

# **Bond Case Briefs**

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## **Puerto Rico Bondholder Lawsuit Revived on Appeal.**

Holders of Puerto Rico's pension bonds deserve a hearing in their lawsuit over the territory's emergency measures to conserve cash, a federal appeals court ruled.

The U.S. Court of Appeals for the First Circuit on Wednesday revived a lawsuit filed by bondholders of the Employees Retirement System, Puerto Rico's largest government pension fund, against the territorial government. The bondholders filed a suit after Puerto Rico's former governor invoked a fiscal emergency law to interrupt the payment stream that back the debt.

The appeals court didn't decide whether the disputed funds can be diverted, ordering only that a lower court must hold a hearing to determine whether the lawsuit can proceed.

In the same ruling, the appeals court halted a similar lawsuit brought by holders of bonds issued by Puerto Rico's highway and transportation authority who likewise complained that their collateral had been confiscated. The bondholders failed to show they were harmed, the appeals court said, and aren't entitled to a hearing.

The ruling marks the first time an appellate court has interpreted the debt-related provisions of the Puerto Rico Oversight, Management and Economic Stability Act, or Promesa, but it likely won't be the last.

Congress passed the rescue law over the summer to install a financial oversight board with debt restructuring authority on the financially struggling island, home to 3.2 million U.S. citizens.

The pension and highway bondholders are just two of several investor groups that sued Puerto Rico last year, when former Governor Alejandro García Padilla used a local debt-moratorium law to begin diverting funds that were pledged as collateral to bondholders.

Promesa includes an automatic stay on lawsuits to close the courthouse doors to bondholders while restructuring negotiations are ongoing. The stay, which is currently in effect, can be extended until May 1, but the bondholders argued it didn't apply to them. A federal judge in November disagreed, keeping the stay in place.

Only the pension bondholders and the highway bondholders appealed. The pension bondholders, who are normally paid from employee contributions to the retirement fund, said there wouldn't be sufficient funds to pay them if the moratorium continues.

Judge Francisco A. Besosa of the U.S. District Court for Puerto Rico, is currently weighing whether to apply the stay to halt yet another lawsuit, one with far larger financial consequences. In that case, general obligation bondholders owed \$13 billion are laying claim to sales tax revenues that are currently pledged to a competing group of creditors.

The oversight board on Wednesday hired the law firm Dentons to help negotiate with creditors. The appeals court said in its ruling that Judge Besosa was wrong to block the board from participating in the bondholder lawsuits. The board had tried to intervene in the litigation in a bid to keep the

lawsuits frozen.

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