

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **Scores of Puerto Rico Trades Sub-\$100,000 Voided by Dealers.**

Scores of trades in bonds Puerto Rico issued this month have been canceled by dealers, including some that were under the \$100,000 minimum transaction level stipulated in deal documents, data compiled by Bloomberg show.

The self-governing U.S. territory sold \$3.5 billion of debt March 11, in the biggest-ever high-yield offering for the \$3.7 trillion municipal market. The issue gave the island, which was cut to junk last month, cash to pay bills through June 2015, as officials try to revive a shrinking economy. [Hedge funds](#) bought the majority of the bonds at issue.

Dealers report voided transactions to the Municipal Securities Rulemaking Board, said Ernesto Lanza, deputy executive director at the Alexandria, Virginia-based self-regulatory organization. The group removes such trades from its Electronic Municipal Market Access website, though regulatory authorities have access to the trading history, he said in an interview.

“If a dealer says ‘I need to correct some data or change data,’ they are making a correction that needs to go out to the marketplace,” Lanza said. “Our system allows for modifications, amends and cancellations to make corrections to previous reports.”

### **Finra’s Exam**

The canceled Puerto Rico trades included 99 below the minimum purchase threshold of \$100,000, and some were nullified as late as this week, Bloomberg data show. Some that exceeded \$100,000 were also scrapped, while some below the \$100,000 floor remain.

The Financial Industry Regulatory Authority said March 21 that it was examining trading in [Puerto Rico](#)’s new bonds. While offering documents stipulated a \$100,000 floor for purchases, scores of transactions below that amount were still completed, according to Bloomberg data.

George Smaragdis, a Finra spokesman, said in an e-mail that the regulator had no comment on the canceled transactions.

Puerto Rico sale documents state that “the bonds shall be issued in the minimum denomination of \$100,000 and any integral multiple of \$5,000 in excess thereof,” unless one of the three largest rating companies raises the commonwealth to investment grade.

### **Institutional Intent**

The \$100,000 threshold also applies to trading after issuance, said two people with knowledge of the sale who requested anonymity without authorization to speak publicly.

“These are intended for institutional purchasers, or at least for people that can afford the risk by making it a minimum denomination of \$100,000,” Martha Haines, who led the Securities and

Exchange Commission's Municipal Securities office from 2001 to 2011, said in an interview last week.

Haines teaches municipal finance at the Maurer School of Law at [Indiana University](#) in Bloomington.

The Puerto Rico bonds are tax-free nationwide and mature in July 2035. They priced to yield about 8.73 percent, or 93 cents on the dollar. The securities traded today with an average yield of about 8.66 percent, or about 5.23 percentage points above benchmark municipal bonds.

The Bond Buyer reported the cancellations earlier yesterday.

Carol Danko, a spokeswoman in [Washington](#) at the Securities Industry and Financial Markets Association didn't have an immediate comment on the canceled trades.

By Brian Chappatta Mar 26, 2014 7:39 AM PT

To contact the reporter on this story: Brian Chappatta in [New York](#) at [bchappatta1@bloomberg.net](mailto:bchappatta1@bloomberg.net)

To contact the editors responsible for this story: Stephen Merelman at [smerelman@bloomberg.net](mailto:smerelman@bloomberg.net) Mark Tannenbaum

Copyright © 2024 Bond Case Briefs | [bondcasebriefs.com](http://bondcasebriefs.com)