

FINANCIAL OVERSIGHT & MANAGEMENT BOARD FOR PUERTO RICO



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BY ELECTRONIC MAIL

November 9, 2020

Mr. Emilio Torres Antuñaño
Executive Director
Corporation for the Supervision
and Insurance of Cooperatives of PR
etorres@cossec.pr.gov

Dear Mr. Torres Antuñaño:

The certified COSSEC Fiscal Plan for COSSEC recognizes that a healthy cooperative system promotes Puerto Rico's economic growth by granting access to low- and middle-income families to financial services, as well as supporting local businesses and municipalities. As such, the Fiscal Plan provides for a more sustainable cooperative system for the benefit of both its members and the people of Puerto Rico.

The Certified Fiscal Plan sets forth important elements related to the optimization of COSSEC's organizational structure and provides for three significant milestones that COSSEC must implement: (1) changes in COSSEC's governance, (2) increasing transparency in accounting and (3) improving supervisory interventions. Moreover, while a significant portion of the short-term measures in the COSSEC Fiscal Plan can be achieved within the existing statutory scheme, most of the medium and long-term objectives require the Government to enact legislation to address key changes required by the Fiscal Plan.

Specifically, COSSEC -- through the Executive Branch and the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF, by its Spanish acronym)—must propose the enactment of legislation to address or implement the following:

- Changes in the governance structure of COSSEC's Board of Directors;
- A requirement that all cooperatives convert their accounting books to adhere to GAAP within 5 years;
- The transfer of the regulatory authority over non-financial cooperatives to the Commission for Cooperative Development (or CDC, by its Spanish acronym) no later than January 31, 2021, with an effective date no later than the end of FY2023;

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- The internal administrative re-organization among or between the COSSEC Insurance Fund and COSSEC's role as the regulator of the cooperatives;
- The repeal of article 11.02 (d) of Act 220-2015 (pursuant to which COSSEC may not impose sanctions on, or require additional reserves from, a cooperative by reason of said cooperative's investments in bonds or notes issued by the Government of Puerto Rico and its instrumentalities; and
- An amendment to article 7.02 of Act 255-2002, to allow institutions other than cooperatives to participate in the final resolution of insolvent cooperatives (such as a sale of assets and liabilities, involuntary merger with a financially sounder cooperative or liquidation).

The next ordinary Legislative Session is set to commence on January 11, 2021. So as to be in a position to submit the necessary bills for legislative consideration by that date, we encourage COSSEC -- with the collaboration of AAFAF -- to forward the draft legislation to the Oversight Board staff by no later than Friday, November 20, 2020. Our prompt cooperation to ensure that the proposed bills adequately address the above-stated goals is key so as to be able to reach many of the Fiscal Plan milestones in a timely manner.

A well-developed and sound cooperative system will also decrease uncertainty on the financial health of the COSSEC Insurance Fund and increase confidence in the strength of the cooperative system and COSSEC. The enactment of the pertinent legislation will have a direct effect on compliance with the COSSEC Fiscal Plan and achieving its goal of fostering a healthy and well-run cooperative system for the people of Puerto Rico.

Please provide a plan for the enactment of the legislation required to achieve compliance with COSSEC Fiscal Plan, accompanied by the pertinent draft bills, by no later than Friday, November 20, 2020. The Oversight Board continues to encourage COSSEC to take the steps toward strengthening the cooperative system to ensure its long-term potential.

Sincerely,


Natalie A. Jaresko

CC: Mr. Omar Marrero Diaz