



COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS

*Rafael Blanco Latorre, Esq.*  
*Commissioner*

February 5, 2014

Mr. José Sánchez-Castro, Esq.  
López, Sánchez, Pirillo & Hymovitz  
235 Federico Costa Street  
Parque Las Américas I, Suite 310  
San Juan, PR 00918

**RE: REPURCHASE OF SHARES OF COMMON STOCK (THE "SHARES") ISSUED BY THE PUERTO RICO INVESTORS TAX-FREE FUND, INC.; PUERTO RICO INVESTORS TAX-FREE FUND INC. II; PUERTO RICO INVESTORS TAX-FREE FUND III, INC.; PUERTO RICO INVESTORS TAX-FREE FUND IV, INC.; PUERTO RICO INVESTORS TAX-FREE FUND V, INC.; PUERTO RICO INVESTORS TAX-FREE FUND VI, INC.; PUERTO RICO INVESTORS BOND FUND I; PUERTO RICO TAX-FREE TARGET MATURITY FUND, INC.; AND PUERTO RICO TAX-FREE TARGET MATURITY FUND II, INC.**

Dear Mr. Sánchez:

We make reference to your letter dated February 3, 2014 (the "Letter"), submitted to the Office of the Commissioner of Financial Institutions (the "Office") on behalf of the following funds and to which UBS Asset Managers of Puerto Rico (a division of UBS Trust Company of Puerto Rico) and Popular Asset Management, a division of Banco Popular de Puerto Rico, serve as co-investment advisers: Puerto Rico Investors Tax-Free Fund, Inc.; Puerto Rico Investors Tax-Free Fund Inc. II; Puerto Rico Investors Tax-Free Fund III, Inc.; Puerto Rico Investors Tax-Free Fund IV, Inc.; Puerto Rico Investors Tax-Free Fund V, Inc.; Puerto Rico Investors Tax-Free Fund VI, Inc.; Puerto Rico Investors Bond Fund I; Puerto Rico Tax-Free Target Maturity Fund, Inc.; and Puerto Rico Tax-Free Target Maturity Fund II, Inc. (each referred to as "PRITFF [NUMBER]", "PRIBF", "PRTMF [NUMBER]", or a "Fund" and collectively, the "Funds").

**RULINGS REQUESTED**

On behalf of each of the Funds, in the Letter you request from the Office certain rulings, designations, and waivers from the provisions of the 2013 Investment Company Act, in accordance with Article 45 thereof. Specifically, you request the Office to authorize each of the Funds to conduct certain repurchases of the Shares, pending approval of a definitive rule under Article 25 thereof, in the manner proposed in the Letter as subsequently described herein.



## LEGAL FRAMEWORK

Article 25 of Act 93-2013<sup>1</sup>, as amended by Act 137-2013 (the “2013 Investment Company Act” or “Act 93-2013”) provides as follows:

Article 25. A closed-end investment company shall not purchase securities of which it is the issuer except:

- A. On a securities exchange or such other open market as the Commissioner may designate by regulation or order, pursuant to the notice period and other rules determined by the Commissioner.
- B. Pursuant to offers to the holders of such securities, as long as all holders of securities of the class to be purchased are given an equal and reasonable opportunity to be purchased.
- C. Under any circumstances as the Commissioner may permit under regulation for the protection of the investors in order to insure that such purchases are made in a manner or on a basis which does not unfairly discriminate against the holders of the classes of securities to be purchased. [Our translation].

## FACTUAL REPRESENTATIONS

In the Letter you make reference to Article 25 of Act 93-2013, quoted above, which governs repurchases of shares by closed end funds.

As submitted in the Letter, it is represented that the prospectuses for the initial issuance of Shares by PRITFF1 (page 34), PRITFF 2 (page 36), PRITFF 3 (page 37), and PRITFF4 (page 32) generally provide for the repurchase of Shares and state that a Fund may take action to repurchase Shares in the open market or make tender offers for such Shares at their respective net asset value which may have the effect of reducing any market discount from net asset value and could have a favorable effect on the market price of the Shares. In addition, you represent that such prospectuses generally provide that a Fund may execute secondary market transactions with affiliated parties, (such as a repurchase of

<sup>1</sup> The original text in Spanish reads as follows:

Artículo 25.- Una compañía de inversión de fin cerrado no podrá comprar valores mobiliarios de quien es el emisor a menos que:

- A. Sea en una bolsa de valores u otro mercado abierto que el Comisionado designe mediante reglamento u orden, conforme al periodo de notificación y otras reglas que el Comisionado determine.
- B. Sea mediante oferta a los tenedores de dichos valores mobiliarios, siempre que se le dé oportunidad razonable e igual a todos los tenedores de los valores mobiliarios de la clase a ser comprados.
- C. Sea bajo cualquier circunstancia que el Comisionado permita bajo reglamento para la protección de los inversionistas para asegurarse que dichas compras se hacen de una manera o en una base que no discrimine injustamente contra los tenedores de las clases de valores mobiliarios a comprarse.



the Shares), provided such affiliated transactions are effected pursuant to procedures designed to address any conflicts of interest.

It is further represented that the prospectuses for the initial issuance of Shares by all Funds provide for dividend reinvestment plans, pursuant to which investors in the Shares may elect to have the dividends and distributions from a Fund reinvested in additional Shares. The Shares are acquired by each Fund's transfer agent for the corresponding participant's account through (i) the receipt of additional unissued but authorized Shares or (ii) the acquisition of Shares in the open market or privately negotiated transactions, whichever option is economically more favorable to the participant. In the case of Shares acquired in the open market or privately negotiated transactions, the amount of the dividend or other distribution on the Shares is applied (less the pro-rata share of brokerage commissions incurred with respect to such open-market or privately negotiated purchases, such commissions to be paid to parties which are unaffiliated to the Fund) to the purchase of the Shares for the corresponding participant's account. According to your submission, if the full dividend amount in open-market or privately negotiated purchases during the purchase period is unable to be so invested, the uninvested portion of the amount of the dividend or other distribution is then invested in newly-issued Shares at the close of business on the last purchase date.<sup>2</sup>

In the Letter you represent that since each Fund's inception, the corresponding Shares have usually traded at a premium to their corresponding net asset value per Share (e.g. market price has exceed the net asset value per Share). You inform, however, that during periods of market volatility the Shares have traded at a discount to their net asset value per Share.<sup>3</sup> You submit that during such periods of volatility it has been more advantageous for Fund investors who wished to reinvest their dividends in additional Shares of a Fund, to reinvest such dividends in Shares acquired in the open-market rather than reinvesting such dividends in newly-issued Shares, which have to be issued at the corresponding net asset value per share to avoid investor dilution.

As described in the Letter, starting near the end of the second quarter of 2013, municipal securities in the United States and local municipal securities in Puerto Rico began trading at lower prices and higher yields compared to benchmarks of the past two years. This was due to a combination of factors including but not limited to, the general increase in interest rates, outflows from mutual funds in the United States, the filing of bankruptcy by

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<sup>2</sup> You further note at footnote 2 of the Letter that while the prospectuses for the initial issuances of Shares by PRITFF 5, PRITFF 6, and PRIBF contemplate the repurchase of Shares for each such Fund's dividend reinvestment plan, they do not contemplate the repurchase or tender offer for Shares for other corporate purposes. In such regard, you propose that each such Fund notify all its shareholders of record, on an annual basis, that it may carry out repurchase or tender offers of Shares, consistent with the disclosure contained in the prospectuses for the initial issuance of Shares by PRITFF 1, PRITFF 2, PRITFF 3, and PRITFF 4, in order to implement any repurchase of Shares.

<sup>3</sup> These fluctuations are shown in the table attached to the Letter as Exhibit 1 thereto.



the City of Detroit, and the negative press coverage in the national and local media regarding Puerto Rico's ability to deliver on the budgetary reform measures recently adopted. Subsequently, on November 15, 2013, Fitch Ratings put Puerto Rico's general obligation debt on watch for a potential downgrade to below investment grade, with Fitch expecting to resolve the rating watch negative by June 2014, taking into account ongoing issues related to Puerto Rico's economy, budget performance, and liquidity needs. On December 11, 2013, Moody's Investors Service also placed on review for downgrade the general obligation rating of the Commonwealth of Puerto Rico as well as ratings that are capped by or linked to the Commonwealth's general obligation rating were also placed on review, including COFINA's senior and junior lien bonds. On January 24, 2014, Standard & Poor's Rating Services placed its Commonwealth of Puerto Rico general obligations ("GO") and appropriation debt ratings on Credit Watch with negative implications, as well as its debt ratings on Puerto Rico's Employee Retirement System, the Puerto Rico Infrastructure Financing Authority, the Puerto Rico Convention Center District Authority, and the Puerto Rico Highways and Transportation Authority.<sup>4</sup>

You represent in the Letter that the occurrence of such events impacted the Funds causing a substantial decrease in each Fund's net asset value and the market prices of the Shares.<sup>5</sup>

You argue that one of the effects of the current volatile market is the period of extreme illiquidity being experienced by the Shares in the secondary market, with few investors acquiring Shares and Puerto Rico broker-dealers which engage in secondary market transactions in the Shares, such as UBS Financial Services Incorporated of Puerto Rico, amassing large inventories of thereof.<sup>6</sup>

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<sup>4</sup> We take official notice of the fact that on February 4, 2014, Standard & Poor's Rating Services lowered its ratings on the Commonwealth of Puerto Rico general obligations ("GO") debt to 'BB+' from 'BBB-'. Simultaneously it downgraded Commonwealth appropriation secured debt and Employee Retirement System ("ERS") debt to 'BB'. It further noted that all of its ratings remain on CreditWatch with negative implications.

<sup>5</sup> The Table submitted on page 3 of the Letter shows the above mentioned decreases as of January 15, 2014.

<sup>6</sup> In footnote 6 of the Letter it is represented, among other things, that since the Funds are closed-ended Puerto Rico investment companies, the Shares are not subject to redemption by a Fund (as is the case with open-ended investment companies). As represented therein, the Shares trade in the secondary market, with the Affiliated Broker-Dealers maintaining a market in the Shares though you allege that each is not obligated to do so. As part of its market-making activities, each Affiliated Broker-Dealer may acquire Shares for their corresponding inventory. If at any time both Affiliated Broker-Dealers cease to maintain a market in the Shares, they will become illiquid until a market is reestablished. An investor's ability to sell its Shares depends on the interest of other investors buying Shares, and each Affiliated Broker-Dealer's willingness to commit additional capital to holding Shares in inventory. You specifically represent that these facts have been disclosed to all investors in the Funds, through the prospectuses for the offering of the Shares as well as each Fund's quarterly report. You further note that, while the Affiliated Broker-Dealers are currently the dominant, if not the only, source of secondary market liquidity for the Shares, there are other Puerto



You further submit that it is Fund management's reasoned opinion that it is in Fund investors' best interests to enhance the liquidity of the Shares by effecting repurchases thereof. You argue that such repurchases will also be in the best interest of investors who choose to remain invested in the Funds, inasmuch as (i) the net asset value per Share should increase after a repurchase of Shares is effected and (ii) with respect to investors who reinvest their dividends in additional Shares pursuant to the dividend reinvestment plan, they are able to acquire more Shares in the secondary market than if a Fund were to issue additional Shares at the corresponding net asset value per Share (which is currently higher than the market price).

### **ARGUMENTS IN SUPPORT OF THE RULINGS REQUEST**

Since the 2013 Investment Company Act requires the Office to regulate the repurchase of Shares by the Funds, in addition to comments and a proposal for regulation under Article 25 of the 2013 Investment Company Act, you also submit the procedures adopted by the Funds' Board of Directors to effect such repurchases of Shares and to address potential conflicts of interest with the trading desk of Popular Securities and UBS Financial Services Incorporated of Puerto Rico (each, an "Affiliated Broker-Dealer" and collectively, the "Affiliated Broker-Dealers"). All of this in order to persuade the Office that the proposed repurchases and the procedures to implement the same adequately conform to Article 25 of Act 93-3013 and should therefore be authorized by the Office in the interim period between the effective date of Act 93-2013 and the adoption of a final rule to implement Article 25 mentioned above.

#### ***Repurchase procedures***

As summarized the Letter, such procedures consist of the following:

- (i) In accordance with the disclosure provided in certain prospectuses for the Shares, when any Shares are trading at prices below the corresponding net asset value per Share, Fund management has determined that it is in the best interest of investors in the Shares to provide for the repurchase and retirement of Shares at prices at or below the net asset value per Share on the trade date of any such repurchase.
- (ii) Inasmuch as the Shares only trade in the secondary market through certain Puerto Rico broker-dealers known to transact in the Shares in accordance with no-action relief from the U.S. Securities Exchange Commission, the Funds will conduct the repurchases of the Shares with such Puerto Rico broker-dealers who will, in turn, communicate with their respective clients for purposes of ascertaining their participation in any such repurchase. Such Puerto Rico broker-dealers may act on behalf of (i) clients, (ii) lenders ordering the liquidation of Shares held as collateral, or (iii) their own proprietary trading desks.

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Rico broker-dealers who have also been known to maintain a market in the Shares and hold inventories thereof, though to a significantly lesser extent than the Affiliated Broker-Dealers.



(iii) Each Fund will inform all record owners thereof of its intention to engage in repurchases of Shares by letter or report addressed to all the stockholders of such class on at least an annual basis. Each Fund will also inform all record owners of the initial approval of the Share Repurchase Program by the Funds' Board of Directors at least 14 calendar days prior to engage in the initial repurchase of Shares.

(iv) Funds effecting a repurchase of Shares will disseminate to certain Puerto Rico broker-dealers known to transact in the Shares, a request form for Shares to be offered for repurchase on any given day on which the Funds' net asset value is ordinarily published. The request for offered Shares will be open until on or before the close of the business of the following net asset value calculation date. We note that the Puerto Rico broker-dealers may require notification from their clients regarding participation in a repurchase prior to such deadline, in order to allow time to organize and submit orders to the Funds.

(v) The determination of whether to engage in a repurchase of Shares is made jointly by Popular Asset Management, a division of Banco Popular de Puerto Rico, and UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico, as co-investment advisers to each Fund (the "Advisers"), on a case by case basis, taking into consideration each Fund's investment portfolio and leverage structure, both before and after effecting any repurchase of Shares, as well as the ability of management to structure assets sales under economically favorable terms. To the extent that sales of a Fund's assets are necessary to generate cash for repurchases of Shares, the Advisers will use their best efforts to conclude all such sales and calculate each Fund's net asset value per Share for purposes of determining the maximum number of Shares to be purchased, by close of business on the net asset value calculation date following the dissemination of the request form. The maximum number of Shares to be repurchased will be equal to or less than the number of Shares that are offered for repurchase at or below the net asset value per Share calculated on the repurchase date following the dissemination of the request form and which can be purchased with the cash available to the corresponding Fund.

(vi) A Fund will execute repurchases starting with the lowest price offered for any given Shares at or below the corresponding net asset value per Share. A Fund may purchase Shares at prices up to and including the net asset value per Share calculated on the net asset valuation date following the dissemination of the request form.

(vii) To the extent that multiple sellers indicate interest in selling Shares, a Fund will purchase shares starting with the lowest offered priced and in the following order of priority for each price: (1) investors from both affiliated and unaffiliated broker-dealers; (2) the trading desks for broker-dealers which are unaffiliated with the Funds; and (3) the trading desk for any affiliated broker-dealer. If the sellers offer more Shares for sale than the Fund is able to accept at any particular price, the unaffiliated sellers' offers will be accepted on a pro-rata basis within the order of priority previously indicated. Any affiliated broker-dealer participating in any repurchase of Shares will certify compliance with such order of priority to the corresponding Fund.



(viii) To the extent that any Affiliated Broker-Dealer elects to offer Shares for repurchase from its own inventory, it must do so that their corresponding offer prices reported to the public as of the close of business on the day that the request form for Shares to be offered for repurchase was disseminated to Puerto Rico broker-dealers known to transact in the Shares. Any affiliated broker-dealer participating in any repurchase of Shares will certify compliance with such requirement to the corresponding Fund.

***Procedure to address potential conflicts of interest***

You submit that potential conflicts of interest with the Affiliated Broker-Dealers are addressed by (i) obligating each Affiliated Broker-Dealer to offer Shares held in inventory for repurchase by a Fund at an offered price which is publicly available, thereby providing any third party with the ability to underbid both Affiliated Broker-Dealers and (ii) to the extent that there exist multiple sellers at the same price, offers from unaffiliated sellers will take precedence over affiliated sellers.

**RULINGS**

The Office issues the following rulings pursuant to the provisions of Article 37 and Article 45 of Act 93-2013<sup>7</sup>, which provide as follows:

Article 37. Regulations and determinations. - The Commissioner shall have the authority to issue administrative determinations, issue amend and repeal such regulations and orders as are necessary for the exercise of the powers granted to the Commissioner in this act. This authority shall include regulations that define technical, accounting and commercial terms used in this act and that establish the manner in which the information required in the applications and reports which must be submitted by investment companies.

Article 45. Waivers. The Commissioner may, by regulation or administrative determination, conditionally or unconditionally, exempt any class of person, security or transaction, from any provision or provisions of this Act or any regulation issued under the authority granted in this Act, to the degree and in the manner he deems prudent, if he understands that such exemption is necessary or appropriate for the public interest, consistent with the protection of investors, with the purposes of this Act and with the statement of public policy of Article 2 of this Act. All determinations or actions performed under the authority that this Article grants to the Commissioner, shall be public, according to the mandate established in Article 39.

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<sup>7</sup> Articles 37 and 45 of Act 93-2013 were amended by Act 137-2013 to read as quoted above.



We take official notice of the volatile market conditions in the U.S. municipal bond market and more specifically, the Puerto Rico municipal bond market. It should be noted, however, that in issuing these rulings the Office does not necessarily endorse the terms of the proposed repurchases. Thus, our rulings today are strictly limited to the procedure established to effect such repurchases.

Accordingly, the Office hereby AUTHORIZES the Funds to conduct certain repurchases of the Shares pending approval of a definitive rule under Article 25 of Act 93-2013, provided such repurchases of Shares are effected in compliance with the procedures described in the Letter and summarized above, provided that adequate records thereof are maintained for future audit by the Office.

**TERMS AND CONDITIONS FOR EFFECTIVENESS OF RULINGS AND WAIVERS:**

The effectiveness and validity of the rulings and waivers granted herein are subject to the following terms and conditions:

1. The proposed repurchases of Shares must comply with the procedures described in the Letter and summarized above.
2. The Funds must maintain adequate records of the repurchases of Shares herein authorized for future audit by the Office.
3. The authorization granted today shall only be effective until a final rule under Article 25 of Act 93-2013 is adopted by the Office.
4. The foregoing rulings and waivers are granted based on the particular facts and circumstances represented in the Letter as described herein and, as such, shall not constitute a precedent binding upon this Office.
5. Given our reliance on the representations discussed above, any different fact or condition may require a different conclusion and the reversal of these rulings and waivers.
6. Please note that our ruling today is solely directed to the questions discussed above.

Cordially,

A handwritten signature in blue ink, appearing to read 'Blas', is written over the word 'Cordially'.