



ASSOCIATION FOR
FINANCIAL
PROFESSIONALS

Underwritten by



CASH AND TREASURY MANAGEMENT COUNTRY REPORT

PUERTO RICO

Executive Summary

Banking

Puerto Rico does not have a central bank and relies on the US Federal Reserve System (the Fed), the US central bank, as its central regulatory institution. It does not maintain its own reserves.

Puerto Rico does not apply central bank reporting requirements.

Resident entities are permitted to hold fully convertible foreign currency bank accounts domestically and outside Puerto Rico. Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Puerto Rico.

Puerto Rico has nine commercial banks. In addition, there is also one state-owned development bank, 95 mortgage institutions, 29 international banking entities (IBEs), savings and loan associations, investment banks, finance companies, and other financial institutions.

Payments

Banks in Puerto Rico are participants in the US check clearing system as well as the Fedwire and ACH funds transfer systems.

The four main US clearing systems are Fedwire, CHIPS, ACH and check clearing.

Liquidity Management

Puerto Rican-based companies have access to a variety of short-term funding alternatives. There is also a range of short-term investment instruments available.

Cash concentration is the more common technique used by Puerto Rican companies to manage company and group liquidity. Of the available techniques, zero-balancing is the most commonly used.

Notional pooling is not available in Puerto Rico.

Trade Finance

Puerto Rico is part of the customs territory of the United States of America, and products imported from outside the USA are subject to the US tariff system and regulations and trade agreements.

© February 2019, AFP Country Profiles.

The material provided by PNC Bank, National Association (PNC), the Association for Financial Professionals (AFP) and AFP's contracted information supplier is not intended to be advice on any particular matter. No reader should act on the basis of any matter provided by PNC and AFP and AFP's contracted information supplier and third party suppliers in this document without considering appropriate professional advice. PNC, AFP and AFP's contracted information supplier expressly disclaim all and any liability to any person in respect of anything and of the consequences of anything done or omitted to be done by any such person in reliance upon the contents of this document.

The information provided is frequently subject to change without notice. The data and software are provided "AS IS" without any express or implied warranty of any kind including, without limitation, warranties of non-infringement, merchantability, or fitness for any particular purpose. PNC, AFP, and AFP's contracted information provider do not represent or warrant the information contained in this printed report, on this web site or on referred sites or sites accessible via hypertext links is complete or free from error and expressly disclaim and do not assume any liability to any person for any loss or damage whatsoever caused by errors or omissions in the data or software, whether such errors or omissions result from negligence, accident, quality, performance of the software, or any other cause.

All rights reserved. No part of the material provided by PNC, AFP and AFP's contracted information supplier and third-party suppliers may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of AFP and its contracted supplier.

PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

PINACLE®, PNC's top-rated, online corporate banking portal provides access to International Funds Transfers to more than 130 countries in U.S. dollars and foreign currencies.

Multicurrency Accounts

Demand deposit accounts that hold foreign currency instead of U.S. dollars offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. In addition, our EUR and GBP multicurrency accounts (MCAs) are able to receive payments via the local payment systems, SEPA and BACS/ FPS, respectively. You can easily view deposit and withdrawal details through PINACLE.

PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations. We offer a comprehensive treasury management platform in Canada including U.S. dollar and Canadian dollar accounts, payment initiation services (ACH, wire and check), receivables (A/R Advantage lockbox, branch deposits, electronic payments) and information reporting (with previous day through PINACLE®).

Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including U.S. dollar equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the

countries where you do business can help you simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a point of contact for setting up the account, help with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.
- PNC's Gateway Referral service can help you connect to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.

Disclosure

PNC, PNC Bank, ACHIEVEMENT, PINACLE, Working Cash, ActivePay, Global Trade Excellence, Vested Interest, Midland Loan Services, Enterprise!, CMBS Investor Insight, Portfolio Investor Insight, Borrower Insight, Shared Servicing, PNC Riverarch Capital, and PNC Erievew Capital are registered marks of The PNC Financial Services Group, Inc. ("PNC"). PNC Retirement Solutions is a service mark of PNC.

Bank deposit, treasury management and lending products and services, foreign exchange and derivative products (including commodity derivatives), and investment and wealth management and fiduciary services, are provided by PNC Bank, National Association ("PNC Bank"), a wholly-owned subsidiary of PNC and **Member FDIC**. Certain fiduciary and agency services are provided by PNC Delaware Trust Company.

Important Investor Information: Securities, insurance, foreign exchange, and derivative products are:

**Not FDIC Insured • Not Bank Guaranteed • Not A Deposit
Not Insured By Any Federal Government Agency • May Lose Value**

In Canada, PNC Bank Canada Branch, the Canadian branch of PNC Bank, provides bank deposit, treasury management, lending (including asset-based lending) and leasing products and services. Deposits with PNC Bank Canada Branch are not insured by The Canada Deposit Insurance Corporation or by the United States Federal Deposit Insurance Corporation.

Lending, leasing and equity products and services, as well as certain other banking products and services, require credit approval.

PNC does not provide legal, tax or accounting advice unless, with respect to tax advice, PNC Bank has entered into a written tax services agreement.

©2019 The PNC Financial Services Group, Inc. All rights reserved.

Contents

Executive Summary	2
PNC's International Services	4
Financial Environment	9
Country Information	9
Geographical Information	9
Business Information	9
Country Credit Rating	10
Economic Statistics	11
Economics Table	11
Sectoral Contribution as a % of GDP	12
Major Export Markets	12
Major Import Sources	12
Political and Economic Background	13
Economics	13
Interest Rate Management Policy	13
Foreign Exchange Rate Management Policy	13
Major Economic Issues	13
Politics	14
Government Structure	14
Major Political Issues	15
Taxation	17
Overview	17
Resident/Non-resident	17
Tax Authority	17
Tax Year	17
Corporate Taxation	17
Withholding Tax (Subject to Tax Treaties)	18
Tax Treaties / Tax Information Exchange Agreements (TIEAs)	19
Thin Capitalization	19
Transfer Pricing	19
Property Taxes	19
Municipal License Tax	19
VAT/Sales Tax	19
Advance Tax Rulings	20
Capital Gains Tax	20
Stamp Duty	20
Payroll and Social Security Taxes	20
Cash Management	21
Banking System	21
Banking Regulation	21
Banking Supervision	21

Central Bank Reporting	21
Exchange Controls	22
Bank Account Rules	22
Anti-money Laundering and Counter-terrorist Financing	23
Banking Sector Structure	24
Major Domestic Banks	24
Overall Trend	24
Payment Systems	26
Overview	26
High-value	27
Low-value	29
Payment and Collection Instruments	31
Overview and Trends	31
Statistics of Instrument Usage and Value	31
Paper-based	31
Checks	31
Bills of Exchange	32
Electronic	32
Credit Transfer	32
Direct Debits	32
Payment Cards	33
ATM/POS	33
Electronic Wallet	33
Liquidity Management	34
Short-term Borrowing	34
Overdrafts	34
Bank Lines of Credit / Loans	34
Trade Bills – Discounted	34
Factoring	34
Commercial Paper	34
Bankers’ Acceptances	34
Supplier Credit	34
Intercompany Borrowing, including Lagging Payments	34
Short-term Investments	35
Interest Payable on Bank Account Surplus Balances	35
Demand Deposits	35
Time Deposits	35
Certificates of Deposit	35
Treasury (Government) Bills	35
Commercial Paper	35
Money Market Funds	35
Repurchase Agreements	35
Bankers’ Acceptances	35

Liquidity Management Techniques	35
Cash Concentration.....	35
Notional Pooling.....	35
Trade Finance	36
General Rules for Importing/Exporting	36
Imports	37
Documentation Required.....	37
Import Licenses	37
Import Taxes/Tariffs	37
Financing Requirements.....	37
Risk Mitigation.....	37
Prohibited Imports.....	37
Exports	38
Documentation Required.....	38
Proceeds	38
Financing Requirements.....	38
Export Licenses	38
Export Taxes/Tariffs	38
Risk Mitigation.....	38
Prohibited Exports.....	38
Information Technology	39
Electronic Banking	39
External Financing	40
Long-term Funding	40
Bank Lines of Credit / Loans	40
Leasing	40
Bonds	40
Private Placement	40
Asset Securitization / Structured Finance	40
Government Investment Incentive Schemes / Special Programs or Structures	41
Useful Contacts	42
National Treasurers' Association.....	42
Central Bank.....	42
Supervisory Authority	42
Payment System Operators.....	42
Banks.....	42
Government of Puerto Rico.....	42
Puerto Rico Planning Board	42
Chamber of Commerce.....	42
Bankers' Association.....	42

Financial Environment

Country Information

Geographical Information

Capital	San Juan
Area	9,104 km ²
Population	3.29 million
Official languages	Spanish, English
Political leaders	Head of state — US President Donald J. Trump (since January 20, 2017) Head of government — Governor Ricardo Rosselló (since January 2, 2017)

Business Information

Currency (+ SWIFT code)	US dollar (USD)
Business/banking hours	08:00–17:00 (Mon–Fri) (Business) 08:00–14:30 (Mon–Fri) (Banking)
Bank holidays	2019 — March 22, May 27, July 4, 25, September 2, October 14, November 11, 19, 28, December 25 2020 — January 1, 6, 20, February 17, March 2, 23, April 10, May 25, July 4, 25, September 7, October 12, November 3, 11, 19, 26, December 25 2021 — January 1, 6, 18, February 15, March 22, April 2, May 31, July 5, 26, September 6, October 11, November 11, 19, 25, December 25 Source: www.goodbusinessday.com .
International dialing code	+ 1 (787)

Country Credit Rating

Fitch Ratings does not publish a sovereign credit rating for the Commonwealth of Puerto Rico.

Economic Statistics

Economics Table		2012	2013	2014	2015	2016
GDP per capita	(USD)	27,716	28,329	28,644	29,360	30,516
GDP	(USD billion)	101.6	102.5	102.5	103.1	105.0
GNP volume growth*	(%)	+ 0.5	- 0.1	- 1.8	- 0.8	- 1.3
BoP (goods & services) as % GDP		- 13.9	- 13.6	- 13.2	- 11.2	- 8.4
Consumer inflation*	(%)	+ 1.3	+ 1.1	+ 0.6	- 0.8	- 0.3
Population	(million)	3.7	3.6	3.6	3.5	3.4
Unemployment	(%)	14.5	14.2	13.9	12.1	11.8
Interest rate (local currency MMR)	(%)	NA	NA	NA	NA	NA
Exchange rate		na	na	na	na	na

		2017	2018			
			Q1	Q2	Q3^P	Q4^P
GDP per capita	(USD)	31,576	-	-	-	-
GDP	(USD billion)	104.2	-	-	-	-
GNP volume growth*	(%)	- 2.4	NA	NA	NA	NA
BoP (goods & services) as % GDP		- 7.6	-	-	-	-
Consumer inflation*	(%)	+ 1.8	+ 1.6	+ 1.2	+ 1.3	NA
Population	(million)	3.3	-	-	-	-
Unemployment	(%)	10.9	10.6	9.6	8.8	8.0
Interest rate (local currency MMR)	(%)	NA	NA	NA	NA	NA
Exchange rate		na	na	na	na	na

*Year on year. P = Provisional. NA= Not available. na= not applicable.

Sources: Government Development Bank and Planning Board of Puerto Rico, February 2019.

Sectoral Contribution as a % of GDP

Agriculture - 0.8%

Industry - 50.1%

Services - 49.1% (2017 estimate)

Major Export Markets

USA (74.9%), Belgium (3.7%), Netherlands (3.2%), Italy (2.7%), Austria (1.7%)

Major Import Sources

USA (47.7%), Ireland (10.9%), Singapore (5.2%), Switzerland (3.5%), Brazil (3%)

Political and Economic Background

Economics

Interest Rate Management Policy

A US territory with commonwealth status, Puerto Rico has no central bank and no independent monetary policy. It relies on the US Federal Reserve System (the Fed) as its central regulatory institution. The Fed's main objectives are maximum employment, stable prices and moderate long-term interest rates. Interest rates are set at eight annual meetings of the Fed's Federal Open Market Committee (FOMC).

Foreign Exchange Rate Management Policy

The exchange rate policy is determined by the US Department of Treasury in consultation with the Fed. Although they are permitted to intervene in the foreign exchange market to manage the US dollar exchange rate relative to other currencies, their intervention has become less frequent in recent years. The Federal Reserve Bank of New York has the responsibility of executing foreign exchange intervention.

Major Economic Issues

Puerto Rico had one of the most dynamic economies in the Caribbean until 2006; however, the island has been in and out of recession since 2007. Manufacturing replaced agriculture as the greatest contributor to Puerto Rico's economic activity and income largely due to "Operation Bootstrap," which, from the late 1940s, attracted US investment through tax incentives and duty-free access to the USA. Tourism is also an important component of the economy.

Puerto Rico's economic performance is closely linked to the business cycle and tax regime in the US as well as to the level of transfers from the US federal government. Severely hit by the economic downturn in the US and soaring food and energy prices, the Puerto Rican economy has contracted by 20% since 2008. The economic recession worsened sharply in the hurricane-ravaged Island in fiscal year 2018, with the economy shrinking by an estimated 8%. However, reconstruction efforts, helped by the disbursement of federal funds, are expected to contribute to a partial recovery, with the economy bouncing back in 2019 with growth of 5.9%, followed by a gradual slowdown in the growth rate as disaster spend wanes.

In February 2014, three Wall Street credit rating agencies cut Puerto Rico's debt to junk status, citing concerns over the island's weak economic growth and ability to access capital markets. In August 2015, the government defaulted on most of a USD 58 million bond payment to the Public Financing Corporation, its first-ever bond default, signaling the beginning of a long and contentious restructuring process for its debt. The government defaulted twice in 2016, as it continues to struggle to find money for services and future debt payments. The July 2016 default followed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), which

was meant to help the government of Puerto Rico restructure its debt and prevent it from being sued for defaulting bond payments. In February 2017, the government defaulted on USD 312 million of bond payments, including USD 279 million owed by the Government Development Bank.

In May 2017, Puerto Rico filed for a form of bankruptcy protection under Title III of PROMESA, which allows an in-court debt restructuring process similar to a traditional bankruptcy protection under Chapter 9 of the US code. The move came a day after several major bondholders sued the island's government over defaults on its USD 70 billion debt.

In July 2017, Puerto Rico's troubled state-owned power company PREPA filed for bankruptcy after the Financial Oversight and Management Board for Puerto Rico rejected an agreement with creditors to restructure USD 9 billion of debt.

In September 2017, Puerto Rico was hit by Hurricane Maria, the strongest storm to hit the island in nearly a century, killing over 50 people according to official figures, destroying buildings, downing nearly all power and communications, and forcing thousands to leave the island. In January 2018, the government said that Puerto Rico's ability to pay back even a fraction of its debt to creditors has been reduced by Hurricane Maria, which has caused between USD 45 billion and USD 95 billion in damages according to estimates by local authorities. According to a revised new fiscal plan which was approved in October 2018, increased federal support and new fiscal measures would result in an accumulated USD 30 billion surplus during the next 15 years.

In November 2018, the government, which is trying to restructure about USD 120 billion in debt and pension liabilities, completed a court-approved restructuring of about USD 4 billion of debt related to the Government Development Bank (GDB), marking its first consensual deal with creditors to win court approval. In February 2019, a second deal, involving USD 17 billion of debt from Puerto Rico's Sales Tax Financing Corporation (COFINA) won court approval. This new deal will help the government to save an average of USD 456 million a year in debt service.

The unemployment rate stood at 8.3% in December 2018, up from 7.7% in the previous month but down from 11% in December 2017. Although unemployment has been falling in recent months, the rate is still more than double the US average. Poverty and high price volatility remain pressing issues.

Politics

Government Structure

Puerto Rico is a self-governing, unincorporated territory of the USA with commonwealth status. It has its own constitution and authority over internal affairs.

Puerto Rico does not have any first-order administrative divisions as defined by the US government, but there are 78 municipalities at the second level.

Puerto Rico has limited representation in the US Congress in the form of a non-voting Resident Commissioner, who is elected by popular vote every four years.

The US President is the head of state and the Governor of Puerto Rico is the head of government.

Executive

The executive is headed by the Governor of Puerto Rico. The governor appoints his cabinet with the approval of the Legislative Assembly.

The current administration is headed by Governor Ricardo Rosselló, of the Partido Nuevo Progresista (PNP) (New Progressive Party — NPP), who took office on January 2, 2017.

Elections are held every four years. The next round of elections are to be held in November 2020.

Legislature

The legislature has two houses.

The 51-member House of Representatives is directly elected every four years. Members are elected to represent each of the 40 representative districts. In addition, the people of Puerto Rico elect 11 representatives from the commonwealth as a whole.

The Senate, which normally has 27 members, is directly elected every four years. The people of Puerto Rico elect two senators for each of the eight senatorial districts (each formed by eight representative districts) and 11 from the commonwealth as a whole. An additional member of the opposition is added if an overwhelming majority is held by the ruling party.

The next elections are scheduled for November 2020.

International memberships

Puerto Rico does not have autonomy in the areas of international relations and defense, which are controlled by the US federal government. However, it has been given some freedom to hold talks with its neighbors, especially in the Caribbean, where it has joined the Caribbean Community (CARICOM) with observer membership status.

Major Political Issues

On November 8, 2016, Ricardo Rosselló, of the New Progressive Party (NPP) and a strong supporter of statehood for Puerto Rico, won the gubernatorial race with 41.9% of the vote, after campaigning on a pledge to turn the island into the US 51st state during his term. His main opponent, David Bernier, of the governing pro-commonwealth Popular Democratic Party (PPD), had 30% of the vote. Mr. Rosselló took office on January 2, 2017. Previous governor, Alejandro García Padilla, of the PPD, did not seek re-election.

Puerto Rico's commonwealth status remains a controversial issue. Since 1952, the political status has been the single most important political issue in the island. Although voters chose not to change the island's status in plebiscites held in 1967, 1993 and 1998, the issue is still being debated and is on the agenda of all political parties. The PPD seeks to maintain or improve the island's commonwealth status while the New Progressive Party (PNP) seeks the incorporation of Puerto Rico as a US state, and the Puerto Rican Independence Party (PIP) seeks independence. A two-part non-binding referendum to help decide on the island's political status was held on November

6, 2012. In the first part, nearly 54% of voters opted to change the island's current commonwealth status. In the second part, for the first time ever, a majority of 61% of voters chose statehood over independence or sovereignty in association with the United States. Another non-binding referendum on the island's political status was held on June 11, 2017, and again a majority, this time of 97% of those who voted, voted in favor of statehood. However, the result has been rejected as meaningless by all major parties against statehood, which boycotted the event, as turnout stood at just 23%.

Another pressing political issue is the state of public finances of Puerto Rico. On his first day in office, the new governor Ricardo Rosselló signed six executive orders, including one that declares a state of fiscal emergency for the government, requiring every public agencies to cut operational expenses without affecting essential services provided to the population. Mr. Ricardo Rosselló has also said that his administration will put in place specific plans aimed at regaining the confidence of the financial markets and the federal government.

In May 2017, the Puerto Rico's financial oversight board filed for bankruptcy protection under Title III of PROMESA, in what turned out to be the largest ever US municipal debt restructuring. Although the move will allow the island's government to impose discounts on credit recoveries, it could also further complicate its efforts to pull itself out of a financial crisis by scaring away investors and prolonging the government's lack of access to debt markets.

In April 2018, the financial oversight board approved a "New Fiscal Plan" forecasting a 13.2% economic contraction in fiscal year 2018 and a drop of 12% in the island's population by 2023. Unlike the original fiscal plan, which set aside USD 800 million a year for creditors, the new plan does not set aside funds to pay creditors in the next five years. The plan also calls for steep cuts in government spending and pensions despite strong objections from the island's government. In August 2018, a US federal judge rejected a legal challenge filed by the island's government against the financial oversight board's authority to impose cost-saving measures. In October 2018, a revised version of the plan was approved by the financial oversight board. The revised plan calls for a spending cuts of USD 427 million this fiscal year, almost doubling to USD 926 million in fiscal year 2020. The revised plan also projects a cumulative USD 30 billion surplus during the next 15 years, mostly triggered by the USD 82 billion in federal hurricane recovery funds.

In January 2019, the US government said that it is examining the possibility of declaring a national emergency and redirecting disaster relief funds, including USD 2.5 billion allocated to assist Puerto Rico's recovery from Hurricane Maria, to fund its proposed wall along the border with Mexico. The announcement has raised concerns in Puerto Rico and has led Mr. Rosselló to say that he is "ready for battle" with the Mr. Trump if the US government does try to use funds that have already been set aside for Puerto Rico's recovery to help finance the border wall.

Rising crime and a current exodus of professionals and middle-class Puerto Ricans to mainland USA, which has increased significantly due to the devastation caused by Hurricane Maria in September 2017, remain pressing issues.

Taxation

Overview

Puerto Rico's taxation code is based on the US Internal Revenue Code with certain differences (see AFP Cash and Treasury Management Country Report for USA).

Resident/Non-resident

A corporation is considered resident if it is created or organized under Puerto Rican law, or if it is a foreign corporation engaged in business in the territory may be deemed to have a permanent establishment.

For tax purposes, the United States is considered a foreign jurisdiction.

Tax Authority

Puerto Rico Treasury Department (PRTD).

Tax Year

The Puerto Rican tax year may correspond to the calendar or fiscal year.

Corporations submit their self-assessed tax return and pay the tax by the 15th of the fourth month following their year end. Extensions for three months may be requested.

Corporation tax is paid through quarterly estimated payments on the 15th of the fourth, sixth, ninth and 12th month of the corporation's tax year.

Taxpayers with a volume of business exceeding USD 50 million and that do business in certain sectors (commercial and private banks, trust companies, brokerage firms, insurance companies and telecommunications companies) are required to file their income tax returns at the tax office designated by the Secretary, or electronically in some cases. Failure to comply will result in the imposition of penalties.

Consolidated returns are not an option under the Tax Code. Each entity must file a separate return.

Corporate Taxation

Resident corporations are taxed on their worldwide income, while foreign corporations are taxed on their Puerto Rican-sourced income.

The standard rate of corporate tax is 20%.

A progressive surtax is levied on normal-tax net income:

- 5% for surtax net income up to USD 75,000.
- USD 3750 plus 15% of surtax net income over USD 75,000 to USD 125,000.

- USD 11,250 plus 16% of surtax net income over USD 125,000 to USD 175,000.
- USD 19,250 plus 17% of surtax net income over USD 175,000 to USD 225,000.
- USD 22,750 plus 18% of surtax net income over USD 225,000 to USD 275,000.
- USD 36,750 plus 19% of surtax net income over USD 275,000.

The first USD 25,000 of net income is not subject to the surcharge. If a corporation is under common control, a surcharge exclusion may be granted to one entity, or may be allocated among the controlled group equally or according to an apportionment plan agreed upon by all members of the controlled group.

The alternative minimum tax (AMT) is calculated as the greater of:

(a) alternative minimum net income taxed at a 30% rate, plus the additional tax on gross income (discussed below); or

(b) 20% of the expenses incurred or paid to a related person that are not subject to tax in Puerto Rico (including head office expenses allocated to a branch), plus 2.5% to 6.5% of the value of personal property purchased from related persons (if certain thresholds are met), plus the additional tax on gross income.

The additional tax on gross income is applicable to entities engaged in a trade or business in Puerto Rico and is part of the AMT calculation.

Net operating losses incurred in tax years beginning after December 31, 2004 and before January 1, 2013 may be carried forward for 12 years; net operating losses incurred in tax years beginning after December 31, 2012 may be carried forward for ten years. The deduction is limited to 80% of the net income for the year. Losses may not be carried back.

Various incentives are available, such as tax rate reductions for manufacturing services and export services, which can lower the income tax rate to 4% or less.

Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties	Technical service fee	Other income	Branch Remittances
Resident corporations	None	10%	None	None	None	NA
Non-resident corporations	0 / 29% ¹	10%	29%	1.5% ²	20 / 29% ³	10% ⁴

1. Interest paid to related parties not engaged in a trade or business in Puerto Rico generally is subject to a 29% withholding tax.

2. A special contribution of 1.5% of the total contract amount is imposed on any contract for professional services, consulting services or legal services entered into with the Commonwealth of Puerto Rico.

3. Other items of fixed or determinable annual or periodic Puerto Rico-source income that are paid to non-resident aliens or foreign corporations and US citizens are subject to a 29% and a 20% withholding tax, respectively. Income subject to the withholding tax, besides royalties, includes license agreements and rental payments.

4. There is a 10% branch profit tax on the dividend equivalent.

Tax Treaties / Tax Information Exchange Agreements (TIEAs)

Puerto Rico has no tax treaties with foreign countries. All tax treaties between USA and other countries apply unless the treaty explicitly excludes Puerto Rico.

United States has exchange of information relationships with 88 jurisdictions through 60 double tax treaties and 34 TIEAs (www.eoi-tax.org, May 2018).

Thin Capitalization

While there are no specific thin capitalization rules in Puerto Rico, guidance is provided based on the US rules.

Interest payments to foreign group corporations must be justified under arm's length pricing rules.

Transfer Pricing

Puerto Rico's transfer pricing regulations are similar to those in the United States.

Property Taxes

The tax rate varies by location, but most municipalities assess a tax of approximately 8.03% to 11.83% of the 1958 market value of the property.

The transfer of real property is subject to a stamp tax. The transfer tax to be paid depends on the value of the property transferred.

Personal property tax is imposed on certain personal property located in Puerto Rico (e.g. average monthly inventory, furniture and fixtures and supplies). The rates range from 5.80% to 9.83%.

Municipal License Tax

A municipal license tax is imposed on the gross receipts of a business. The rate imposed depends on the municipality (generally, the rate is 0.5%).

VAT/Sales Tax

Puerto Rico has a 11.5% sales and use tax (SUT) of 10.5% commonwealth sales tax and 1.0% municipal sales tax. There is a reduced 4% SUT on certain business to business (B2B) and designated professional services

A number of goods and services are exempt, including foods and health services.

Exports are zero rated as are sales of raw material.

A merchant that generates less than USD 50,000 in gross sales during the preceding taxable year are considered a small merchant. Small merchants are not withholding agents and, thus, not be required to collect and remit VAT.

Advance Tax Rulings

Private rulings are available from the PRTD for pending transactions. Closing agreements and voluntary disclosure agreements also may be negotiated with the tax authorities.

Capital Gains Tax

Long-term (over six months) capital gains are taxed at at 20%. Losses from the sale or exchange of capital assets may offset only 80% of the gains from the sale or exchange of capital assets.

Stamp Duty

The transfer of real property is subject to a stamp tax. The transfer tax to be paid depends on the value of the property transferred.

Payroll and Social Security Taxes

Payroll tax consists of social security contributions and unemployment (federal and state) and disability insurance. Puerto Rico employers are subject to the Federal Insurance Contributions and Federal Unemployment Tax Acts provisions of the US Internal Revenue Code.

Social security taxes are comprised of old age/survivor/disability taxes (OASDI) and Medicare/hospitalization insurance, both borne equally by the employer and the employee as a percentage of the employee's wages, with the employer responsible for remitting the tax to the federal government. The combined OASDI rate is 12.4% (i.e. 6.2% each for the employer and the employee) and the combined Medicare rate is 2.9% (i.e. 1.45% each for the employer and employee).

OASDI is levied on the first USD 128,400 of wages for 2018. Medicare is levied on total wages. The portion of social security taxes borne by the employer is tax-deductible.

There are also federal and state unemployment insurance schemes to which employers have to contribute along with disability and accident insurance schemes.

Department of Treasury of Puerto Rico and Deloitte Puerto Rico Highlights, 2018 (www.deloitte.com)

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

Puerto Rico does not have a central bank and relies on the US Federal Reserve System (the Fed), the US central bank, as its central regulatory institution. It does not maintain its own reserves.

The Fed, a network of 12 regional Federal Reserve Banks, headed by the Washington-based Board of Governors, was established in 1913 through the Federal Reserve Act. It exercises monetary policy by controlling the availability of funds and setting basic interest rates.

Puerto Rico is under the supervisory jurisdiction of the Federal Reserve Bank of New York, the largest of the 12 regional Reserve Banks in terms of assets and volume of activity.

Other banking supervision bodies

Bank supervision is performed by the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico, which is also responsible for supervising securities firms.

Central Bank Reporting

General

Puerto Rico does not have a central bank and relies on the Fed, the US central bank, as its central regulatory institution. It does not apply central bank reporting requirements.

What transactions - listed

Non-banking businesses located in the Puerto Rico are required to submit monthly and quarterly reports on assets, liabilities and forward positions in foreign exchange to the US Treasury.

Cash transfers from Puerto Rico with a value above USD 10,000 must be registered with the Internal Revenue Service.

Transfers from or into Puerto Rico with a value above USD 10,000 in any currency or instrument must be filed as a Report of International Transportation of Currency and Monetary Instruments with the Treasury and US Customs.

Whom responsible

Financial institutions report these transactions on behalf of their clients.

All individuals and companies must retain records for five years.

Additional reporting for liquidity management schemes

There are no additional reporting requirements.

Exchange Controls

Exchange structure

The US dollar is Puerto Rico's official currency.

Classification

Puerto Rico is part of the US monetary system. The exchange rate is independently floating and is calculated freely in the foreign exchange market.

Exchange tax

There is no exchange tax.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

There are no restrictions on forward foreign exchange markets.

Capital flows

There are controls on certain capital transactions with state-owned entities in restricted countries such as Myanmar. In such cases, a license is required from the Treasury Department.

Loans, interest and repayments

There are no controls on the provision of loans by commercial banks.

Royalties and other fees

There are no restrictions.

Profit remittance

There are no restrictions on the remittance of profits into or out of Puerto Rico.

Bank Account Rules

Resident entities are permitted to hold fully convertible foreign currency bank accounts domestically and outside Puerto Rico.

Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Puerto Rico.

To open a bank account, a company must adhere to account opening procedures established by the bank supervising agencies. These procedures include, but are not limited to, the Customer Identification Procedure (CIP) and Know Your Customer (KYC) procedures.

Anti-money Laundering and Counter-terrorist Financing

Puerto Rico is an unincorporated territory of the US with commonwealth status and as such is under Federal regulations. Unless specifically stated, Puerto Rico is also subject to all laws and most regulations of the U.S. government.

- The USA has implemented anti-money laundering legislation (the Bank Secrecy Act of 1970 and associated Regulations; the Money Laundering and Financial Crimes Strategy Act of 1998; the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (PATRIOT) Act of 2001; the International Counter Money Laundering and Foreign Anti-Corruption Act of 2001; the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001; the Sarbanes-Oxley Act of 2002; the Combating Financing of Terrorism Act of 2003; the Tools to Fight Terrorism Act of 2004; the Intelligence Reform and Terrorism Prevention Act of 2004 and the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010; the National Defense Authorization Act for Fiscal Year 2012 and the Money Remittance Improvement Act of 2014). The Financial Intelligence Unit, FinCEN, has also issued related Guidance notes.
- A Financial Action Task Force (FATF) member, the USA observes most of the FATF 49 standards. The USA is also a member of the Caribbean Financial Action Task Force (CFATF) (as a Co-operating and Supporting Nation), the Asia Pacific Group on Money Laundering (APG), the Organisation of American States/Inter-American Drug Abuse Control Commission (OAS/CICAD) and the Council of Europe MONEYVAL Select Committee (as an observer jurisdiction).
- The USA has established a financial intelligence unit (FIU), The Commissioner of Internal Revenue Financial Crimes Enforcement Network (FinCEN) which is a member of the Egmont Group.
- Account opening procedures require formal identification of the account holder.
- Existing customers are exempt from the verification requirements as long as the financial institutions have a “reasonable belief” that they know the true identity of the customer.
- Financial institutions must identify any individual making a transaction for which a report is required.
- Financial institutions are required to conduct on-going CDD.
- Financial institutions in the broadest sense must report to FinCEN suspicious transactions of USD 5,000 or above. Institutions are encouraged to voluntarily report suspicious transactions below this amount.
- All currency transactions exceeding USD 10,000 (daily aggregate amount) must be reported to the FinCEN.
- Financial institutions must maintain records when issuing a bank check or draft, traveler’s check or money order exceeding USD 3,000.
- Financial institutions do not have to retain copies of the identification information but records of the method of identification and the identification number must be kept for at least five years after the date of the transaction.

Data as at January 2019.

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) December 31, 2018
Banco Popular de Puerto Rico	37,919
First Bank	12,232
Oriental Bank	6,530
Santander Puerto Rico	5,178
Scotiabank de Puerto Rico	4,043
Citibank N.A.	2,529*

*As of September 30, 2018.

Source: Federal Financial Institution Examination Council.

Overall Trend

Puerto Rico has nine commercial banks, including international banks such as Scotiabank and Santander. In addition, there is also one state-owned development bank, 95 mortgage institutions, 29 international banking entities (IBEs), savings and loan associations, investment banks, finance companies, and other financial institutions. Banco Popular and First Bank are the biggest commercial banks in Puerto Rico. All major banks operating in Puerto Rico offer the full range of banking services to corporate clients.

There have been some significant changes in the banking industry in recent decades. In the early 1990s, a number of savings and loans associations converted into commercial banks, mostly small institutions, following changes in US regulations. A few years later, foreign banks, such as Spain's Banco Santander and BBVA, entered the local market through acquisitions. The passing of the US Gramm-Leach-Bliley Act in 1999, allowing commercial banks, investment banks and insurance companies to consolidate, triggered more changes in the sector. Since then, financial holding companies have established insurance firms under the new regime and several local banks, including Banco Popular, have expanded into the US market.

In February 2015, Doral Bank was closed by the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico, after the island's court of appeals overturned a previous ruling ordering the local government to repay the bank USD 229 million in tax receivables. The ruling represented the latest in a series of setbacks for the bank since being told by the FDIC in May 2014 that the USD 229 million tax refund could no longer be included in its tier 1 capital. Also in February 2015, the bank was classified as critically undercapitalized by the FDIC. The failure of Doral Bank, which had USD 5.9 billion in assets, was the largest in the US since 2010. In March 2015, the FDIC, which has been appointed as Doral Bank's receiver, announced the sale of all of Doral Bank's USD 4.1 billion in deposits and USD 3.25 billion of its assets to Banco Popular de Puerto Rico. Banco Popular, in turn, has announced an agreement to sell 18 of Doral Bank's 26

branches to three other banks (First Bank Puerto Rico has taken over 10 branches in Puerto Rico; Banco Popular's affiliate Banco Popular North America has acquired three branches in New York; and Centennial Bank has taken over five branches in Florida).

In August 2018, Banco Popular completed the acquisition of Wells Fargo's Auto Finance Business in Puerto Rico (Reliable), expanding its market share in the auto-loan industry in the Island and in the US Virgin Islands. Banco Popular purchased USD 1.6 billion in retail auto loans and USD 360 million in commercial loans.

In April 2017, Puerto Rico's financial oversight board approved a fiscal plan for the Government Development Bank (GDB), one of Puerto Rico's two state-owned development banks, which would liquidate the bank within ten years. GDB owes approximately USD 4.5 billion to bondholders. However, in May 2017, the bank reached an agreement with some of its creditors to cut its debt and restructure its obligations, avoiding a long bankruptcy process. The agreement will be executed through the Title IV proceeding under PROMESA, the federal rescue law for Puerto Rico. Under the terms of the agreement, the bank will transfer its assets to a new entity and issue new bonds in deal that will see some bondholders take losses of up to 45%. In March 2018, the government amended the deal to help municipalities as they recover from the severe damage caused by Hurricanes Irma and Maria. Under the new amended deal, the municipalities will be allowed to offset loans owed to GDB with deposits held at the bank. They will also be allowed payment of 55% of certain assets held at the bank. These measures will be offset by changes that will keep the structure neutral for creditors, who will still take losses of up to 45% that they would under the previous agreement. The deal has been given the green light by the financial oversight board and was approved by a US District Court in November 2018.

Payment Systems

Overview

Banks in Puerto Rico are participants in the US check clearing system as well as the Fedwire and ACH funds transfer systems.

The US four main clearing systems are Fedwire, CHIPS, ACH and check clearing.

The Fedwire Funds Service (Fedwire) is a real-time gross settlement system, used for high-value and urgent electronic payments. Developed, owned and operated by the Fed, it links the 12 Federal Reserve Banks to about 6,130 depository institutions in the USA.

The Clearing House Interbank Payment System (CHIPS) is a private real-time bilateral and multilateral net settlement system. CHIPS transactions are often associated with international interbank transfers.

The Automated Clearing House System (ACH) processes low-value or high-value payment transactions that are not time-critical. There are two operators, the Federal Reserve (FedACH) and the private Electronic Payments Network (EPN). Together, they process the majority of non-urgent and low-value interbank payments.

Banks may use four different methods for clearing checks:

- On-us clearing is used for checks deposited in the same bank on which the check was drawn.
- Regional or local clearing houses formed by groups of banks exchange checks drawn on member participants.
- Checks can be processed through the Federal Reserve banks or via correspondent banking relationships.
- Direct sends or bilateral arrangements can be arranged between banks.

The Check Clearing for the 21st Century Act (Check 21) allows for electronic clearing of checks.

High-value

Name of system	Fedwire
Settlement type	Real-time gross settlement
Settlement cycle	Payments are settled on a same-day basis with immediate finality.
Links to other systems	NA
Payments processed	High-value and urgent domestic electronic payments.
Currency of payments processed	USD
Value and other limits to processing	There are no value thresholds.
Operating hours	21:00 (prior night) – 18:30 ET
System holidays Source: www.goodbusinessday.com .	<p>2019 — May 27, July 4, September 2, October 14, November 11, 28, December 25</p> <p>2020 — January 1, 20, February 17, May 25, July 4, September 7, October 12, November 11, 26, December 25</p> <p>2021 — January 1, 18, February 15, May 31, July 5, September 6, October 11, November 11, 25, December 25</p>
Cut-off times	<p>Online transfers:</p> <p>Foreign payment orders (USD transfers to a foreign central bank or other international bank with an account at the Federal Reserve Bank of New York) = 17:00 ET</p> <p>Domestic payment orders = 18:00 ET</p> <p>Interbank settlement payment orders = 18:30 ET</p> <p>Offline transfers:</p> <p>Foreign payment orders (USD transfers to a foreign central bank or other international bank with an account at the Federal Reserve Bank of New York) = 16:30 ET</p> <p>Domestic payment orders = 17:30 ET</p> <p>Interbank settlement payment orders = 18:00 ET</p>
Participants	Approximately 6,130 financial institutions and government agencies are linked to the 12 Federal Reserve Banks.
Access to system	Online via PC or offline via telephone
Future developments	The Fed has announced plans to complete a controlled migration to the international payment messaging standard ISO 20022 for its Fedwire system by the end of 2023. Implementation of the ISO 20022 standard will be completed in three phases, beginning in November 2020 and ending in late 2023.

Name of system	Clearing House Interbank Payment System (CHIPS)
Settlement type	Real-time net settlement
Settlement cycle	Payments are settled on a same-day basis with immediate or end-of-day finality.
Links to other systems	NA
Payments processed	High-value and urgent electronic payments, both domestic and cross-border. Typically foreign exchange settlements, commercial payments, offshore investments.
Currency of payments processed	USD
Value and other limits to processing	There are no value thresholds.
Operating hours	21:00 (prior night) -17:15 ET
System holidays Source: www.goodbusinessday.com .	2019 — May 27, July 4, September 2, October 14, November 11, 28, December 25 2020 — January 1, 20, February 17, May 25, July 4, September 7, October 12, November 11, 26, December 25 2021 — January 1, 18, February 15, May 31, July 5, September 6, October 11, November 11, 25, December 25
Cut-off times	17:00 ET
Participants	45 direct participants. Non-direct participants may send transfers through CHIPS via a direct member.
Access to system	Online via PC
Future developments	NA

Low-value

Name of system	Automated Clearing House System (ACH)
Settlement type	Multilateral net settlement
Settlement cycle	Payments are usually settled on next-day basis. Debit transactions usually settle on a next-day basis at 08:30 ET. Credit transactions usually settle on a next- day or two-day basis at 08:30 ET. Credit and debit items received by the FedACH SameDay Service by 10:30 ET settle at 13:00 ET and items received by 14:45 ET settle at 17:00 ET.
Links to other systems	NA
Payments processed	Low-value and non-urgent domestic electronic payments. Transactions that are not time-critical may be batched and processed through the system using ACH credits and ACH debits. Debit transfers include Back Office Conversion (BOC), the POS check-conversion program.
Currency of payments processed	USD
Value and other limits to processing	There are no value thresholds.
Operating hours	03:00 to 17:00 ET
System holidays Source: www.goodbusinessday.com	2019 — May 27, July 4, September 2, October 14, November 11, 28, December 25 2020 — January 1, 20, February 17, May 25, July 4, September 7, October 12, November 11, 26, December 25 2021 — January 1, 18, February 15, May 31, July 5, September 6, October 11, November 11, 25, December 25
Cut-off times	Depends on bank, presentation format and ACH operator rules. There are two operators: the Federal Reserve (FedACH) and the private Electronic Payments Network (EPN). For same-day settlement through the FedACH SameDay Service , the cut-off time for forward items is 14:45 ET.
Participants	Approximately 20,000 credit institutions
Access to system	ARC - Accounts receivables; BOC - Back office conversion; CCD - Cash concentration and disbursement; CIE - Customer initiated entries; CTX - Corporate trade exchange; IAT - International ACH Transaction; PPD - Prearranged payment or deposit; POP - Point of purchase; POS - Point of sale; RCK - Re-presented check; TEL - Telephone initiated entry; TXP - Tax payment; TRC/TEX - Truncated check entries; WEB - Internet-initiated entry
Future developments	NA.

Name of system	Check clearing
Settlement type	Bilateral gross settlement
Settlement cycle	Depends on whether the checks are “on-us” (checks deposited at the same institution on which they are drawn) or interbank checks. “On-us” settlement occurs on the same day, while the settlement of interbank checks may take up to five days.
Links to other systems	NA
Payments processed	Paper checks
Currency of payments processed	USD
Value and other limits to processing	There are no value thresholds.
Operating hours	NA
System holidays Source: www.goodbusinessday.com	2019 — May 27, July 4, September 2, October 14, November 11, 28, December 25 2020 — January 1, 20, February 17, May 25, July 4, September 7, October 12, November 11, 26, December 25 2021 — January 1, 18, February 15, May 31, July 5, September 6, October 11, November 11, 25, December 25
Cut-off times	Depends on bank.
Participants	NA
Access to system	NA
Future developments	NA

Payment and Collection Instruments

Overview and Trends

The most important cashless payment instruments in terms of volume are payment cards. The predominant payment method in terms of value is the electronic credit transfer. The increased use of electronic and internet banking has led to a growth in the use of electronic credit transfers. Despite their decline in recent years, checks remain an important payment instrument, at least in terms of number of transactions.

Statistics of Instrument Usage and Value

	Transactions (million)		% change	Traffic (value) (USD billion)		% change
	2016	2017	2017/2016	2016	2017	2017/2016
Checks	33.7	28.1	- 16.6	NA	NA	NA
Debit cards	225.8	209.3	- 7.3	6.2	5.6	- 9.6
Credit cards	50.7	46.7	- 7.9	3.6	3.6	0.0
ACH credit transfers	43.7	43.4	- 0.7	120.9	109.5	- 9.4
ACH direct debits	29.5	30.7	4.1	111.7	101.5	- 9.1
Total	383.4	383.4	6.2	NA	NA	NA

Source: Office of the Commissioner of Financial Institutions (OCFI)

Paper-based

Checks

Banks may use four different methods for clearing checks:

- On-us clearing is used for checks deposited in the same bank on which the check was drawn.
- Regional or local clearing houses formed by groups of banks exchange checks drawn on member participants.
- Checks can be processed through the Federal Reserve banks or via correspondent banking relationships.
- Direct sends or bilateral arrangements can be arranged between banks.

The Check Clearing for the 21st Century Act (Check 21), which became effective in October 2004, allows for electronic clearing of checks. Check 21 facilitates check truncation through the development of a new negotiable instrument known as a substitute check. It permits banks to truncate original checks, to process check information electronically, and to deliver substitute checks to banks that want to continue receiving paper checks.

Bills of Exchange

Bills of exchange are usually used to finance trade in Puerto Rico.

Electronic

Credit Transfer

Credit transfers are the main form of payment instrument used by companies to pay suppliers and salary payments. They are also used to make tax and benefit payments.

High-value

High-value and urgent credit transfers are processed through Fedwire or CHIPS.

Customer payments must be submitted to Fedwire by 18:00 ET and to CHIPS by 17:00 ET to be settled on a same-day basis. All payments settled through Fedwire are done so with immediate finality. Payments settled through CHIPS are done so with immediate or end-of-day finality.

Low-value

Non-urgent and low-value credit transfers are processed through the Automated Clearing House System (ACH). Credit transactions are usually processed to be settled on a two-day basis.

There are two operators: the Federal Reserve (FedACH) and the private Electronic Payments Network (EPN). Together, they process the majority of non-urgent and low-value interbank payments.

FedACH's SameDay Service enables the settlement of ACH transactions on a same-day basis. The FedACH SameDay Service rules also exclude from eligibility international transactions (IAT) and automated enrollment entries (ENR).

The Clearing House (THC) has developed and implemented a real-time payment system for instant payments. The service, called Real-Time Payments (RTP), enables financial institutions to offer real-time fund transfers 24/7, 365 days a year. RTP, which was developed in partnership with Mastercard-owned Vocalink, is open to all US depository institutions and is expected to reach widespread participation by 2020. The system was built with a flexible design enabling financial institutions to enhance or create new digital services for their corporate and retail customers.

Direct Debits

Standing orders enable fixed payments on a regular basis.

Pre-authorized direct debits permit a beneficiary's bank to seek the release of funds from a debtor's bank. Because an agreement has been signed by the debtor, the beneficiary assumes limited credit risk.

Non-pre-authorized direct debits permit a beneficiary's bank to seek payment from the debtor's bank. In most cases, the payment will be sought for release on a pre-agreed date.

Non-urgent and low-value direct debits are processed through the ACH. Most payments are processed to be settled on a next-day basis. There are two operators: the FedACH and the EPN.

FedACH's SameDay Service enables the settlement of ACH transactions on a same-day basis. Effective April 1, 2013, an expanded service permits all SEC codes except IAT, TRC and TRX, both credits and debits, and businesses and consumer transactions.

Payment Cards

The use of payment cards continues to increase in Puerto Rico, especially among retail consumers.

Visa and MasterCard credit cards are commonly issued by banks in Puerto Rico. American Express credit cards are also issued.

The ATH debit card is the most popular debit card in Puerto Rico. Combined ATH/Visa cards are becoming increasingly popular, enabling holders to withdraw cash and pay for goods abroad.

ATM/POS

ATH Network, operated by EVERTEC, is the main ATM and POS network in Puerto Rico. There are over 100 financial institutions participating in the ATH network.

Coop24 is the second largest ATM network in Puerto Rico. It is owned by local credit unions and has 200 ATMs on the island.

There were 952 ATMs on the island in December 2017. There were also 34,567 POS terminals on the island in December 2017.

Electronic Wallet

Pre-paid stored value cards are available.

Mobile payment schemes such as Samsung Pay and Google Pay are also available.

Liquidity Management

Short-term Borrowing

Overdrafts

Overdrafts are available to both resident and non-resident borrowers on a case-by-case basis.

Bank Lines of Credit / Loans

Bank lines of credit are widely available in Puerto Rico. Resident and non-resident entities can arrange short-term bank loans from local and foreign banks. They are usually arranged for periods up to one year and may be renewed or increased annually.

Collateral is often required. Fees (commitment fees and arrangement fees) and charges are negotiable.

Banks will frequently charge interest at a margin over Libor (London interbank offered rate), though some banks base their loans on the Federal funds rate or the commercial paper composite rate.

Trade Bills - Discounted

Discounting trade bills are not a common form of short-term financing.

Factoring

Factoring is available in Puerto Rico, both as a disclosed and undisclosed service.

Commercial Paper

Commercial paper is not a common form of short-term finance for companies in Puerto Rico.

Bankers' Acceptances

Although primarily used as a technique to support trade, bankers' acceptances are also available for domestic transactions.

Although available for a range of maturities, funding is usually arranged for one to six months.

Supplier Credit

Companies can usually arrange payment discounts of 2% for the early or prompt payment of supplier invoices.

Intercompany Borrowing, including Lagging Payments

Puerto Rican groups are permitted to establish intercompany loans, both as part of a liquidity management scheme or for a longer term.

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Banks pay interest on surplus balances on current accounts.

Demand Deposits

Banks pay interest on demand deposits.

Time Deposits

Time deposits are available in Puerto Rico. Banks offer them for terms from seven days to over a year.

Certificates of Deposit

Certificates of deposit (CDs) are available and used in Puerto Rico. They are usually available for maturities from one month to 12 months, although terms of between three and six months are more common. CDs may pay a fixed or floating interest rate.

Treasury (Government) Bills

The government of Puerto Rico issues bonds.

Commercial Paper

Commercial paper is not a common form of finance for companies in Puerto Rico.

Money Market Funds

Money market funds are available and popular in Puerto Rico.

Repurchase Agreements

Repurchase agreements (repos) are available for maturities ranging from overnight to over a year.

Bankers' Acceptances

Bankers' acceptances are available.

Liquidity Management Techniques

Cash Concentration

Cash concentration is the more common technique used by Puerto Rican companies to manage company and group liquidity. Of the available techniques, zero-balancing is the most commonly used.

Both resident and non-resident bank accounts can participate in a cash concentration structure located in Puerto Rico.

Notional Pooling

Notional pooling is not available in Puerto Rico.

Trade Finance

General Rules for Importing/Exporting

Puerto Rico is part of the customs territory of the USA, and products imported from outside the USA are subject to the US tariff system and US regulations and trade agreements.

Trade between Puerto Rico and the USA is free from tariffs and other controls.

As a US territory with commonwealth status, Puerto Rico is a member of the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO).

In October 2018, the USA, Canada and Mexico announced an agreement on a revised trade deal that could replace NAFTA. The new deal, called United States-Mexico-Canada Agreement (USMCA), was signed in November 2018. It is expected that the USMCA will enter into force in 2020, following ratification by all three legislatures.

In April 2017, the Trump administration launched a trade probe against China and other exporters of steel into the US, raising the possibility of new tariffs. On March 8, 2018, the US government imposed a 25% tariff on imports of steel and a 10% tariff on aluminum, claiming that such imports are a threat to national security. Since the announcement, South Korea, Argentina, Australia and Brazil have agreed to put limits on the volume of metals they can export to the US in exchange for tariff exemptions. In June 2018, the US government imposed tariffs on steel and aluminum imports from Canada, Mexico and the EU, after the deadline for negotiations expired on June 1, having already been extended by a month. China, Canada, Mexico and the EU have since retaliated by imposing tariffs on a range of imports from the US, sparking fears of an all-out trade war.

In July 2018, the US government imposed 25% duties on USD 34 billion worth of Chinese goods ranging from water boilers and lathes to industrial robots and electric cars. China retaliated soon afterwards by imposing 25% tariffs on 545 US products, including soybeans, seafood and crude oil, also worth USD 34 billion. In August 2018, the US government imposed 25% duties on 279 products imported from China worth USD 16 billion, including semiconductors, chemicals and motorcycles. China retaliated immediately by imposing 25% tariffs on 333 goods originating from the USA, also worth USD 16 billion, including coal, fuel and medical equipment. In September 2018, the US government imposed 10% tariffs on USD 200 billion of Chinese exports until the end of 2018, to rise to 25% in 2019. China retaliated by implementing tariffs on USD 60 billion worth of US goods, which became effective simultaneously with the US duties. In February 2019, the US announced a delay in increasing tariffs or imposing new ones (previously scheduled for March 1, 2019), as the two governments negotiate a trade deal.

Imports

Documentation Required

Imports originating outside the US customs territory will normally need to be accompanied by a commercial invoice, a customs declaration, a bill of lading and a packing list. A certificate of origin may also be required.

Importers must register with the Puerto Rico Treasury Department via the new SURI (Sistema Unificado de Rentas Internas) electronic platform for sales and use tax purposes.

Import Licenses

Licenses are not required for most imports. Goods which require licenses include animals and plants, alcoholic beverages and dairy products.

Import Taxes/Tariffs

Part of the US customs territory, Puerto Rico applies the US customs code to all imports originating from outside the USA.

Most tariffs are ad valorem. Industrial imports are usually subject to tariffs of between 4% and 5%.

The US government rigorously applies measures consistent with international obligations, such as anti-dumping and countervailing duties.

The majority of imports are subject to MFN (Most Favored Nation) tariff rates, while those from countries without MFN or free trade status are subject to high tariffs.

Financing Requirements

There are no particular financing requirements for imports.

Risk Mitigation

Puerto Rico does not operate a national risk mitigation program for importers.

Prohibited Imports

Puerto Rico prohibits imports in line with US regulations and UN Security Council resolutions. Imports are also prohibited for moral reasons, to preserve wildlife and to protect national security.

Without prior approval from the US Treasury, imports from Myanmar, Cuba, Iran and certain areas of Sudan are prohibited. The USA has also imposed economic sanctions on a number of other countries.

Exports

Documentation Required

Exports to countries outside the US customs territory will normally need to be accompanied by a commercial invoice, a customs declaration, a bill of lading and a packing list. A certificate of origin may also be required.

Proceeds

There are no restrictions on the use of export proceeds.

Financing Requirements

There are no particular financing requirements for exports.

Export Licenses

The majority of exports are subject to the US Export Administration Regulations.

Software and technology exports require licenses from the US Department of Commerce. Dairy, livestock and poultry require export licenses from the US Department of Agriculture.

Export Taxes/Tariffs

Puerto Rico does not levy taxes or tariffs on exports.

Risk Mitigation

Export credit and insurance programs are available in Puerto Rico.

Prohibited Exports

Puerto Rico prohibits exports in line with US regulations and UN Security Council resolutions.

Information Technology

Electronic Banking

Almost all Puerto Rican companies have access to electronic banking services. There is no bank-neutral electronic banking system in Puerto Rico but most banks use the Bank Administration Institute (BAI) format to transmit balance and transaction data.

A full range of electronic banking services is available, from daily transaction and balance reporting, to payment initiation.

Internet and mobile banking are also available. In most cases, internet users have a similar range of electronic banking services to those offered through a physical workstation.

External Financing

Long-term Funding

Bank Lines of Credit / Loans

Medium-term and long-term financing are both available in the form of bank loans.

Commercial banks offer loans with maturities of between two and ten years, with a fixed rate or floating interest rate based on an agreed reference rate. Loan agreements include financial covenants and negative pledges. Collateral may be required for maturities of over five years. The amortization schedule can be up to 30 years.

Bank lines of credit are usually short-term or up to 12 months. Revolving facilities for up to five years are not common.

Leasing

Leases can be arranged as an operating lease or as a finance lease.

A financial lease is a lease that cannot be cancelled, is fully amortized, and does not provide for maintenance. Operating leases provide for maintenance costs and allow the lessee to use a piece of equipment for an agreed period of time.

Bonds

Most companies do not usually issue bonds.

Some companies use a government program called the Puerto Rico Industrial, Tourism, Educational, Medical and Environmental Pollution-Control Facilities Financing Authority (AFICA) to finance their long-term capital needs.

Created in 1977, AFICA offers alternative financing to projects promoting the economic development of Puerto Rico. AFICA provides financing via the issue of industrial revenue bonds.

Private Placement

The private placement of bonds is used by companies.

Asset Securitization / Structured Finance

Asset securitization is not commonly used.

Government (Agency) Investment Incentive Schemes / Special Programs or Structures

Government investment incentive schemes are available through the Banco de Desarrollo Económico para Puerto Rico (BDE) and the Puerto Rico Industrial Development Company (PRIDCO).

Useful Contacts

National Treasurers' Association

Association for Financial Professionals of Puerto Rico (AFP-PR) — www.afppr.com

Central Bank

Federal Reserve System (Fed) — www.federalreserve.gov

Supervisory Authority

Commissioner of Financial Institution of Puerto Rico (OCIF) — www.ocif.gobierno.pr/index_eng.html

Payment System Operators

CHIPS — www.chips.org

NACHA — www.nacha.org

EPN — www.epaynetwork.com

Banks

Banco Popular — www.popular.com

First Bank — www.firstbankpr.com

Oriental Bank — www.orientalbank.com

Government of Puerto Rico

Government of Puerto Rico — www2.pr.gov

Puerto Rico Planning Board

Puerto Rico Planning Board — jp.pr.gov

Chamber of Commerce

Puerto Rico's Chamber of Commerce — www.camarapr.org

Bankers' Association

Puerto Rico's Banking Association — www.abpr.com