

Bond Case Briefs

Municipal Finance Law Since 1971

BANKRUPTCY - PUERTO RICO

In re Financial Oversight and Management Board for Puerto Rico

United States Court of Appeals, First Circuit - September 23, 2026 - F.4th - 2026 WL 2858899

Financial Oversight and Management Board for Puerto Rico moved to enforce Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) Title III plan so that no claims in proof of claim filed by bond trustee, which claims were for alleged breaches of certain statutory rights and remedies regarding bonds issued by Puerto Rico Electric Power Authority (PREPA), would result in distributions under plan's terms. Bond trustee and bondholders opposed the motion.

The United States District Court for the District of Puerto Rico granted Board's motion and classified trustee's proof of claim as subordinated claim. Trustee and multiple bondholder groups appealed.

The Court of Appeals held that:

- Filing amended objection to bond trustee's proof of claim was not unduly delayed;
- Bondholders were not prejudiced by district court allowing Board to amend its timely initial objection to bond trustee claims in proof of claim;
- Bankruptcy Code provision mandating subordination of any claim for damages arising from purchase or sale of security of debtor or its affiliate does not require the misconduct leading to the alleged damages to have occurred at the time of the transaction;
- Subordination provision is not restricted to certain causes of action;
- Subordination provision applied to proof of claim by bond trustee alleging impairment of separate protections that accompanied bond purchase;
- Application of subordination provision was not limited to only where investor asserted two overlapping claims against same debtor; and
- Causal nexus requirement under subordination provision was satisfied.