and maintain the capital, regular premiums, and special insurance premiums provided in this Act.

(5) Strictly comply with the requirements, obligations, and provisions of this Act and its regulations, as well as with the laws and regulations applicable to the organization and operation of Cooperatives in Puerto Rico, including the rules of the Corporation related to their function of monitoring the solvency of Insured Cooperatives.

(6) Notice of guarantees and announcements to the public. Every Insured Cooperative shall maintain in a visible place in each of its business establishments a clearly legible sign notifying the public that the accounts of their members and depositaries are insured by the Corporation. Every promotional or publicity notice shall bear the logo of the Insured Cooperative and include information to the effects that the accounts of the members and depositors are

insured by the Corporation. Unless the Corporation expressly requires it, an Insured Cooperative may ignore this last requirement in the case of promotional or publicity announcements that are not related to the accounts of the members and depositaries, or when it is not practical to include said information. The Corporation shall adopt guidelines to inform the Insured Cooperatives on the way to display said signs, the contents thereof and the most adequate and convenient way of using them.

(7) Security system. Every Insured Cooperative shall establish and maintain an adequate security system for the protection of its property and its interests. The Corporation shall promulgate rules to establish the minimum-security standards that the Insured Cooperatives must meet with regard to the installation, maintenance, and operation of security mechanisms and controls. Said regulations shall provide the term for the Insured Cooperatives to comply with the security rules adopted by the Corporation, as well as the term for them to render periodic reports with regard to the installation, maintenance, and operation of said security mechanisms and systems.

(8) Financial risk management system. Every Insured Cooperative shall adopt and maintain a financial risk assessment and management system, according to the parameters defined by the Corporation through regulations.

(9) Training. Every Insured Cooperative shall adopt continuing education and training programs according to the parameters defined by the Corporation through regulations. Said regulations and educational programs adopted by the Cooperatives thereunder shall ensure and verify that members of the directing bodies, committees, and management of the Insured Cooperative have the technical, financial, and managerial knowledge consistent with the office they hold.

Section 12.- Shares and Deposits Insurance Limit.

The Shares and Deposits Insurance of the Corporation shall provide protections for the shares and deposits of the members and depositors of the Cooperatives against the risk of loss for insolvency, up to a maximum limit of one hundred thousand dollars (\$100,000). Provided, however, that with regard to the Cooperative Bank of Puerto Rico, the insurance of the Corporation may only protect its deposits from the risk of financial insolvency. In view of the special nature of the Cooperative Bank, the Board of the Corporation shall adopt, through regulations, the rules that shall govern the coverage applicable to the deposits of the Bank as well as the computation of the corresponding premium, thus avoiding the multiple imposition of premiums on deposits that originate from the Insured Cooperatives.

After the corresponding actuarial studies, and upon the approval of two thirds (2/3) of the Board of Directors, the Corporation may increase the maximum insurance limit taking into account the following factors:

1. Financial capacity of the Corporation to answer for the increased coverage.
2. Financial situation of the Insured Cooperatives.
3. Insurance limits in effect under the Federal deposit and/or shares insurance programs.

In addition to the basic coverage matched to the Federal Programs, the Corporation may decree supplementary, additional, or special coverage for certain types of deposits and/or shares, for which Supplementary Premiums shall be defined, if necessary.

Every increase in coverage, whether it be general, supplementary, additional or special, must be based on and supported by actuarial and financial studies that demonstrate the capacity of the Corporation to assume the extended coverage. In every case in which an increase in the maximum combined amount of insurable

shares and deposits is decreed, the Corporation shall establish the procedures in order to make the pertinent adjustments in the insurance premiums that are needed.

Section 13.- Insured Cooperatives Financial Statements

Every Insured Cooperative shall submit to the Corporation, on June 30th of each year, a financial statement that shows its financial situation and shall indicate the balance of the shares and deposits accounts of the members pursuant to the rules established by the Corporation. Those balances must be consistent with those in the report that is required by this Act, in order to determine the premium to be paid by the Cooperative.

Pursuant to the provisions of Section 7 of this Act, the Corporation shall establish through regulations, the dates and frequency these financial statements are to be submitted, the forms to be used, the persons required to certify them, the information to be included or enclosed, and any other convenient data or information in order to comply with the purposes of this Act.

The Corporation may require any Insured Cooperative to submit other financial reports or statements to be aware of its situation and to determine the risk of other financial loss that said cooperative could represent to the shares and deposits insurance. The Corporation may also require them to publish their annual financial statements in the form deemed most convenient to the public interest.

Section 14.- Determination of the Amount of Insurance Premiums

The shares and deposits insurance premium to be paid by each Insured Cooperative shall be computed on the basis of its total shares and deposits as of June 30th of the year preceding that in which the premium shall be paid. At the beginning of the premium year, and at least fifteen (15) days prior to the deadline for the payment of the premium established in this Act, each Insured Cooperative shall submit a certified statement to the Corporation of the number of shares and deposits of its members and depositors as of the aforementioned date so that the Corporation

can determine the total amount of the insurance premium to be paid. For purposes of this Section, in order to comply with the certification requirement, it shall suffice that said statement be signed by the Chairperson of the Board of Directors of the Insured Cooperative or by any other member thereof duly authorized by the Board, who can attest to the fact that the numbers set forth in the report are true, correct, and have been determined pursuant to this Act and the applicable regulations. The Insured Cooperatives that submit the certified statement required in this Act to the Corporation within the term established above shall not have to file the shares and deposits statement described above.

The Cooperatives that are admitted for the first time to the shares and deposits insurance shall estimate the shares and deposits for the months corresponding to their first year of operations, and pay a provisional premium based on said estimate, which shall be readjusted taking as a basis the actual figures as of June 30th of the year in which it started operations.

In any year in which an increase in the maximum limit of the shares and deposits insurance takes effect as provided in this Act, the Corporation may charge an additional provisional premium for the increase in shares and deposits that can be foreseen as a result of said increase. At the end of said year, the corresponding adjustments shall be made on said provisional premium, taking as a basis the actual figures of the increase in shares and deposits for the year, that are attributable to the increase in the maximum limit of the insurance.

Section 15.- Date of Payment of the Insurance Premium

The shares and deposits insurance premiums shall become due on July 1st of each year, and shall be paid not later than the last day of said month. The Insured Cooperatives that on the expiration of this last date do not have the certified figures available of the total of insured shares and deposits shall pay a provisional premium, which amount shall be determined based on the balance of shares and deposits of the

last quarterly report submitted or of any other report available to the Corporation. This provisional premium shall be readjusted as soon as the Insured Cooperative obtains and submits its final figures, and at that time, any pertinent adjustments in the payment of premiums shall also be made.

The Corporation may impose the payment of surcharges, interest, and penalties on those Insured Cooperatives that do not pay the premiums within the term established herein. It may initiate the administrative or judicial actions it deems necessary and convenient, to require any Insured Cooperative to pay any amount due and payable, for the Shares and Deposits Insurance premium.

Section 16.- Failure to File Certified Statements of Shares and Deposits

Every Insured Cooperative shall be subject to lose all rights and benefits guaranteed by this Act, to have the Corporation revoke the authorization to do business as a Cooperative entity and order its liquidation if:

(a) It refuses to file the certified statements on the total shares and deposits that are required in this Act.

(b) It refuses to pay the insurance premiums, the capital stock or special premiums required by this Act and its regulations, or

(c) It refuses to correct any error or omission in said certified statements or refuses to pay the amounts owed for annual or special premiums, surcharges, and interests, or refuses to deposit the capital contribution in the Corporation as required in this Act, or to pay any administrative fine that has been imposed on it.

When an Insured Cooperative incurs any of the deficiencies established above, the Corporation shall require it to correct the same within thirty (30) days following the date of such requirement. If it is not corrected within said term, the Corporation shall notify the Board of Directors of the Cooperative of the deficiency incurred and warn it about the imposition of the sanctions established in this Act on the Insured Cooperative.

If after this procedure, which may be extended for a term that shall not exceed sixty (60) days, the Insured Cooperative persists in any of the deficiencies set forth in subsections (a), (b), and (c) of this Section, the Corporation may impose the sanctions established in the first paragraph of this Section. This decision shall be immediately notified to the Board of Directors of the Insured Cooperative, stating the facts and grounds on which they are based.

The Corporation has the responsibility to adopt and execute the measures that are necessary to safeguard the guarantees provided under this Act to the members and depositors of Insured Cooperatives in any case in which the authorization to do business as a Cooperative entity is revoked, or in the cases where the liquidation of the Insured Cooperative will proceed.

Section 17.- Obligation to Keep Records

Every Insured Cooperative shall keep its records in such a way that the verification of the correctness of the balance sheet, audited statements, deposit and shares, loans, insurance premiums, and any other statistical and financial data that the Corporation deems necessary for the purposes of this Act can be expedited. The Corporation may require the Insured Cooperatives to maintain the systems and procedures and use the uniform forms and documents that are provided for the conservation of said records or documents.

The Corporation may authorize Insured Cooperatives to dispose of said records after five (5) years of their having been prepared, filed, or having made the report, statement, or payment of any capital sum, regular or special premium, or any adjustment to said payments or charges. Notwithstanding the above, they must be preserved until the final adjudication of any controversy when there are differences between an Insured Cooperative and the Corporation on the amount of any deposit or adjustment to the same, on any charge for premiums, or on the financial situation of the Insured Cooperative. Said records shall also be kept when the financial

situation of the Insured Cooperative may require the Corporation to pay any sum under the shares and deposits insurance.

Section 18.- Examination of Insured Cooperatives

The Corporation shall have the obligation to conduct an audit or an examination of any Cooperative that requests to avail itself of the shares and deposits insurance. It may also conduct regular examinations or audits of the Insured Cooperatives and conduct special examinations or audits when, in its judgment, it is necessary to determine the condition of said Cooperatives for purposes of the shares and deposits insurance or when the financial indicators of an Insured Cooperative suggest that it is at risk of insolvency.

The auditors or examiners of the Corporation shall be empowered to examine all matters they deem pertinent, and shall submit to the Corporation a complete and detailed report of the condition of the Insured Cooperative. These examinations or audits may be performed in coordination with the provisions of Act No. 6 of January 15, 1990, as amended. The examinations or audits required by this Section shall not be substituted for reports made by independent auditors that are ordered and contracted by the Cooperative.

Likewise, the Corporation may investigate and examine all claims related to the insured accounts of the members of the Cooperatives. To such ends, it shall designate claims agents who shall be empowered to summon witnesses and compel them to appear before them, take statements and administer oaths, receive and examine any books, records, files, and documents related to insured accounts, and compel testimony or the production of documents. The summons issued by the claims agents shall be signed by them and shall bear the seal of the Corporation, and may be served by any method that is safe and reliable in any part of the Commonwealth of Puerto Rico, such as delivery in person, by mail, or by publication in a newspaper of general circulation.

Should a person refuse to comply with a summons issued by a claims agent requiring his/her appearance to testify or to produce a document related to a matter under his/her investigation, he/she may, in consultation with the Secretary of Justice, request the aid of the Superior Part of the Court of First Instance of the place where the main office of the Insured Cooperative in question is located, or where the witness in question resides or does business, and the court may order said person, under admonition of contempt, to testify or to produce the required documents.

The officers designated by the Corporation to investigate or audit the Insured Cooperatives shall also have the same powers as the claims agents to summon witnesses and compel them to appear before them, take oaths, and require the presentation of any books, files, records, or documents related to the matters under their investigation and examination. They may likewise request, upon consultation with the Secretary of Justice, the aid of the Superior Part of the Court of First Instance of the place where the main office of the Insured Cooperative is located, or where the witness resides or does business, when the latter refuses to appear or produce the required documents, to compel said appearance, the testimony of the witness, or the production of documents.

The Corporation may require and use any report made by or for any agency, commission, board, or authority empowered to supervise Insured Cooperatives for its legal ends and purposes.

The Corporation may exercise the examining functions described in this Section with regard to Cooperatives other than Cooperative Savings and Credit Unions; provided, that said functions are exercised in close coordination with the Office of the Inspector of Cooperatives, avoiding the duplication of procedures and costs at all times.

Section 19.- Suspension and Removal of Directors and Executive Officers.

(a) When there are grounds to believe that a member of the Board of Directors, committee member, chief executive officer, or other employee of an Insured Cooperative has committed a violation or is violating any law with respect to said entity, or has pursued inadequate practices in the management of the business, the Corporation shall file charges against said member of the Board of Directors, committee member, chief executive officer, or other employee, and shall require him/her to appear before the representative designated by the Corporation, within the term and pursuant to the procedure established through regulations, to show cause why he/she should not be removed. In any case involving the filing of charges against the chief executive officer, an order shall be issued against the Board of Directors to show cause why it should not be determined that it has failed to comply with its management supervisory function.

(b) A copy of the notice of charges shall be remitted by certified mail, return receipt requested, to each member of the Board of Directors of the Insured Cooperative involved.

(c) If the Corporation should determine, after giving the person charged a reasonable opportunity to be heard and to present evidence to support his/her cause, that he/she has violated a law with respect to said Cooperative or has engaged in inadequate practices in the management of the business of said institution, it may direct that said person be dismissed from office.

(d) The Corporation shall remit a copy of the dismissal order to the person thus affected and another copy to the entity of which he/she is a member of the Board of Directors, a committee member, chief executive officer or other employee, to be submitted immediately to the Board of Directors of said entity. In such case, said member of the Board of Directors, committee member, chief executive officer, or

other employee, shall cease to hold office or employment immediately upon receipt of the notice of the order of the Corporation.

(e) The order and the findings of fact and conclusions of law on which said order is based shall not be made public nor disclosed to anyone with the exception of the person charged and the directors of the Cooperative concerned, except when by determination of two thirds (2/3) of the Board of Directors of the Corporation, it is determined that said disclosure would be in the best interests of the Cooperative Movement, or in the context of a judicial review requested as provided in this Act.

(f) No member of the Board of Directors, committee member, chief executive officer, or other employee who has been removed from office as provided in this Section, shall in any way, subsequently participate in the administration or direction of any Cooperative without prior authorization of the Corporation.

Section 20.- Receivership, Merger, Consolidation, Purchase of Assets and Liabilities, or Liquidation of Insured Cooperatives in Case of Insolvency or Risk of Insolvency.

The Corporation may issue a temporary order to place an Insured Cooperative under its administration when, after an audit, investigation, examination, or inspection it is proven, in the judgment of the Corporation, that the Cooperative is in one or more of the following situations:

1. Lacks sound economic and financial solidity.
2. Does not have effective internal controls for the administration of its affairs.
3. Does not have adequate reserves.
4. Its accounting is not current nor conducted in a reasonably correct manner to continue operations.
5. It is being administered in such a way that the members, persons, or entities with deposits therein are at risk of being defrauded.

It shall not be necessary to hold a hearing prior to issuing an order when, in the judgment of the Corporation, the Cooperative has an emergency situation, in which case the Corporation shall take immediate possession and control of the administration of the Cooperative according to the regulations adopted for such purposes.

In these cases, an administrative hearing shall be held within ten (10) days as of the date of notice of the order to determine whether said order is to be made permanent or revoked. In situations in which there is no emergency, the hearing shall be held prior to issuing the order. In any of these cases, the administrative hearing shall be conducted pursuant to the provisions of the Uniform Administrative Procedures Act.

After the merger, consolidation, or sale of assets and liabilities of an insured Cooperative and after the Corporation complies with the conditions stipulated, the insured accounts of the members and depositors of the acquired Cooperative shall be converted to shares and deposits in the acquiring institution.

Notwithstanding the above, the Corporation, in its judgment, may issue an order for the Cooperative to show cause for which the liquidation, merger, consolidation, or sale of the assets and liabilities of any Insured Cooperative should not take place when the following circumstances coincide:

1. There is an emergency requiring immediate action with regard to the Insured Cooperative.
2. There is no other reasonable option that can assure the solvency of the Insured Cooperative.
3. It is determined that the merger, consolidation, or purchase of the Cooperative in question is in the best benefit of the public interest.
4. The merger, consolidation, or purchase is the less costly option for the Corporation.

When, in the judgment of the Corporation, the situation of the Cooperative is an emergency, it shall not be necessary to hold a hearing before issuing the order, in which case the Corporation shall take immediate possession and control of the administration of the Cooperative, according to the regulations adopted thereby for such purpose.

In these cases, an administrative hearing shall be held within ten (10) days following the date of notice of the order to determine whether the same shall be permanent or revoked. In situations that are not emergencies, the hearing shall be held prior to issuing the order. In any of the cases, the administrative hearing shall be held pursuant to the provisions of the Uniform Administrative Procedures Act.

No transaction involving a merger, consolidation, sale of assets, and/or liabilities, or other similar transaction or agreement with institutions other than Cooperatives shall be conducted. It is further provided that no government entity of the Commonwealth of Puerto Rico shall issue administrative orders or actions decreeing the administration, receivership, merger, consolidation, purchase of assets and liabilities, or liquidation of any Insured Cooperative without said action having the approval and ratification of the Corporation.

Section 21.- Contribution to Capital Stock

Each Insured Cooperative shall maintain in the Corporation, as a contribution of capital stock and according to the latter's determination, a sum equal to one (1) percent of the total of the shares and deposits that it holds as of June 30th of each year of operations, as stated in the certified shares and deposits statement or in the certified financial statements required by this Act. The Corporation shall establish the rules and procedures to annually determine the amount of the deposit of the contribution of capital that each Insured Cooperative should maintain, according to the variations in shares and deposits. Likewise, it shall establish the rules and

procedures to determine the annual increment that should be required in the amount of said contribution of capital as a result of an increase in insured shares and deposits.

When the amount of unencumbered uncommitted reserves for the payment of losses and the total capital of the Corporation exceeds two (2) percent of the total insured shares and deposits, the Corporation shall use said excess for the payment of interest on capital. Said interest shall be determined on the basis of an average yield rate of the total assets of the Corporation for the twelve month period preceding the date that the payment is made, reduced by one (1) percent.

When an Insured Cooperative undergoes a reduction in its insured shares and deposits, the Corporation may reduce the amount of the capital contribution that it should maintain in the Corporation for the corresponding year, as established by the Corporation by regulations. In those cases the capital shall not be adjusted nor returned until the Corporation determines that said reduction in shares and deposits is not due to a potential situation of insolvency. When this is the case, the Corporation shall be prevented from making the return.

Section 22.- Return of Fees; Payment of Interest

In case of liquidation or voluntary dissolution of an Insured Cooperative that does not entail losses for the Corporation, the latter shall return the former the equivalent of its share of capital contributed to the total capital shares. When a liquidation or dissolution entails losses for the Corporation, the latter shall treat it as if it were a case of insolvency, choosing the course of action that is less costly and shall retain all the capital held by the Insured Cooperative in the Corporation until the case is solved in a final and binding manner.

The Board may authorize that dividends on contributed capital be credited or paid to the Insured Cooperative, provided:

(a) The Corporation does not have outstanding debts with the Government of the Commonwealth of Puerto Rico, its agencies, instrumentalities, public corporations, or political subdivisions, nor with any other creditor that has granted it loans for the payment of losses;

(b) The payment of said dividends does not have the effect of reducing liens free assets of the Corporation to an amount less than one and-a-half (11/2) percent of the total shares and deposits capital in all Insured Cooperatives, as determined in the annual certified statement of the Corporation for the year preceding the year in which the payment of dividends would be disbursed, and

(c) There are no special circumstances or actuarial opinions that justify that such dividends not be paid.

In the years in which the Board does not authorize the crediting or payment of dividends, it shall include the reasons therefor in its annual report.

In the case of Insured Cooperatives that have financial solvency problems, the dividends shall be credited to their capital account in the Corporation, unless the latter determines that its payment in cash could improve the financial situation or the liquidity of said Cooperatives.

Section 23.- Assessment Rates

After conducting the corresponding actuarial studies, the Corporation shall determine the rates to be used as basis to compute the insurance premiums to be paid by the Insured Cooperatives. With the Board's approval, the Corporation may establish uniform or variable assessment rates according to the exposure to risks of each Insured Cooperative, by factors such as credit, types of investments, delinquency, liquidity, maximum limits of insured shares and deposits, or any others that could affect the solvency of the Insured Cooperatives. The assessment rates shall be used to compute the annual premium, as provided in this Act. The assessment rates may vary from 0.05 percent to 0.2 percent of the total capital and insured

deposits. The Board may determine higher assessment rates, provided there are actuarial studies to support them.

Section 24.- Annual Premium

The annual premium shall be calculated by applying the assessment rate in effect to the capital in shares and deposits of the Insured Cooperative as of June 30th of each year. Every Insured Cooperative shall pay its corresponding annual premium in advance as provided in this Act. In the case of Cooperatives that avail themselves of the insurance after June 30th of each year, the premium shall be determined on the basis of the number of months remaining to complete their first year of operations and shall be paid in advance prior to beginning the same.

Section 25.- Special Premiums; Use of Reserves and Capital

When the Corporation suffers extraordinary losses, it may impose a special premium on the Insured Cooperatives, which shall be distributed in the proportion that the annual premium paid by each of them holds to the total annual premium paid by all in the year of operations in which the extraordinary loss has been incurred. This special premium shall not exceed one hundred (100) percent of the total premium collected in said year. When the special premium imposed in a specific year is not sufficient to cover the deficit in the operations of said year, the deficiency may be collected through the imposition, in subsequent years, of special additional premiums for as many years as it may be necessary and subject to the annual limit previously indicated. The Corporation may borrow money from any entity or public or private institutions and, when strictly necessary to handle its liquidity needs, pledge as security its future income proceeding from special premiums as collateral.

When the extraordinary losses are of such magnitude that they require the imposition of a special premium for a term greater than four (4) years, the Board shall impose a rate increase rather than a special premium. In one (1) year of operations premiums may not be raised in an amount higher than one hundred (100)

percent of the premium that was in effect at the beginning of said year in order to pay extraordinary losses.

In the event that all the described mechanisms have been exhausted, and the resources generated are not sufficient to cover the losses, the following shall be in order:

(1) In the first place, the reserves balance shall be used until it has been exhausted.

(2) If there still is a deficiency to be covered, the capital shall be used up to fifty (50) percent of the total accrued at the beginning of the year of operations.

(3) If there is still a deficiency, the resources of the Department of the Treasury shall be resorted to as provided in Section 31 of this Act.

Section 26.- Funds; Accounting System

All moneys of the Corporation, including its income from regular and special premiums, capital contributions, the income from investments, administrative fines, capital gains, loans, recovery of losses and any others, shall be deposited in the Fund. Disbursements chargeable to said Fund may only be made for the purposes established in this Act, and, in every case, by request of the Executive President of the Corporation or of the officials authorized to do so, in the form and under the guarantees provided by law and the regulations thereunder.

The Corporation shall establish to the extent possible, an accounting system in accordance with the generally accepted accounting principles (GAAP) for insurance companies in the public practice of accounting. Said system shall provide for the adequate identification of the source of the income and capital contributions as well as the nature of the charges against income.

All operating expenses of the Corporation, plus losses incurred, shall be charged annually against the income of the year from regular or special premiums, administrative fines, interest, and any other charges that are imposed pursuant to this

Act. If said income is not sufficient to cover the operating expenses plus the claims, up to twenty-five (25) percent of the reserves shall be initially used to cover the deficiency. If the deficiency exceeds twenty-five (25) percent of the reserves, action shall be taken as provided in Section 25 of this Act.

The Corporation shall keep accounts that reflect the individual balance and aggregate of the capital contributed by the Insured Cooperatives and of the regular and special premiums paid by them, as well as the balance of the line of credit with the Government of the Commonwealth of Puerto Rico and with private institutions, if any.

Section 27.- Investment Policy

The Board, upon consultation and with the advice of the Government Development Bank, shall adopt, within ninety (90) days following the date of approval of this Act, the rules, criteria, and procedures for the investment of the resources of the Corporation. In the adoption of said rules, criteria, and procedures, the contingent nature of the shares and deposits insurance and the possibility that the Corporation could be forced to have to liquidate investments in order to make special unforeseen disbursements, shall be taken into consideration. As long as it is not inconsistent with the solvency and security of the Corporation or with the performance of its functions, the investment policy shall favorably consider the channeling of resources to entities of the Cooperative Movement with a proven financial and managerial condition. The rules to be adopted shall also establish the internal control systems that shall be observed to perform the transactions related to the investment of Corporation funds.

Investments may be made in Cooperative enterprises not insured by the Corporation, provided the investment criteria and principles provided in this Act are observed.

The deposits of the Corporation in financial institutions shall be treated as public funds and the financial institutions shall have to meet the legal requirements in order to receive them. For deposits in institutions classified by financial instruments evaluating agencies that are internationally recognized, the investment policy shall establish when the requirement of being considered as public funds may be waived.

With the advice of the Bank, the Corporation may modify these rules from time to time, as required by market conditions. Said Bank shall handle the inquiries of the Board with the urgency and priority imposed by unforeseen fluctuations and changes in the parameters that govern the financial markets.

Section 28.- Administration of Investments

The Board may contract the services of the Government Development Bank or those of a private person or entity to administer the investments of the Corporation pursuant to the investment policy and the terms adopted by the Board. Likewise, the Board may delegate this function on an investment officer of the Corporation.

The person or entity that is in charge of investment management shall render periodic investment reports to the Executive President at least once (1) a month. Likewise, he/she or it shall render such other investment reports to the Board as often as required by the latter, but at least every three (3) months. Said report shall itemize the following, in addition to any other data required by the Board:

- (1) The purchase and sale of securities during the period corresponding to said report.
- (2) The profits and losses of said purchases and sales.
- (3) The interest earned during the period comprised in the report.
- (4) The collaterals that have been pledged as security and their estimated market value.
- (5) The liquid assets available to handle unforeseen situations.

(6) The profits or losses that the Corporation would have if forced to liquidate financial assets to handle extraordinary losses.

Section 29.- Loans and issue of debt instruments and other securities

(a) Subject to the approval of two thirds (2/3) of the total members of the Board, the Corporation is hereby authorized to borrow money from any private or public financial entity or Cooperative in nature, provided said transaction is performed under terms and conditions that are consistent with and related to market conditions. Under equal conditions, preference shall be given to Cooperative entities organized under the laws of the Commonwealth of Puerto Rico. The Government Development Bank and the Economic Development Bank are likewise empowered to grant loans to the Corporation under the conditions agreed among themselves, including the execution of sureties. The Secretary of the Treasury shall have the obligation to guarantee the payment of the principal of and interest on loans made or to be made by the Corporation, as well as any advance of money through a promissory note, notes, capital obligations, bonds, or other debt instrument issued by the Corporation.

(b) (1) Subject to the approval of two thirds (2/3) of the total members of the Board, the Corporation may issue debt instruments or other securities with or without par value, in the series and denominations, and with the preferences and relative rights, of shares or other special, conditional, limited, or restricted rights that are stated and expressed in the resolution or resolutions that provide for the issue of said instruments as approved by the Board of Directors. No instrument issued by the Corporation shall grant voting rights or participation in the assemblies of the Corporation or in the processes for the election of directors or the designation of officers of the Corporation. Instruments that impose prior conditions to the Corporation regarding decisions on the operations or the public policy of the corporation shall not be issued nor sold.

(2) The instruments issued by the Corporation may be redeemable in the terms and at the prices, and may be issued with the denominations, preferences, and relative rights of shares, options, or other special rights and their conditions, limitations, or restrictions that are consigned in the resolution or resolutions that provide for the issue of these stocks, that are approved by the Board of Directors with a two thirds (2/3) vote of the total of its members thereof. The instruments issued by the Corporation may be collateralized.

(3) The holders of securities of any class or series issued by the Corporation, shall be entitled to dividends or interest at the rate and under the conditions and terms that are set forth in the resolution or resolutions that provide for the issue of these stocks, that are approved by the Board of Directors by a two thirds (2/3) vote of the total members thereof. The dividends or interest accrued by the persons who acquire or hold any class of instruments issued by the Corporation shall be exempt from income taxes under Act No. 120 of October 31, 1994, as amended, known as the "Puerto Rico Internal Revenue Code of 1994," and from all types of personal property taxes.

Section 30.- Appropriations

When the Chairperson of the Board of the Corporation certifies that the Corporation does not have sufficient funds to honor a loan, he/she shall notify the certification to the Secretary of the Treasury, who is hereby authorized to disburse from the General Fund, upon notice to the Director of the Office of Management and Budget, the money required for the payment of principal of and interest on said loan. The sums borrowed or advanced, plus the respective interest, shall be honored through a fund appropriation to be included in the budget of the second fiscal year following the year in which said loans or advances were granted. The total funds disbursed by the Secretary of the Treasury pursuant to this Section, plus the amounts guaranteed under the provisions of Section 29(a) of this Act, shall not exceed the

sum of thirty million dollars (\$30,000,000). This authorization to the Secretary of the Treasury shall remain in effect until the close of fiscal year 2010. Provided, that the guarantee shall be reduced by the total amount of the capital of the Corporation. Provided, further, that in the event that in one (1) accounting year there is a reduction in the capital of the Corporation, the guarantee shall not increase to compensate for said reduction, and the guaranteed amount shall be the same as the previous year.

Section 31.- Availability of Government Resources

The Corporation is hereby authorized to borrow money from the Department of the Treasury of Puerto Rico. The Secretary of the Treasury is hereby authorized and directed to loan to the Corporation, from any available funds, and subject to the terms that are mutually established, the funds that from time to time are requested by the Corporation to pay the guarantee established by the shares and deposits insurance. These loans shall be subject to an equal maximum amount, whichever is greater: (1) the sum that the Corporation has disbursed or encumbered, including reserves, capital, and the estimated actuarial value at the time of the petition of outstanding special premiums; or (2) the capital contributed by the Insured Cooperatives to the Corporation. The Corporation may require unlimited disbursements by fiscal year. The Corporation shall reimburse the funds loaned by the Government of the Commonwealth of Puerto Rico pursuant to the terms and conditions agreed upon with the Secretary of the Treasury at the time the loans are granted, but taking into account the liquidity needs and resources of the Corporation. Said terms may include collaterals pledges, including those of special premiums or future income from tax rates that are fixed pursuant to this Act and whose collection has been deferred for future years.

Section 32.- Annual Report of the Corporation

The Corporation shall render an annual report on all its operations and activities to the Governor, the Legislative Assembly, and the Cooperatives, not later than thirty (30) days after the date it is approved by the Board. This report shall include the following:

(1) A financial statement certified by a certified public accountant.

(2) A statement of income and expenses for the corresponding report year.

(3) Itemized statements on the claims experience of the program during the year, including claims paid, those reported and unpaid, as well as an estimate of those incurred and not reported.

(4) A report on the investment securities and property deeds of the Corporation.

(5) Information on the liquidity of the program, the nature and quality of its collaterals and an evaluation that includes, among others, the data and statistical and financial indicators that are deemed necessary for the adequate interpretation of the actuarial condition of the shares and deposits insurance, and the result of its operations.

A copy of the annual report shall be submitted to the consideration of the Insurance Commissioner of Puerto Rico, who shall evaluate it and inform the Board of Directors and the Governor of the deficiencies and recommendations he/she deems necessary regarding the financial situation of the Corporation and the sufficiency of the reserves.

Section 33.- Annual Assembly

The Corporation shall hold an annual informative assembly of all Insured Cooperatives within ninety (90) days following the close of its annual operations. The annual report mentioned in Section 32 of this Act shall be discussed in this Assembly. Should there be causes that prevent the holding of the Assembly within

said period, the Board may, with the approval of two thirds (2/3) of its members, postpone the holding thereof for a maximum period of one hundred and twenty (120) days.

Section 34.- Omission to Render Reports

Every Insured Cooperative that without just cause fails to file, correct, or publish the reports required by this Act, or fails to pay the premiums or contribute the capital required by this Act, within the term of thirty (30) days counting from the date on which the Corporation requires the same, shall be subject to an administrative fine of not more than one hundred dollars (\$100) for each day it fails to comply with said obligation.

Section 35.- Violation of Regulations

Every Insured Cooperative that fails to comply with the rules and regulations adopted by the Corporation pursuant to this Act, shall be subject to the payment of an administrative fine that shall not exceed one hundred dollars (\$100) for each day that said noncompliance subsists.

Section 36.- Supervision and Auditing by the Comptroller

The assets, accounts, disbursements, funds, and income of the Corporation shall be subject to supervision and to the audits conducted by the Office of the Comptroller of the Commonwealth of Puerto Rico.

Section 37.- Subsection (17) is hereby repealed and subsection 18 is hereby renumbered as subsection (17) of Section 4 of Act No. 4 of October 11, 1985, as amended, to read as follows:

“Section 4.- Definitions

For the purposes of this Act, the following terms shall have the meaning stated hereinbelow:

(a) ...

(g) ...

(1) ...

(17) The Commonwealth of Puerto Employees Association, created by Act No. 133 of June 28, 1966, as amended [3 L.P.R.A. § 862 *et seq.*], regarding the businesses that the Office of the Commissioner has the duty to oversee and supervise.

(h) ...”

Section 38.- Subsection (a) and the first paragraph of subsection (b) of Section 8 of Act No. 4 of October 11, 1985, as amended, are hereby amended to read as follows:

“Section 8.- Financial Board - Creation and Members

(a) The Financial Board is hereby created in the Office of the Commissioner, which shall be composed of nine (9) members, including the Commissioner.

(b) The other members are: The Secretary of the Treasury, who shall act as the Chairperson of the Board, the Secretary of Economic Development and Commerce, the Secretary of Consumer Affairs, the President of the Economic Development Bank for Puerto Rico, the Chairperson of the Planning Board, the President of the Government Development Bank for Puerto Rico, the Executive President of the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico, and the Insurance Commissioner.

...”

Section 39.- Repeals

Act No. 5 of January 15, 1990, as amended, known as the “Shares and Deposits Insurance Corporation for Cooperative Savings and Credit Unions Act,” is hereby repealed.

Section 40.- Continuity of Operations

(a) The Corporation shall maintain its juridical, operational, and financial existence in a continuing and uninterrupted manner, being subject to the provisions of this Act, as of its approval, regardless of the repeal of Act No. 5 of January 15, 1990.

(b) The regulations, orders, agreements, administrative procedures, contracts, and other actions of the Corporation adopted and initiated prior to the approval of this Act shall remain in effect until the same are modified in accordance to the provisions of this Act.

Section 41.- Severability

If any provision of this Act were held to be null or unconstitutional by a court with jurisdiction and competence, said holding shall not affect nor invalidate the remainder of this Act. The effect of said holding of nullity or unconstitutionality shall be limited to the provision thus held.

Section 42.- Effectiveness

This Act shall take effect immediately after its approval.

CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 114-2001 (H. B. 843)** of the **1st Regular Session** of the **14th Legislative Assembly of Puerto Rico**:

AN ACT to restructure the Shares and Deposits Insurance Corporation for Cooperative Savings and Credit Unions; redefine its ends and purposes; provide for its organization, capital structure, and eligibility standards so that cooperative savings and credit unions may avail themselves of the Shares and Deposits Insurance; authorize it to regulate the operations of cooperatives to safeguard their financial solvency and empower it to impose penalties for violations of this Act; repeal subsection (17) and renumber subsection (18) as subsection (17) of Section 4; and amend subsection (a) and the first paragraph of subsection (b) of Section 8 of Act No. 4 of October 11, 1985, as amended; [...]

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on this 11th day of April, 2018.

Orlando Pagán-Ramírez
Director