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Aurelius Hedge Fund Seeks to Toss Puerto Rico's Bankruptcy Filing.

WILMINGTON, Del. — Puerto Rico's bankruptcy, aimed at restructuring \$72 billion of debt, violates the U.S. Constitution and should be dismissed, the Aurelius Capital Management hedge fund said in a court filing on Monday.

The U.S. commonwealth's federally appointed oversight board initiated its debt-cutting proceeding in May under a law known as PROMESA. Puerto Rico is barred from traditional municipal bankruptcy protection under Chapter 9 of the U.S. code.

Affiliates of Aurelius argued in court papers that the creation of the oversight board violated the U.S. Constitution's Appointments Clause. Aurelius said board members answer only to the U.S. president, yet their appointments were never confirmed by the Senate. Six of seven members were essentially hand-picked by Congress, violating the principle of the separation of powers, the hedge fund said.

The fund, known for its years-long battle with Argentina over its defaulted debt, seeks to bar the oversight board from operating until it has been validly constituted.

Aurelius holds roughly \$468 million worth of debt guaranteed by Puerto Rico's constitution. The hedge fund, run by Mark Brodsky, is known for buying distressed debt and pursuing aggressive litigation tactics to boost recoveries. In the Argentina case, the fund participated in numerous legal actions, including an unsuccessful attempt to attach Argentine pension and retirement funds located in U.S. banks. The firm was one of many parties that settled with Argentina in 2016.

Creditors were among those who lobbied most aggressively for the appointment of a board in Puerto Rico, believing it would support investor-friendly policies. But the board has lost allies in the creditor community after it sought to impose severe losses on creditors even as it has also pushed Puerto Rico to impose austerity measures.

Puerto Rico, with \$72 billion in debt, a 45 percent poverty rate and near-insolvent public health and pension systems, filed the largest municipal bankruptcy in U.S. history in May.

It was the board that technically filed the bankruptcy, under the 2016 Puerto Rico rescue law known as PROMESA. The law allows the board to essentially step into the Puerto Rico government's shoes for purposes of debt restructuring.

By REUTERS

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(Reporting by Tom Hals in Wilmington, Delaware; Additional reporting by Nick Brown and Daniel Bases in New York; Editing by Grant McCool and Howard Goller)

