

COMMONWEALTH OF PUERTO RICO
COMMISSIONER OF FINANCIAL INSTITUTIONS
Instructions for the Legal Reserve Report

Item

Instructions

AUTHORITY

The Commissioner of Financial Institutions referred to as the “Commissioner” has been granted the authority to regulate, supervise and examine banks in Puerto Rico for compliance with current banking laws and regulations as stated in Sections 16 and 28(b) of the Banking Law: Act no. 55 of May 12, 1933, as amended.

Banking Law and Regulations, as amended, establish the norms and procedures for the computation of the Legal Reserve to be maintained by banks and depository institutions in Puerto Rico.

The following instructions are intended to provide a general understanding of the rules for the computation and reporting of the Legal Reserve. The Commissioner may issue additional regulations and circular letters to provide detailed guidance or address specific requirements. Questions on any particular matter may be addressed to the Commissioner for assistance in the interpretation and understanding of the requirements.

GENERAL INSTRUCTIONS

Who Must Report

Every bank or depository institution that held operations in Puerto Rico, including, but not limited to the following:

1. Any federally insured commercial or savings bank, or any commercial or savings bank that is eligible to be insured by the Federal Deposit Insurance Corporation (FDIC)
2. Any mutual or stock savings bank
3. Any savings and loan association that is a member of a Federal Home Loan Bank and that is insured by, or is eligible to apply for insurance with, the FDIC
4. Any credit union that is insured by, or is eligible to apply for insurance with, the National Credit Union Administration Board
5. United States branches and agencies of foreign banks that are eligible to apply for FDIC insurance; and
6. Edge Act and agreement corporations (12 CFR 204.1(c))

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Frequency of Reporting

The legal reserve must be calculated on a daily basis, except for Saturdays, Sundays and any other weekday for which the bank has not operated. The legal reserve report is required to be submitted by all institutions as indicated below.

Submission of the Report

Method

The institution must complete its report in the provided template and should submit it electronically directly to the Commissioner by the submission date (as stated below). The institution is responsible for the accuracy of the data in its report and for its timely submission. Failure to comply with the established datelines may result in the imposition of penalties for late submission.

Date

The legal reserve report must be received by the Commissioner no later than five (5) calendar days immediately after the last day of the reporting week. As for example, for a week ended Sunday November 29, 2015 the report must be received by December 4, 2015.

Exception - If at the end of any given week during the course of a month a deficiency is observed in the required legal reserve, the institution must immediately offset the deficiency and provide written notice to the Commissioner no later than three (3) calendar days after the last day of the week for which the deficiency occurred. The communication sent to the Commissioner should also include the legal reserve report for that same week.

Signature

An authorized bank official shall sign a declaration on the report attesting to the correctness of the legal reserve report that the institution has filed to the Commissioner.

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Rounding

All dollar amounts must be reported in thousands, with the figures rounded to the nearest thousand. Items less than \$500 will be reported as zero.

Rounding may result in details not adding to their stated totals. The only permissible differences between totals and the sums of their components are those attributable to the mechanics of rounding.

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General definition of bank deposits:

Bank deposits are money placed into a banking institution for safekeeping. Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts and money market accounts.

The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The "deposit" itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this liability rather than to the actual funds that are deposited.

1.	<u>Demand Deposit Accounts (excluding public funds and other liabilities reported as deposits).</u>
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Report in the appropriate line, all demand deposits held in open deposits or checking accounts, bank deposits, and all other demand deposits, i.e. all certified and official checks, matured time or savings deposits without automatic renewal provisions as required in items 1.a., a.b., and 1.c., below.

1.a.	<u>Open deposits or checking accounts</u>
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Report all checking accounts balances that are available for withdrawals (payments) immediately on demand, or that are issued with an original maturity or required notice period of less than three days, or that represent funds for which the depository institution does not reserve the right to require at least three days' written notice of an intended withdrawal.

For combined accounts- that provide more than one banking service under the same account number and usually offer a checking section, a savings section and a reserve line of credit.

Funds (balances) held in the checking or transactional section of combined accounts must be included in the calculation of the legal reserve and reported in this item. Depository institutions are not required to maintain a legal reserve for the funds held in the savings section on which the institution has reserved the right to require at least three days' written notice prior to withdrawal or transfer of any funds in the account.

Note: If the checking account section on any combined account maintains a zero balance and the balance on the savings section is available at any time to cover checks drawn in payment to third parties, the reporting institution must include the full balance of the savings section as demand deposits.

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Part I.	Legal Reserve Report - Continued:
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1.a.	<u>Open deposits or checking accounts</u>
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Exclude in Open deposits or checking accounts:

1. Escrow accounts, that are held for individuals but not eligible for consumer transacting, saving, or investing.
2. Withholdings made from employee's compensation, tax withholdings on payments of interest or dividends and any other withholdings in which the institution acts as an intermediary to collect and remit the amounts withheld to a third party.
3. Public funds made by or for the account of the United States, Puerto Rico or some department, bureau or official thereof, and that are considered collateralized funds, such as:
 - a) Government deposit accounts
 - b) Municipal deposit accounts
 - c) State agencies and instrumentalities deposit accounts
4. Transaction accounts, such as:
 - a) NOW Accounts - Interest-bearing deposits (i) on which the depository institution has reserved the right to require at least three days' written notice prior to withdrawal or transfer of any funds in the account and (ii) that can be withdrawn or transferred to third parties by issuance of a negotiable or transferable instrument.
 - b) ATS accounts - Deposits or accounts of individuals or sole proprietorships on which the depository institution has reserved the right to require at least three days' written notice prior to withdrawal or transfer of any funds in the account and from which, pursuant to written agreement arranged in advance between the reporting institution and the depositor, withdrawals may be made automatically through payment to the depository institution itself or through transfer of credit to a demand deposit or other account in order to cover checks or drafts drawn upon the institution or to maintain a specified balance in, or to make periodic transfers to, such other accounts.
 - c) Telephone or preauthorized transfer accounts - the bank reserve the right to require at least three days written notice.

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Part I. Legal Reserve Report - Continued:

1.a. Open deposits or checking accounts

Exclude in Open deposits or checking accounts:

5. Non-transaction accounts, such as:
 - a) Savings deposits - deposits with respect to which the depositor is not required by the deposit contract but may at any time be required by the depository institution to give written notice of an intended withdrawal not less than three days before withdrawal is made, and that is not payable on a specified date or at the expiration of a specified time after the date of deposit.
 - b) Money market deposit accounts - deposits or accounts that meet the above definition of a savings deposit and that permit up to (but no more than) six allowable transfers to be made by check, draft, debit card or similar order made by the depositor and payable to third parties.
 - c) Time deposits - deposits that the depositor does not have a right, and is not permitted, to make withdrawals from within six days after the date of deposit unless the deposit is subject to an early withdrawal penalty of at least three days' simple interest on amounts withdrawn within the first six days after deposit.

Important note: Transaction and non-transaction accounts can be excluded only if the bank enforces the restrictions set forth in the contract.

1.b. **Bank deposits**

Banks are required to hold an adequate amount of liquid assets, such as cash, to manage any potential bank runs by clients.

If a bank cannot meet these liquidity requirements, it will need to borrow money in the interbank market to cover the shortfall. Some banks, on the other hand, have excess liquid assets above and beyond the liquidity requirements. These banks will lend money in the interbank market, receiving interest on the assets.

The interbank lending market is a market in which banks extend loans to one another for a specified term. Most interbank loans are for maturities of one week or less, the majority being overnight.

Report in this line item all banks deposits that are required to be repaid overnight.

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1.c.	Other (Provide detail) - Report in the appropriate lines below:
1.c.1	Certified and official checks Include in this line all the balances related to: <ul style="list-style-type: none">a. Unpaid depositors' checks that have <u>been certified</u>.b. Cashiers' checks, money orders, and other officers' checks issued for any purpose.c. Funds received or held in connection with checks or drafts drawn by the reporting bank and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks drawn in the normal course of business,d. Funds received or held in connection with traveler's checks and money orders sold (but not drawn) by the reporting bank, until the proceeds of the sale or the amount of the checks is remitted to another party.e. Checks drawn by the reporting bank on, or payable at or through, a Federal Reserve Bank or a Federal Home Loan Bank.
1.c.2.	Matured time deposits without automatic renewal provisions, (Unless the deposit agreement provides for the funds to be transferred at maturity to another type of account).
1.c.3.	Borrowings. Report in this line item all funds borrowed that are required to be paid at any time upon request. Examples are: <ul style="list-style-type: none">1. Federal funds purchased which are immediately available funds borrowed under agreements or contracts that have an original maturity of one business day or roll over under a continuing contract,2. Funds borrowed in the form of securities sold under agreements to repurchase,3. Federal Home Loan Bank advances.4. Other
1.c.4. and 1.c.5.	Text. Use these lines to report any other category of open deposits or demand deposit accounts not included in lines items 1.a., 1.b., and 1.c.1. to 1.c.3., above.
1.d.	Total- Report the total of lines 1.a to 1.c.5., on every day (column) of the reporting week. Calculation of the average for the week must be presented in the last column to the right.

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Part I.	Legal Reserve Report - Continued:
2.	<u>Legal Currency.</u> Report in the appropriate line item the legal currency held by the institution.
2.a.	Cash on hand that is owned and held in offices of the reporting institution. The amounts must be unrestricted and in U.S. currency only. Any balances held in foreign currency must be excluded from this item.
2.b.	Checks from banks or deposit institutions payable immediately upon presentation. Includes checks or drafts in process of collection that are drawn on another institution and that are payable immediately on presentation.
2.c.	Cash held in other banks or deposit institutions, payable immediately upon presentation. Funds payable to the reporting bank on demand. <u>Provide details of adjustments in Part IV.</u>
2.d.	Federal funds that have an original maturity of one business day. Includes federal funds sold in domestic offices of immediately available funds under agreements or contracts that have an original maturity of one business day or roll over under a continuing contract. However, funds lent in the form of securities resale agreements are excluded from this line, it should be included in line item 2.e. as Securities purchased under agreements to resell, if the maturity condition is met. <u>Provide details in Part V.</u>
2.e.	Securities purchased under agreements to resell that have an original maturity of one business day. Includes securities resale agreements where the agreement requires the bank to resell the identical security purchased or a security that meets the definition of substantially the same, in the case of a dollar roll. <u>Provide details in Part VI.</u>
2.f.	Other eligible assets Includes assets, obligations or securities, included in Section 16 of the bank law, Act no. 55 of May 12, 1933, as amended, regulations and Circular Letters issued by the Commissioner of Financial Institutions. <u>Provide details of acceptable assets held in Part VII.</u>
2.g.	Total. Report the total of lines 2.a to 2.e., on every day (column) of the reporting week. Calculation of the average for the week must be presented in the last column to the right.

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Part I. Legal Reserve Report - Continued:

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| 3. | <p><u>Legal Reserve calculation.</u>
This part uses the data provided on Part 1 and Part II., for the calculation of the surplus or deficiency in the reserve.</p> |
| 3.a. | <p>Daily and weekly average demand deposits.
Input from amounts reported on Part I, line 1.d., for every day of the week and the week average.</p> |
| 3.b. | <p>Regal reserve requirement 20%
Multiply by 20% the amounts reported in 3.a., (above, for each day of the week and the week average) and report the resulting amount for each day in the corresponding column in this line..</p> |
| 3.c. | <p>Daily and weekly average Legal Currency
Input from amounts reported on Part I, line 2.f., for every day of the week and the week average.</p> |
| 3.d. | <p>Legal reserve surplus (deficiency)
Report the sum of line 3.c., minus 3.b., above. Th resulting number may be positive or surplus or negative (a deficiency).</p> |

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| Part II. | Legal Reserve Report - Continued: |
| | Total deposit reconciliation: <u>(To be completed and reported at the end on each quarter only).</u> |
| 1. | Report the total demand deposit from Part I, line 1.d., as of the last day of the month of the quarter. |
| 2. | Add: Excluded items in demand deposits - Part I <ol style="list-style-type: none">a. Public funds I
Report amounts excluded in relation with accounts described in previous line instruccions 1.a.3b. Other liabilities reported as deposits such as escrow and withheld balances
Report amounts excluded in relation with accounts described in previous line instruccions 1.a.1, 1.a.2, 1.a.4., and 1.a.5 |
| 3. | Add (deduct) Other adjustments
Input the total of all other adjustments needed to reconcile the line 1 and line 4 of this report, exclude adjustments reported on line 2.a., and 2.b., above.
<u>Provide details of adjustments in Part VII.</u> |
| 4. | Total demand deposit as reported in Schedule RC-E, item 7, Column B.
Add lines 1 to 3 and report the total in this line. |

- Part III.** **Report certification.**
- Provide the name of the responsible bank officer signing the report, the signature and date**

Part IV, V, VI, and VII

Page 2 of the report includes a template to report details of amounts reported in Part I line items 2.c; 2.d; 2.e; 2.f; and for any amount reported in Part II, line item 3.

The reporting institution may add as many lines needed to the form to provide all necessary details.

