

Bond Case Briefs

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U.S. Chief Justice Taps New York Judge to Handle Puerto Rico Bankruptcy.

WASHINGTON — U.S. Chief Justice John Roberts on Friday appointed a federal judge based in Manhattan to oversee Puerto Rico's landmark bankruptcy case two days after the island's government filed for protection from creditors.

In a brief statement, Roberts said he had designated U.S. District Judge Laura Taylor Swain of the Southern District of New York to handle the biggest bankruptcy in the history of the U.S. municipal debt market.

Puerto Rico, which has roughly \$70 billion in debt, filed for bankruptcy on Wednesday.. Some of its public agencies are expected to do the same in coming days.

Because the U.S. territory is not eligible for traditional bankruptcy protection, the filing came under Title III of PROMESA, the federal Puerto Rico rescue law passed last year.

"I see the selection as a sign that Chief Justice Roberts knows very well the importance of this case and the need for the case to be perceived as having a fair process," said Melissa Jacoby, bankruptcy expert and professor at UNC Law.

Under PROMESA, the chief justice is tasked with selecting a federal judge to oversee the case, which was filed in federal court in San Juan, Puerto Rico.

Swain played an important role in the revisions to the Federal Rules of Bankruptcy Procedure, which apply to PROMESA Title III, Jacoby said.

A Harvard Law School graduate, Swain served from 1996 to 2000 as a bankruptcy judge for the Eastern District of New York after working in private practice at the law firm Debevoise & Plimpton. She specialized in employee benefits, executive compensation, employment and federal health and pension laws.

Swain has presided over other notable cases since being appointed to the federal bench by President Bill Clinton in June 2000, including trials of associates of Bernard Madoff tied to his multibillion-dollar investment Ponzi scheme.

She presided over several financial crisis related cases over soured mortgage-backed securities against major banks.

Last year, the 2nd U.S. Circuit Court of Appeals in Manhattan voted 3-0 to overturn her decision to dismiss a class-action lawsuit brought by investors. They accused drugmaker Pfizer Inc of causing tens of billions of dollars in shareholder losses by misleading them about the safety of its Celebrex and Bextra pain-relieving drugs.

"ALL BETS ARE OFF"

Puerto Rico is saddled with a 45 percent poverty rate and unemployment about double the U.S. average. While it remains to be seen how much of the \$70 billion in debt will be included in the bankruptcy, its restructuring is sure to be the largest and among the most complex in municipal market history.

Deep-pocketed creditors from myriad public issuers are battling on many fronts, competing for repayment priority while challenging the authority of Puerto Rico's federal financial oversight board to put the island into bankruptcy in the first place.

Several creditors sued Puerto Rico after Monday's expiration of protections against lawsuits under PROMESA.

Creditors holding constitutionally-backed general obligation debt argue they should be paid first while creditors holding sales tax-backed bonds, known as COFINA, have said they are entitled to the collected money.

The broader implications for the municipal bond market are not lost on investors.

"In particular as it pertains to securitized debt such as COFINA debt. You have similar debt in places like Illinois. This case could have far reaching implications," said Sean Burgess, portfolio manager and lead trader for Puerto Rico strategy at Sarasota, Florida-based Cumberland Advisors.

"Investors thought that their revenues were secure and claims and liens were (to be) respected. It could end up that COFINA bondholders get a haircut," said Burgess. "Once it goes to a judge all bets are off."

By REUTERS

MAY 5, 2017, 3:39 P.M. E.D.T.

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