
Move to Invalidate Puerto Rico GO Debt Squeezes Bondholders.

CHICAGO, Jan 15 (Reuters) – Puerto Rico general obligation bond prices tumbled on Tuesday after the island's federally appointed oversight board put the squeeze on bondholders late on Monday by announcing a plan to invalidate about half of the U.S. commonwealth's full faith and credit-backed debt.

The board, along with an unsecured creditors committee, asked the U.S. District Court overseeing Puerto Rico's bankruptcy case to wipe out more than $6 billion of GO bonds sold by the island in 2012 and 2014 that were already in default.

The news pushed prices on bonds due in 2035 with an 8 percent coupon down into the 48 to 49 cents on the dollar range from 53.5 cents on Monday.

With one debt restructuring completed and others in the works, the board is taking aim at the island's roughly $13 billion of GO bonds and nearly $50 billion in unfunded pension liabilities. As a prelude to mediation, the board and creditors committee are seeking to declare some of the GO bonds null and void because their issuance exceeded a debt limit and violated a balanced budget requirement in Puerto Rico's constitution.

"It is clearly part of the kabuki theater of negotiations," said James Spiotto, managing director of Chapman Strategic Advisors and a municipal bankruptcy expert.

He said while the legitimacy of the debt could have been challenged years ago, "they chose now because it's leverage."

Last month, the board's lawyer told U.S. Judge Laura Taylor Swain, who is hearing the bankruptcy case, that mediation efforts would resume early this year on Puerto Rico's core government debt and that a plan of adjustment could be imposed on creditors if there is insufficient support. With roughly $120 billion in debt and pension liabilities, Puerto Rico and four of its public corporations commenced bankruptcy proceedings in May 2017, under Title III of the so-called PROMESA Act.

Wiping out bondholders' investments, a move President Donald Trump suggested for the island in 2017, would have expensive repercussions for Puerto Rico's return to the $3.8 trillion municipal bond market. here

"If that is the solution, all they're going to wind up doing is paying a lot more money to borrow money," Spiotto said.

Puerto Rico completed the restructuring of about $4 billion of Government Development Bank debt in November in the first consensual deal under the bankruptcy. This week the court will take up a deal to restructure debt issued by the island's Sales Tax Financing Corporation known as COFINA. A deal over Puerto Rico Electric Power Authority (PREPA) debt is pending.

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