

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **McKinsey Payments in Puerto Rico's Bankruptcy Come Under Fire.**

- **Advocacy groups ask bankruptcy judge to deny further payments**
- **Group alleges company has conflicts of interest in Puerto Rico**

A coalition of community groups is asking the judge overseeing Puerto Rico's historic bankruptcy to withhold additional payments to McKinsey & Co. for its work on the island's debt restructuring, alleging the management-consulting firm has conflicts of interest that it has failed to fully disclose.

In a letter sent this week to US District Court Judge Laura Taylor Swain, a group called Power 4 Puerto Rico said McKinsey's final fee application should be denied, citing the court's prerogative under the Puerto Rico Recovery Accuracy in Disclosures Act of 2021, or PRRADA.

As a consultant to the federally appointed Financial Oversight and Management Board, or FOMB, McKinsey has run up a tab of \$120 million helping the panel oversee the territory's finances, according to a Wall Street Journal story last month. At the same time, the company helped the board review high-profile public contracts that ultimately went to McKinsey clients.

Puerto Rico's bankruptcy is the largest ever in the US municipal bond market, and legal and professional fees alone total almost \$1 billion.

The oversight board "has allowed for the untransparent procurement of advisors and consultants for millions of dollars while alleging the need to cut payroll for public employees," Power 4 Puerto Rico said in the letter, which is dated July 28. "The least that should be done is to prevent Puerto Rico's taxpayer dollars from filling the coffers of consultants that have not complied with PRRADA and their fiduciary responsibility as a consultant."

In a statement, McKinsey said it will continue to be "forthright and transparent regarding its work in Puerto Rico."

"We follow strict protocols to prevent conflicts of interest in our engagements and have complied with our disclosure requirements under the law," a company spokesperson said in the statement. "We are proud to support the FOMB on what is arguably the most complex fiscal turnaround of any jurisdiction in U.S. history, and are confident we have provided our advice with objectivity and independence."

Power 4 Puerto Rico is a US national coalition that includes the Center for Popular Democracy, Alianza for Progress, the Center for American Progress and the Hispanic National Bar Association.

### **Bloomberg Markets**

By Jim Wyss

July 29, 2022

