

**U.S. House of Representatives**  
**Committee on Natural Resources**  
**Washington, DC 20515**

October 21, 2020

Natalie Jaresko  
Executive Director  
Puerto Rico Financial Oversight  
and Management Board  
P.O. Box 192018  
San Juan, Puerto Rico 00919-218

Dear Ms. Jaresko:

We are writing to respectfully request that you ensure a thorough, independent investigation into the serious insider trading allegations levied against hedge fund creditors in the context of the restructuring of Puerto Rico's central government debt is completed before continuing to negotiate a restructuring agreement. These insider trading allegations put the integrity of the restructuring proceedings into question, placing a cloud of illegitimacy over a process the result of which could bind the residents of Puerto Rico and all creditors for decades.

Facts underlying the insider trading allegations related to Puerto Rico's restructuring proceedings were first detailed on February 25, 2020 in a motion filed by the Committee of Unsecured Creditors asking the court to order disclosures required by the Federal Rule of Bankruptcy Procedure 2019.<sup>1</sup> At the heart of the request for more detailed disclosures was the concern that some hedge funds' failure to publicly disclose the nature and amount of each economic interest as required by the Federal Rule of Bankruptcy Procedure 2019 was facilitating their engagement in unlawful practices without detection. These include the possibility that hedge funds traded on non-public information while using the PROMESA restructuring proceedings to artificially manipulate bond markets. On March 10, 2020, companies insuring bondholders filed a statement in support of this motion.<sup>2</sup> Additionally, the court took notice of correspondence received from an investment

---

<sup>1</sup> "Motion of Official Committee of Unsecured Creditors to Amend Tenth Amended Notice, Case Management and Administrative Procedures Regarding Disclosure Requirements Pursuant to Federal Rule of Bankruptcy Procedure 2019," *In re: The Financial Oversight and Management Board for Puerto Rico*, United States District Court for the District of Puerto Rico. Case: 17-03283-LTS. Docket Entry No. 11746. Filed on Feb. 25, 2020.

<sup>2</sup> "Cross-Motion and Statement in Support on Behalf of Assured Guaranty Corp., Assured Guaranty Municipal Corp., Ambac Assurance Corporation, and Financial Guaranty Insurance Company with Respect to Motion of the Official Committee of Unsecured Creditors to Amend Tenth Amended Case Management Procedures and Administrative Procedures Regarding Disclosure Requirements Pursuant to Federal Rule of Bankruptcy Procedure 2019," *In re: The Financial Oversight and Management Board for Puerto Rico*, United States District Court for the District of Puerto Rico. Case: 17-03283-LTS. Docket Entry No. 12216. Filed on Mar. 10, 2020.

researcher and former contributor to Reuters detailing facts surrounding “apparent massive insider trading.”<sup>3</sup>

In response to the motion, Judge Laura Taylor Swain ordered hedge fund groups to release more details about their holdings by July 3, 2020.<sup>4</sup> An in-depth report by Public Accountability Initiative analyzing the July 3, 2020 disclosures revealed that at least four hedge funds bought bonds they argued in court were of no value during court-ordered confidential mediation and while there was no public information suggesting that legal challenges to these bonds would be withdrawn.<sup>5</sup> The agreement resulting from the confidential mediation increased the offer for the challenged bonds from between 35 and 45 cents to between 65 and 70 cents.<sup>6</sup> The report concludes that investment patterns and price developments raise questions about the legality of hedge funds’ behavior, warranting an investigation.<sup>7</sup>

On August 5, 2020, also in response to the July 3, 2020 disclosures, several Members of Congress sent a letter to New York Attorney General Letitia James, voicing concerns about insider trading allegations and calling on her to launch an investigation.<sup>8</sup> More recently, on October 5, 2020, National Public Finance Guarantee Corporation filed a motion asking Judge Swain to order an investigation into whether hedge funds violated mediation confidentiality and engaged in insider trading.<sup>9</sup> The motion presents an exposition of red flags raised by the July 3, 2020 disclosures, some of which had already been identified by the above-mentioned report and congressional letter: 1) some hedge funds bought bonds they were challenging in court during the confidential mediation that ultimately resulted in a greater recovery for those bonds;<sup>10</sup> 2) some hedge funds significantly changed their bond holdings while engaging in the confidential mediation, including by trading significant amounts of the bonds they were negotiating about;<sup>11</sup> and 3) after the results

---

<sup>3</sup> “Notice of Correspondence Received by the Court,” *In re: The Financial Oversight and Management Board for Puerto Rico*, United States District Court for the District of Puerto Rico. Case: 17-03283-LTS. Docket Entry No. 11951. Filed on Mar. 2, 2020.

<sup>4</sup> “Memorandum Opinion and Order Regarding Motion of Official Committee of Unsecured Creditors to Amend Tenth Amended Notice, Case Management and Administrative Procedures Regarding Disclosure Requirements Pursuant to Federal Rule of Bankruptcy Procedure 2019 (Docket Entry No. 11746) and Amended Cross-Motion of Assured Guaranty Corp., Assured Guaranty Municipal Corp., Ambac Assurance Corporation, and Financial Guaranty Insurance Company (Docket Entry No. 12296),” *In re: The Financial Oversight and Management Board for Puerto Rico*, United States District Court for the District of Puerto Rico. Case: 17-03283-LTS. Docket Entry No. 13217. Entered on May 26, 2020.

<sup>5</sup> Abner Dennis, “The 21 Vulture Funds Stalking Puerto Rico’s Central Government: Legal Challenges, Investments, Insider Trading,” Public Accountability Initiative (Aug. 5, 2020), available at [https://public-accountability.org/wp-content/uploads/2020/08/PAI-VultureDebtReport\\_English.pdf](https://public-accountability.org/wp-content/uploads/2020/08/PAI-VultureDebtReport_English.pdf).

<sup>6</sup> *Id.* at 8 (citing disclosures available at <https://emma.msrb.org/ES1344275-ES1048205-ES1452453.pdf> and [https://drive.google.com/file/d/1uyS9\\_npXsV7cUfMI0cwxENUuc0A5hboG/view](https://drive.google.com/file/d/1uyS9_npXsV7cUfMI0cwxENUuc0A5hboG/view)).

<sup>7</sup> *Id.* at 11.

<sup>8</sup> Members of Congress Alexandria Ocasio-Cortez, Nydia M. Velázquez, Carolyn B. Maloney, José E. Serrano, and Adriano Espaillat, Letter directed to New York Attorney General Letitia James requesting “an investigation into possible Martin Act violations by several New York-based hedge funds during the Title III proceedings under PROMESA” (Aug. 5 2020), available at <https://ocasio-cortez.house.gov/sites/ocasio-cortez.house.gov/files/documents/Congressional-letter-NY-AG-FINAL.pdf>.

<sup>9</sup> “Motion of National Public Finance Guarantee Corporation for Entry of an Order Directing an Independent Investigation,” *In re: The Financial Oversight and Management Board for Puerto Rico*, United States District Court for the District of Puerto Rico. Case: 17-03283-LTS. Docket Entry No. 14450. Filed on Oct. 5, 2020.

<sup>10</sup> *Id.* at ¶34.

<sup>11</sup> *Id.* at ¶35 and ¶ 37.

of the mediation were made public, some hedge funds sold off a significant portion of challenged bonds just after the prices of those bonds had significantly increased due to the results of the mediation.<sup>12</sup>

As illustrated above, various parties in the restructuring proceedings, public interest organizations,<sup>13</sup> and Members of Congress have expressed concern that some hedge funds may have engaged in unlawful behavior. However, on October 6, 2020, hedge fund groups filed a motion asking the judge to impose strict deadlines to finalize a restructuring agreement<sup>14</sup> that failed to mention the motion filed just the day before requesting an investigation into their behavior.<sup>15</sup> They attempt to make the case that a quick finalization of a restructuring agreement is in the best interest of Puerto Rico. Nevertheless, a restructuring agreement tainted by suspicion of unlawful activity and unjust enrichment should not be an acceptable path forward.

A lot is at stake; a final restructuring agreement could bind all creditors and the residents of Puerto Rico for decades. While the residents of Puerto Rico, including some creditors, have faced a lengthy economic crisis, austerity measures, hurricanes, earthquakes, and the COVID-19 pandemic, hedge funds may have unlawfully used the restructuring proceedings to make significant profits. We urge you to support a thorough, independent investigation into potential wrongdoing on the part of hedge funds to ensure the integrity and public confidence in a final restructuring agreement, and to not proceed with restructuring negotiations without one.

Please respond to this letter informing us how you plan to proceed in light of these insider trading allegations.<sup>16</sup> The Committee will be informed by the requested information and looks

---

<sup>12</sup> *Id.* at ¶36.

<sup>13</sup> Additionally, the residents of Puerto Rico, its diaspora, and community-based organizations have long expressed concerns about the impact of hedge funds in Puerto Rico. *See* “Vultures in Puerto Rico,” <http://hedgeclippers.org/rogues-gallery-vultures-in-puerto-rico/>; Daniel Trotta and Bernie Woodall, “Puerto Ricans in U.S. protest debt crisis with a dash of rhythm,” Reuters (Mar. 1, 2017), *available at* <https://br.reuters.com/article/us-puertorico-debt-mainland-idUSKBN17X2JS>; “Protestors target money managers at MoMA’s reopening party,” The Bond Buyer (Oct. 21, 2019), *available at* <https://www.bondbuyer.com/articles/protesters-target-money-managers-at-momas-reopening-party>; Michelle Celarier, “How Hedge Funds Hurt Puerto Rico,” Institutional Investor (Nov. 30, 2017), *available at* <https://www.institutionalinvestor.com/article/b15tjx0zsdtxr1/how-hedge-funds-hurt-puerto-rico>; Chris Morrill, “Puerto Rico Sí, Hedge Funds No: Solidarity Pressures Harvard,” Grassroots International (Feb. 16, 2018), *available at* <https://grassrootsonline.org/fr/blog/puerto-rico-si-hedge-funds-no-solidarity-pressures-harvard/>.

<sup>14</sup> “Joint Motion of PSA Creditors Pursuant to Section 312 of PROMESA and Section 105 of the Bankruptcy Code to Impose Deadlines for Plan of Adjustment,” *In re: The Financial Oversight and Management Board for Puerto Rico*, United States District Court for the District of Puerto Rico. Case: 17-03283-LTS. Docket Entry No. 14478. Filed on Oct. 6, 2020.

<sup>15</sup> Since filing this motion asking for strict deadlines, various hedge fund groups have filed objections to National’s request for an investigation and made some disclosures. *See* Docket Entry Nos. 14553, 14556, 14562, and 14570. These disclosures are not a substitute for the thorough investigation that is needed to ensure the integrity of the restructuring process.

<sup>16</sup> We are aware of the response to National’s motion that the Financial Oversight and Management Board (FOMB) filed on October 13, 2020, taking the position that while “National’s motion fails,” the FOMB “welcomes the opportunity” for relevant parties to establish that they did not engage in unlawful trading activity. Docket Entry No. 14539 at ¶ 5-6. It additionally states that National and the Unsecured Creditors’ Committee may pursue the investigation in the context of confirmation discovery. *Id.* at ¶ 7-8. We nonetheless request a response to this letter with more details about how the FOMB plans to proceed in light of the insider trading allegations, including how

forward to its receipt. Please contact Margarita Varela-Rosa with the Committee's Office of Insular Affairs at Margarita.Varela-Rosa@mail.house.gov or (202) 748-2828 if you have any questions about this request.

Thank you for your attention to this matter.

Sincerely,



RAÚL M. GRIJALVA  
Chair  
Committee on Natural Resources



JOSÉ E. SERRANO  
Member of Congress



JESÚS G. "CHUY" GARCÍA  
Member of Congress



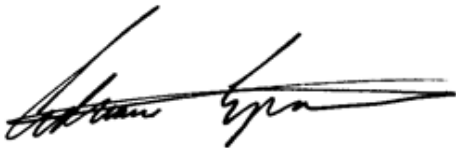
DARREN SOTO  
Member of Congress



ALEXANDRIA OCASIO-CORTEZ  
Member of Congress



NYDIA M. VELÁZQUEZ  
Member of Congress



ADRIANO ESPAILLAT  
Member of Congress

---

they will affect its negotiations with creditors on a new restructuring agreement. We continue to urge the FOMB to support a thorough and independent investigation before proceeding with negotiations.