

THE BOND BUYER

Puerto Rico central government bondholders want stays upheld on revenue bonds

By

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Puerto Rico central government bondholders are opposing part of an Oversight Board motion to restart suits on Puerto Rico revenue bonds.

Bondholder parties to the central government Plan Support Agreement (PSA) filed a “limited objection” to the board’s motion Wednesday afternoon in the Title III bankruptcy, asking the court to maintain the litigation stay on the issue of creditor priorities. The bondholder parties are investment funds holding general obligation and Public Building Authority bonds.



Attorney Mark Stancil is one of several bondholder attorneys who argued the court should not consider certain revenue bond issues at this time.

On April 6 the board filed a motion to lift the stays in three similar adversary proceedings against holders of revenue bonds of the Highways and Transportation Authority, Puerto Rico Infrastructure and Finance Authority, and Convention Center District Authority.

Attorneys for the central government bondholders told the court, “to the extent that the Oversight Board seeks to disallow proofs of claims asserted against the commonwealth because [revenue bondholder] defendants have no such claims, the PSA Creditors do not object to the Lift Stay Motion. Similarly, the PSA Creditors do not oppose the Lift Stay Motion to the extent the Oversight Board seeks to litigate issues that are not addressed in the Amended Commonwealth Plan [of Adjustment].

“The PSA Creditors do object, however, to any effort by the Oversight Board to litigate issues that are proposed to be compromised and settled under the Amended Commonwealth Plan, including the impact of [the Puerto Rico Oversight, Management, and Economic Stability Act] on relative creditor priorities governed by applicable Puerto Rico law,” the attorneys wrote.

The attorneys, including Willkie Farr & Gallagher Partner Mark Stancil, represent the Lawful Constitutional Debt Coalition, the Ad Hoc Group of Constitutional Debtholders, Ad Hoc Group of Constitutional Debtholders, and the QTCB Noteholder Group. Stancil represents the Ad Hoc Group of Constitutional Debtholders.

In early March the board presented a proposed plan of adjustment for the central government debt to the court. According to PSA Creditors, “the amended commonwealth plan [of adjustment] continues to incorporate a proposed global compromise and settlement concerning the allowance, treatment, and priority status of constitutional debt, including by allowing the commonwealth to use the relevant revenues to pay the claims of holders of constitutional debt.”

The PSA creditors are concerned that the board is trying to address the relative priority of the central government bond claims in the revenue bond adversary proceedings. They said these should be left to the approval of the plan of adjustment.

In particular they are concerned that the board is arguing PROMESA totally outweighs and eclipses the Puerto Rico constitution on how Puerto Rico government and authority bonds are to be paid. In their filing they said PROMESA Subsection 201(b)(1)(N) mandates the fiscal plan must “respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the date of enactment of this act.”

They said that the plan of adjustment must be consistent with the board’s fiscal plan.

Under section 4.1(h) of the February PSA, the board is required to consult with the PSA creditors, “prior to taking any action challenging the priority of recovery and the preemption of applicable laws based upon the enactment of PROMESA and the effect thereof upon GO bond claims and commonwealth guarantee bond claims.” Yet the board did not consult with the PSA creditors before filing the motion to lift the stays, the creditors said.

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