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# FINANCIAL OVERSIGHT & MANAGEMENT BOARD FOR PUERTO RICO



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Executive Director

## **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 Financial Oversight and Management Board for Puerto Rico (“the Oversight Board”) urges COSSEC to implement the necessary actions to comply with the milestones of the certified COSSEC Fiscal Plan and resolve insolvent cooperatives as provided in the fiscal plan.

To promote such goal, on September 28, 2020, the Oversight Board requested COSSEC to submit an implementation plan to address and resolve insolvent cooperatives within the timeframe, given the potential regulatory challenges of implementing the measures permitted by section 20 of Act 114-201 while article 11.02 of Act 220-2015 remains in full force and effect. On October 29, 2020, COSSEC responded by informing the Oversight Board of (i) its request for a capitalization plan from 21 insolvent cooperatives and (ii) the amendment of Regulation 7051, which will allow COSSEC to participate in the process of voluntary mergers between cooperatives.

Requiring a capitalization plan from insolvent cooperatives and allowing COSSEC to contribute to voluntary mergers between cooperatives are developments that may adversely affect the measures contemplated in the COSSEC Fiscal Plan. Waiting for a capitalization plan could delay the milestones of the COSSEC Fiscal Plan and compromise the financial resources of solvent cooperatives,<sup>1</sup> without necessarily rehabilitating insolvent cooperatives. Given these financial implications, COSSEC should submit both the capitalization plans and

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<sup>1</sup> Solvent cooperatives would participate in final resolution of insolvent cooperatives based on purchase and assumption (P&A), liquidation, or involuntary merger.

the option of a COSSEC contribution to voluntary mergers to the Oversight Board for prior evaluation and final determination **before any further actions are taken by COSSEC.**

The Oversight Board has a series of questions related to both actions, so as to understand the facts considered by COSSEC in contemplating these options and their possible consequences on the COSSEC Fiscal Plan.

1. Does the request for a capitalization plan include a deadline for the submission by each insolvent cooperative? Did COSSEC calculate the impact of waiting for such plans on the milestones established by the certified Fiscal Plan?
2. Will the capitalization plan(s) be implemented pursuant to the authority granted by Section 2.07 of Act 255-2015 (by which insolvent cooperatives would issue a preferred stock or a capital obligation)? Do you consider this to be the lowest cost to COSSEC, as the COSSEC Fiscal plan requires?
3. Did COSSEC consider implementing a capital injection to insolvent cooperatives as part of any capitalization plan? If the answer is yes, please explain the rationale for this decision.
4. Has COSSEC discussed the on-going process with representatives for all or some of the solvent cooperatives? Are they in agreement with a capital injection to insolvent cooperatives as part of any capitalization plan?
5. If the capitalization plan would allow insolvent cooperatives to issue preferred stock or a capital obligation (Section 2.07), then, did COSSEC analyze a potential negative net interest margin scenario due to the following:
  - a. Interest rate of a preferred stock or capital obligation issued by an insolvent cooperative and/or;
  - b. Interest rate in which the monies raised by the capitalization plan will be invested or loaned in actual financial markets?
6. How does COSSEC plan to fund any negative impact?
7. Since article 11.03(b)(iv) of the Act 220 of 2015 has been in effect since 2015, were there any considerations that led COSSEC not to require a capitalization plan from insolvent cooperatives up to now? Has this statutory tool been used since 2015? If not, why?
8. What are the prospects of accomplishing the capitalization plan of insolvent cooperatives given the fact that most of the actual insolvent cooperatives have been in either priority 1 or priority 2 status since 2017, according to COSSEC's Actuarial Reports?

9. Please define COSSEC's understanding of voluntary mergers. Are there any limits and conditions included in this scenario, such as limiting voluntary mergers to mergers between an insolvent cooperative and a *solvent* cooperative?

The cooperative system and COSSEC are facing several risks that could undermine their full potential if they are not promptly addressed. Internal and external factors have resulted in undercapitalization and insolvency of a group of cooperatives that, if not promptly addressed, could have a spillover effect on the financial safety of other solvent cooperatives and the COSSEC Insurance Fund.

Pursuant to Section 104(c)(2) of PROMESA, please provide a written answer to the foregoing information requests within fifteen (15) days from the date of this letter. Once the responses are received, we suggest a prompt meeting between the COSSEC and Oversight Board teams to discuss them, as well as to consider how the proposed capitalization plan fits within the COSSEC Fiscal Plan.

The Oversight Board continues to urge the Government and COSSEC to take action to reform and strengthen the cooperative system, to ensure its long-term viability for the benefit of its members and Puerto Rico.

Sincerely,



Natalie A. Jaresko

CC: Mr. Omar Marrero Diaz