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U.S. Lawmakers Seek Probe of Investment Firms' Dealings in Puerto Rico Debt.

(Reuters) – Five members of U.S. Congress from New York said on Wednesday that several investment firms involved in Puerto Rico's ongoing bankruptcy may have engaged in insider trading and urged the state attorney general to investigate.

In a letter to New York Attorney General Letitia James, the lawmakers cited allegations arising from the island's bankruptcy litigation "that some hedge fund groups may have been engaging in insider trading and using the PROMESA restructuring process to artificially manipulate bond markets."

Using the 2016 PROMESA Act, Puerto Rico's federally created financial oversight board filed a form of municipal bankruptcy for the U.S. commonwealth in 2017 in an effort to restructure about $120 billion of debt and obligations.

"Not only is this another example of deep pocketed interests profiteering off Puerto Ricans' suffering, but these hedge funds may have also violated securities law," U.S. Representative Nydia Velázquez, a New York Democrat, said in a statement.

The letter, which was also signed by Congress members Alexandria Ocasio-Cortez, Carolyn Maloney, José Serrano, and Adriano Espaillat, pointed out that the federal judge overseeing the bankruptcy ordered detailed disclosures from the Lawful Constitutional Debt Coalition (LCDC), whose members include Aristeia Capital LLC, Whitebox Advisors LLC, Taconic Capital Advisors LP, and GoldenTree Asset Management.

Those disclosures revealed that LCDC members "significantly increased their holdings of bonds they argued in court were of no value while engaging in confidential mediation talks about their restructuring," according to the letter.

Meanwhile, the bonds increased in value "and the restructuring plan revealed at the end of the mediation period increased their return." The LCDC was part of a global settlement announced in February to restructure Puerto Rico's core government debt.

"An investigation is needed to reveal whether some hedge funds may have made these trades with non-public information obtained through the mediation discussions, and without disclosing their true economic interests," the letter said.

In a statement, the LCDC said its members "adhered to and respected all elements of the mediation protocol and trading restrictions during the period in which they were negotiating with the oversight board."

"As creditors with long-term investments in Puerto Rico, our members have consistently engaged in a constructive, transparent manner with the oversight board to facilitate the commonwealth's timely emergence from bankruptcy and economic recovery," it added.

The individual firms listed in the letter did not immediately respond to requests for comment or deferred to the LCDC statement.

A spokesman for the New York Attorney General's office said: "We're reviewing the letter now, and will look further into this matter." The oversight board declined to comment.

By Reuters

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(Reporting by Karen Pierog in Chicago; Editing by Alden Bentley and Matthew Lewis)