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Puerto Rico Bondholders Fume for Being Shortchanged in Swap.

- **Individual investors waiting on payment of odd-lot bonds**
- **Execution of deal a 'complete abomination,' investor says**

Money manager Glenn Ryhanych sat in his office in Virginia, waiting for a final resolution of bankrupt Puerto Rico's nearly two-year saga with its $17.6 billion of sales-tax-backed bonds. He got a shock instead.

On Feb. 12, the island exchanged the old bonds for new ones of lesser value, allowing it to cut the amount of the debt outstanding by nearly a third. But the transaction brought another surprise to investors like him: Because the new bonds were issued in only $1,000 increments — and any odd lots were rounded down — the amount they received was in many cases less than they were expecting. Ryhanych estimates that's leaving him short about $700,000.

"When we saw everything coming in, the way it was coming in, and the rounding down we were like 'oh my God,"' Ryhanych, president of BlueList Partners, said about seeing the changes in his clients' accounts following the debt swap.

The owners of the debt knew they'd be getting less than what Puerto Rico promised when it first issued its sales-tax bonds years ago and a majority signed off on the deal in the government's bankruptcy, which began in May 2017. The deal called for the new debt to be issued at a rate of 93 cents on the dollar to holders of senior-lien bonds, with owners of junior securities receiving 56 cents. They weren't expecting to take additional losses if the stake they were owed wasn't evenly divisible by $1,000.

Bondholders may soon receive the rest, according to a court filing, so the stress of the past two weeks could just be a temporary hiccup in a type of debt restructuring rarely seen in the municipal-bond market, where defaults and bankruptcies are extremely rare.

"I've been doing this for 25 years and, at least on the surface, the execution of this thing with the individual or retail investor in mind was a complete abomination," said Ryhanych, who oversaw $11 million of senior sales-tax bonds before the debt exchange.

A court document posted Friday on the Municipal Securities Rulemaking Board's website said that Depository Trust Co., the depository firm distributing the bonds and cash to broker dealers, is now allowed to alter the threshold for rounding down. Broker dealers may also provide cash to cover amounts below the threshold.

A spokesman at Bank of America Corp., the manager of the restructuring, declined to comment, as did a spokesman at Stifel Financial Corp. Miller Buckfire, a unit of Stifel, served as a financial adviser to a group of senior bondholders.

Puerto Rico's Fiscal Agency and Financial Advisory Authority said that it is aware that certain bondholders have not yet received the correct initial distributions and that Depository Trust Co., has rectified the situation through allocations to broker dealers, the agency said in an email Friday.

“To the extent bondholders have questions regarding when cash and bond distributions will be reflected in their accounts, we urge them to contact their brokers or account managers regarding their specific situations,” Christian Sobrino, executive director for Puerto Rico’s Fiscal Agency and Financial Advisory Authority said in an email.

A federal board that oversees Puerto Rico finances and its bankruptcy process supports the efforts of all parties to address promptly any distribution issues,” Matthias Rieker, a spokesman for the board, said in an email Friday.

Before Friday’s statements, some brokerage firms had planned to pool together bonds that fall below $1,000, called fractional bonds, and sell them to raise cash that they’ll then direct to their clients who are still waiting to reach their full recovery amounts.

The confusion had left investors doubting if they’ll get the cash for their fractional shares, Ryhanych said. And because the new sales-tax bonds don’t yet have a credit rating, he wasn’t sure if pooling the bonds could raise enough cash to make up the difference.

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