

Bond Case Briefs

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Supreme Court to Examine Puerto Rico Effort to Restructure Some Debts.

WASHINGTON—The Supreme Court agreed Friday to hear Puerto Rico’s effort to restructure its public utilities’ debts by enacting its own bankruptcy law.

As an unincorporated territory, Puerto Rico lacks the authority that U.S. states and their municipalities hold to restructure their debts under chapter 9 of the federal bankruptcy code.

To fill that gap, the territorial legislature adopted Puerto Rico Public Corporation Debt Enforcement and Recovery Act, which authorizes several public agencies and utilities to discharge most of their debts over their creditors’ objection.

Bondholders, including the Franklin Funds and BlueMountain Capital Management, sued, arguing the federal bankruptcy code pre-empts the Puerto Rico statute. Lower courts agreed.

The bondholders include mutual funds holding tax-free state and municipal bonds. Because Puerto Rico bonds are exempt from all state and federal taxes, Franklin and other funds focused on a particular state’s municipal bonds have filled out their portfolios with Puerto Rico bonds.

The Supreme Court will hear the appeal in early 2016, with a decision expected by June.

Puerto Rico continues to struggle over its fiscal situation. The governor this week signed an order allowing the territory to make its latest \$355 million debt payment only after it clawed back revenue used to pay debt for public corporations such as transit and tourism authorities. The government and various agencies face an additional \$950 million due Jan. 1.

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