



June 10, 2015

### GDB ISSUES STATEMENT ON BILL 1350

**San Juan, P.R.** – Government Development Bank for Puerto Rico (“GDB”) President Melba Acosta Febo issued the following statement on Senate Bill 1350, the purpose of which was to update the GDB Act, which dates back to 1948.

“Originally, the Bill had several provisions that were intended to:

- Establish a procedure to dispose of unclaimed funds held by the GDB that would be similar to those of private banks;
- Include the University of Puerto Rico and the municipalities among the entities that must deposit their funds with the GDB, thus amending Act 24-2014, which already compelled public corporations to do so;
- Provide the GDB with enhanced mechanisms to fulfill its responsibilities as the Commonwealth’s fiscal agent, including requiring public corporations to provide it with financial information and authorizing the Governor to appoint emergency managers to public corporations facing fiscal problems;
- Establish audit and risk committees, as well as enhanced controls and prohibitions applicable to the GDB when granting loans, so that situations such as the \$2.2 billion loan to the PRHTA would not occur again; and
- Eliminate the current provision in section 15 of the GDB Act, which stated that receiving deposits while knowing that the Bank is insolvent is a felony punishable by imprisonment for up to three (3) years, and provide members of the Board of Directors, officers and employees of the GDB with immunity and indemnity against civil actions, except if they act with gross negligence and reckless indifference while fulfilling their duties, which is the usual standard for both public and private corporations.

Yesterday, the House of Representatives approved its version of the Bill, following prior approval from the Senate. The House bill kept only the provisions related to: (1) the procedure to dispose of unclaimed funds; (2) establishing the audit and risk committees and enhanced controls for

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granting loans; and (3) eliminating the criminal provision related to accepting certain deposits, and including the immunity and indemnity for directors, officers and employees.

It is important to point out that, with respect to transferring government deposits from private banks to the GDB, SB 1350 did not change the provisions of Act 24-2014, which allows the GDB to demand all public corporations and agencies, except the University of Puerto Rico and the municipalities, to deposit their funds with the GDB. The UPR and the municipalities are still exempt from this requirement. Therefore, as approved by the House, the Bill is not expected to help the GDB liquidity beyond what Act 24-2014 already provided. However, after SB 1350 is signed, we will move to bring more public deposits to the GDB using Act 24-2014.

Following the signing of SB 1350, the GDB may only grant loans to public corporations and agencies for capital improvements or for working capital, and such loans will be due within one (1) year, except as otherwise provided by a special law. This measure will prevent the GDB from granting loans to cover operating deficits, which has been detrimental to the GDB's current liquidity position.

The purpose of granting immunity to GDB directors, officers and employees, is to legally establish a corporate standard regarding directors' and officers' liability for acts performed in good faith and within their legal authority. Contrary to what some have said, this does not provide full immunity, but rather immunity only against civil actions. This provision is similar to those currently applicable to other public corporations, such as the Puerto Rico Aqueduct and Sewer Authority. The members of the Board of Directors or officers of the GDB who commit any crime under the Criminal Code, under any applicable special criminal law, or who commit an ethical offense under the Government Ethics Act, even after SB 1350 is passed, will remain accountable under the provisions of those laws. This provision was created in an effort to clearly inform Board members and officers about the scenarios under which they are personally liable for actions or omissions carried out as part of their responsibilities to the GDB.

Finally, we are pleased with the Commission for the Integral Audit of Public Debt amendment, which will improve transparency by identifying and creating an easy access database with information on Puerto Rico's debt. All the financings done by this administration have been authorized by law and complied with all the applicable required authorizations."

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