

Puerto Rico International Banking Law 2025 Update

A Comprehensive Overview of Legislative and Regulatory Amendments

June 2025

The Puerto Rico international banking law was amended on February 16, 2024 with regulations and guidance being issued in 2025. This article will cover all of the important changes to the IFE law. The purpose of this article is to explain the 2025 version of international banking law and to serve as a guide to assist buyers of banks and those who wish to file new licenses in the jurisdiction.

This article on the modifications to Puerto Rico's international banking law is being written on June 20, 2025. Regulators are considering issuing additional guidance and the banking commissioner is scheduled to change in the coming months. So, it's possible that there will be modifications to some of the information below. I will update as soon as new guidance is published.

Summary

For those of you with a short attention span, here's a summary of this article.

In 2024, significant reforms were introduced to professionalize and stabilize the international banking sector in Puerto Rico. These included raising the minimum paid-in capital from \$5 million to \$10 million, increasing compliance staff requirements, mandating the use of Puerto Rican or U.S.-based holding companies, and adding much higher regulatory fees and fines. All share transfers—regardless of percentage—now require approval, and every IFE must have at least one independent director. While these changes may lead to the closure of some undercapitalized banks, they are expected to improve the quality and credibility of the sector.

General Discussion of International Banking in Puerto Rico

Puerto Rico has been dominating the international banking industry in recent years. Since 2015, the vast majority of new international banking licenses have been issued by the US territory of Puerto Rico.

While Bermuda* has one international bank (Jewel), and Belize has three (the best being [Caye International](#)), Puerto Rico has issued seventy licenses. While the Cayman Islands has lost about 65% of its banks, Puerto Rico has flourished. For more on the industry, see [International Bank License Industry Guide 2023](#).

* When I say there's only one bank in Bermuda, I mean there's only one bank with an international banking license in Bermuda. There are also four local banks, including HSBC and Butterfield, on the island. These domestic banks are only allowed to accept deposits from people living in Bermuda and are thus not "international" banks.

Note that I'm focused on "international" banks in this post. International banks are banks permitted to do business with people anywhere in the world except those located in the jurisdiction where the license is issued. So, international banks in Puerto Rico can accept deposits from anywhere in the world (within reason, of course) except from persons and businesses in Puerto Rico. International banks can't compete with local banks.

The reasons for Puerto Rico's dominance of the international market are simple:

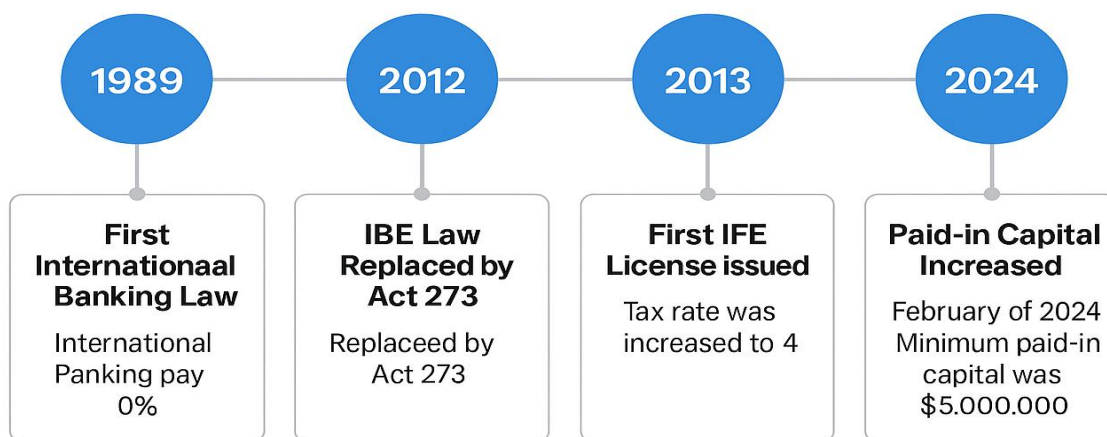
1. An international bank in the US territory of Puerto Rico may join the US banking system by obtaining a SWIFT code, an ABA number, and becoming a member of Fedwire. If granted membership in Fedwire, the cost of sending and receiving wires is reduced (often from \$50 to less than \$1). Likewise, transactional efficiency and stability are greatly improved. For more on this topic, see: [International Banks in Puerto Rico with Fedwire](#).
2. Banks in Puerto Rico have an easier time obtaining US correspondent banking partners. When you startup a new bank, and prior to securing an account at the Fed, you'll need a US correspondent bank to process your USD transactions. While it's challenging to get a US partner bank with a license from Puerto Rico, it's near impossible to get one with an international license from the Cayman Islands (for example). This hurdle, and FATCA reporting, are the primary reasons international banking jurisdictions are struggling.
3. The tax rate for international banks in Puerto Rico is 4%. This is the only tax the bank will pay. Banks operated from Puerto Rico under Act 273 do not pay US Federal Income Tax. Likewise, dividends from the iFE to its shareholders are not taxed. Dividends paid to US persons are taxed by the US, but not by Puerto Rico. Dividends paid to non-US persons are often not taxed by the shareholder's home country.
4. The US does not offer an international banking license, banks are generally not open to foreign customers who are not US residents, and isn't welcoming to non-US shareholders... especially if they will hold 10% or more of the bank. US banks are meant to serve people in the United States and often offer accounts to persons located in the state in which the bank operates. While a very small percentage of a domestic bank's book of business might come from abroad, they're meant to serve local individuals and businesses.

International banks in Puerto Rico can open accounts for persons and companies located anywhere in the world except from sanctioned countries. It would be possible to set up an international bank

in Puerto Rico where all the customers are from mainland China or Brazil, for example. It would also be possible to set up a bank focused on cross border payments where half the customers are from the United States and half are from Mexico.

Being able to bring in foreign deposits and join the US banking system, while only paying 4% in tax, are benefits that no other jurisdiction can compete with. This level of security, stability, and access to USD, is unique to Puerto Rico.

A Brief History of the International Banking Law of Puerto Rico



The first international banking law of Puerto Rico was passed in 1989. These banks, called International Banking Entities, pay 0% in tax and can provide some products, such as insurance, that newer banks can not. There are currently 28 IBEs, most of which are owned by large financial conglomerates such as UBS, Citibank, and Banco Popular. Citibank was the first international bank licensed on the island.

In 2012, the IBE law was replaced by Act 273, which is referred to as the International Financial Entity Act. The first IFE license was issued in 2013 and the law increased the tax rate from 0% to 4%.

The primary difference between Act 273 and the IBE law (Act 52, 1989) is that an IFE can be structured to operate a variety of financial services businesses where the IBE law was limited to banks. For example, an IFE can be structured to operate as an asset manager, family office, captive bank, fund and capital management, financial advisor, etc. Of course, the most popular and famous use of the license is as an international bank.

A “bank” is defined as a financial services entity that is allowed to accept deposits from the general public (Act 273, Section 12(a)(1)). If you’re not permitted to accept deposits from the public, you’re not allowed to use the word “bank” in your name.

The intent of Act 273 was to create an export services law, similar to Act 20 (now Act 60), that would bring high paying financial services jobs to the island. The Act has largely been successful in this regard. Demand for qualified bank employees on the island is high, with compliance salaries doubling.

While a few IFEs have closed in recent years, there are currently 34 operating on the island. There are also several banks preparing to launch.

- **Export Services:** Services provided from Puerto Rico to persons and companies outside of Puerto Rico. This definition applies to Acts 273, 20, 22, 60 and other laws.
- **Financial Services:** The definition of Financial Services is broad. However, it does **not** include operating as an exchange of virtual currencies or digital assets.

From 2012 to about 2017, you could set up an IFE with only \$550,000 capital (\$350,000 paid-in capital plus a CD of \$200,000 per Act 273 Section 5(b)(3)). Not surprisingly, many of these poorly capitalized banks failed and paid-in capital was increased to \$5,000,000 plus the CD of \$200,000. Minimum paid-in capital remained at \$5,000,000 until February of 2024.

Puerto Rico International Banking Law in 2024

With that background, here are the changes to Puerto Rico's international banking law in 2024. These amendments were signed into law on February 16, 2024 under House bill 1699 amending Act 273-2012 formally titled "International Financial Center Regulatory Act."

- House bill 1700 was also signed on this date amending the IBE law. This article will focus on the IFE amendments. The differences between these bills will not make a difference to the majority of the readers of this post. I doubt Citibank comes to my blog for advice.=

The purpose of these amendments is to make it much more difficult and expensive to get a banking license in the US territory of Puerto Rico. Now that the jurisdiction has established itself as *the* industry leader, you'd had better be well capitalized if you want to join the club.

Capital Requirements:

Minimum paid-in capital has been increased from \$5 million to \$10 million. Also, the required CD has been increased from \$200,000 to \$1 million. Therefore, a new applicant will need to have at least \$11 million in cash ready to go prior to applying for an international banking license in Puerto Rico.

Also, the applicant should not spend down their paid-in capital while building out the bank prior to launch. Thus, it's recommended that you have at least a \$1 million startup budget, bringing total cash required to \$12 million.

These changes bring Puerto Rico in line with the majority of small US states (such as North and South Carolina) where minimum paid-in capital is \$10 million plus a \$1m startup budget are required. These are also the requirements in competing jurisdictions like Bermuda and Bahamas. It is less than half of the amount required in Switzerland and a fraction of Mexico (\$100m to \$77m USD).

Fees:

The non-refundable application fee for a new international banking license in Puerto Rico in 2024 has increased from \$5,000 to \$50,000. This should eliminate many of the applications from undercapitalized groups just wanting to mark their place in line.

In addition, regulators have the right to charge applicants for investigating the structure and shareholders. It's likely that this will be an additional \$25,000, but it's unclear until new regulations are issued. The law allows regulators to charge whatever is necessary.

The annual license fee is increased from \$5,500 per year to \$25,000 plus \$5,000 for each branch. Though, not many IFEs have branches.

Transfer of Ownership/Shares:

Act 273-2012 required approval for any transfers of voting shares of 10% or more. The 2024 international banking law requires regulator approval of *any* transfer of voting shares, regardless of the percentage.

A Change of Control fee applies to the sale of 10% or more of the voting shares of an IFE. The non-refundable fee is \$50,000 plus a research fee of \$25,000. This \$75,000 cost applies to all transactions of 10% or more.

As a practical matter, this will make it inefficient to bring in small shareholders to a small IFE. If the bank is valued at \$5 million, and you sell 10% for \$500,000, regulatory fees are 15%.

Employees:

As stated above, the purpose of the various export services acts, including Act 273, is to bring quality high paying jobs to the island. The 2024 amendment to the international banking law doubles down on this by increasing the minimum number of employees in Puerto Rico from four to eight.

All IFEs must have a Chief Compliance Officer in Puerto Rico and at least one support person in the compliance group. That is to say, two of these eight local employees must be experienced in compliance.

Also, the IFE must have the necessary number of personnel to support the functions of a compliance department that is entirely autonomous. All account opening and compliance decisions should be made in Puerto Rico.

This section of the 2024 amendment to the international banking law will likely allow regulators to force larger IFEs to increase the number of employees on the island above eight. All compliance activities of the bank should be in Puerto Rico.

New employment rules are targeted at international banks that currently have four token employees in Puerto Rico, but the majority of their operations in the United States or elsewhere. These banks will need to move their compliance teams to Puerto Rico.

Structure:

The 2024 Puerto Rico international banking law amendment eliminates the use of offshore holding companies. Going forward, only entities incorporated in Puerto Rico or the United States will be allowed.

Historically, I've advised non-US persons to apply for a banking license in Puerto Rico using a holding company from the British Virgin Islands or a similar tax efficient jurisdiction. This allowed for more tax planning options around dividends and retained earnings. It also allowed for transactions with shareholders owning less than 10% that did not need to be reported to regulators.

Now, non-US shareholders should apply using a Puerto Rico structure. Tax planning around dividends will need to be handled by tax experts in your home country. It will also increase the amount of IFEs that keep retained earnings in the bank and do not pay out dividends.

US persons have always looked to Puerto Rico IFEs for tax deferral while non-US shareholders have wanted to pay out dividends to their offshore entities. As of 2024, both US and non-US shareholders are likely to have similar interests when it comes to dividends and retained earnings.

Independent Director:

As of 2024, all international banks in Puerto Rico must have at least one independent director. An independent director is someone who has no economic interest in the bank and no other financial relationship with the IFE or the owners of the IFE. Also, an independent director is someone who is not an employee of the IFE.

The minimum number of directors remains the same at three, of which one must be independent. The Board of Directors must be an odd number.

Permitted Activities of the IFE:

The services an IFE is allowed to provide to persons and companies outside of Puerto Rico are defined in Section 12 of Act 273-2012. The 2024 amendment to the law adds custody of virtual assets and virtual currencies to this list.

As stated above, an IFE is not permitted to operate as a crypto exchange. This is made clear in the 2024 law.

Fines:

There is a new late filing fee for delinquent renewal applications. This fee is \$1,500 to \$5,000 **per day if the** application is late. Yes, you read that right... the IFE is fined for every day it's late.

In addition, the 2024 regulations allow the commissioner to impose a fine of not less than \$5,000 and not more than \$25,000 for each violation of the provisions of the IFE law or the provisions contained in the forthcoming regulations.

Violations are usually found when regulators audit an operating IFE. For example, I am aware of an IFE that received five “major” violations in a recent audit. I expect major violations to receive a fine of \$25,000 each and minor infractions to receive a fine of \$5,000 and up.

The Impact of the 2024 Banking Law Changes on Existing Banks

Existing banks will have a few years to reach \$10 million in paid-in capital. They should increase capital in a staggered manner acceptable to regulators until reaching the \$10 million threshold. A specific timeline is not provided.

Existing banks must increase their CD investment (also referred to as unencumbered assets) as follows:

- \$500,000 at the time of renewing their license from 2024 to 2025
- \$750,000 at the time of renewing their license from 2025 to 2026
- \$1 million at the time of renewing their license from 2026 to 2027

It is expected that these regulations will force several IFEs to close or sell. However, only “clean” banks are allowed to sell. Historically, those with “issues,” such as Bancredito International Bank, Strategic International Bank, and Euro Pacific International Bank, have been forced to close and were not allowed to sell.

Considering the high transfer costs, and the desire of regulators to reduce the number of banks on the island, I don’t expect to see a glut of IFEs on the market in the next year or two. Most undercapitalized banks will go out of business and not have an opportunity to sell.

My guess is that there will be two or three sales of clean banks per year, which is the current rate. That is to say, the sale of banks will remain stable in the coming years. In addition, about five banks will be forced to close over this same 24 month period. This should finish the Commissioner’s “clean up” of the industry.

There are currently nine new license applications pending. Then there’s another four applicants that will file within the next 30 days, prior to the new law being implemented. I expect that regulators will approve two or three new licenses each year.

Only the best capitalized of these new applicants will be approved. Some will have a higher probability of success if they purchase an existing bank rather than applying for a new license.

As I said, only a limited number of new licenses will be issued each year. But, when you purchase an existing bank that’s in good standing, you have no competitors in that process. The only reason a sale will be denied is if you’re not qualified to own a bank.

To put this another way, only the *most* qualified will be granted a new license. Anyone who is qualified will be allowed to purchase a bank in good standing. The most common reason a sale is not approved is when the seller is unable to prove their source of funds.

So long as a buyer has no criminal history, no bankruptcy, tax compliance, or financial issues, and the source of funds for the purchase and paid-in capital is clear and can be proven to the satisfaction of regulators, you’ll be allowed to purchase a bank in Puerto Rico.

I’ll also remind you that existing banks have a few years to increase their capital to \$10 million. When you purchase a bank in good standing, this right stays with the bank. You will start out with \$5 million of paid-in capital which is to be increased as agreed with regulators.

Conclusion

I believe that the 2024 amendments to the Puerto Rico international banking law are mostly an improvement. They’re beneficial for the jurisdiction, for regulators, and for current and future banks on the island. The higher capital requirements will increase the quality of the participants and eliminate those who are underfunded and therefore operating in a high risk or non-compliant manner. The higher fees will be spent to improve OCIF and thereby improve the industry overall.

An efficient and well funded regulator is a benefit to all industry participants as well as the customers of those banks.

Yes, there will be some growing pains. But, once those have passed, the best operators will remain. International banks in Puerto Rico will have an improved reputation worldwide as being well capitalized and providing access to US dollars, cross border transactions, and serving an international niche which traditional US banks do not have access to.

In addition, a higher capital requirement, and a higher quality of operator, will mean more IFEs will be approved for [Fedwire](#). Undercapitalized banks are seen as high risk by the Federal Reserve. As capitalization and operational expertise increase, perceived risks decrease.

Only four stand-alone international banks in Puerto Rico have Fedwire today. As granting Fedwire to IFEs becomes normalized, the integration of more banks into the US system will allow them to serve their clients more efficiently. I believe that this will be the long term impetus to the growth of the industry in years to come.

I hope you've found this article on Puerto Rico's international banking law 2024 amendment to be helpful. For more information on purchasing an existing bank on the island, or starting a new international bank in Puerto Rico, please contact me at info@banklicense.pro.