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Hedge Fund Silver Point 'Refused to Settle' SEC Puerto Rico Suit.

Silver Point Capital plans to fight a US Securities and Exchange Commission lawsuit claiming the hedge fund firm failed to enact policies to bar a consultant from sharing confidential information about bonds issued by Puerto Rico.

The consultant, a now-deceased attorney, sat on a creditors committee tied to restructuring Puerto Rico's municipal bonds on behalf of Silver Point. He had "hundreds" of chances to share material non-public information with the firm's trading arm, the SEC alleged in a complaint filed in federal court in Connecticut on Friday.

Silver Point's alleged failure to monitor the lawyer's communications created a risk of profiting from insider information, according to the suit.

The credit-focused firm said in a statement that a four-year investigation and a review of roughly 350,000 documents showed no evidence that the attorney actually shared confidential information — or that Silver Point engaged in improper trades.

"We have refused to settle a matter in which there was neither any wrongdoing nor any deficiency in our information barrier policies or our compliance program," the firm said in the statement. "Silver Point has, at all times, behaved legally and ethically."

In 2015, Puerto Rico's economy collapsed, and the territory defaulted on much of its debt. When sitting on the creditors' committee from September 2019 to February 2020 on behalf of the firm, which invests in bankrupt and distressed entities, the lawyer had extensive communications with the firm's public trading desk without involving compliance staff, according to the complaint.

Silver Point bought $260 million in Puerto Rico bonds during the same period, creating a "substantial risk" it may have used nonpublic information to make trades, the SEC alleges.

The firm generated profits of more than $29 million, according to the SEC.

Allowing people who have material nonpublic information to have "unfettered access to those making trading decisions presents an enhanced risk of misuse," Sanjay Wadhwa, acting director of the SEC's enforcement division, said in a statement. "The resulting risks to market integrity and investors are compounded when investment advisers fail to enforce their compliance policies and procedures."

Bloomberg Markets

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December 20, 2024

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