

May 20, 2016

The Honorable Paul Ryan
Speaker of the House
12333 Longworth House Office Bldg.
Washington, DC 20515

Dear Speaker Ryan,

On behalf of the Institute for Policy Innovation (IPI), a 29 year-old free-market public policy research organization, I write to express our concerns about the latest version of the proposed Puerto Rico Oversight, Management and Economic Stability Act.

Among the many problematic precedents that have been set during the Obama years is that of disregarding long-established rules and protections regarding the rights of bondholders—I'm thinking primarily about the injustices done during the GM bankruptcy, but there have been other violations as well. Political expediency has trumped the rights and protections that investors were promised and expected when they made their investments. Of course, all investments have risks, but the risks to bond investors are known ahead of time and incorporated into their investment calculation. Changing the rules of the game years later because of political expediency is simply wrong, and undermines confidence in government both as an issuer of bonds and as a trusted arbiter during bankruptcy proceedings.

Despite claims to the contrary, the draft of the proposed legislation does nothing to address the glaring issues in the bill regarding the retroactive prioritization of the island's \$46 billion of underfunded pension liabilities over bondholders who made their investments with explicit priority over those pensions and all other obligations of Puerto Rico's Government. The bill applies Chapter 9 of the bankruptcy code to Puerto Rico itself through a federally appointed oversight board, and also implements a "stay" mechanism that bars bondholders for seeking recourse in court against default on their bonds. While this stay is in place, the oversight board is given the power to stop payments to bondholders and instead use their money to fund the government pension system.

This retroactive breach of bondholders' contractual rights clears the way for highly leveraged states like Illinois to petition for similar bankruptcy authority and rule changes in an effort to default on obligations to secured bondholders and prioritize their own government pension systems. This flies in the face of basic property rights, and threatens to raise municipal borrowing costs across the board as investors see that Congress is ultimately willing to rewrite rules and invalidate their contracts to bail out state and local governments and their pension systems, and even evoke their basic rights to legal recourse to accomplish this.

Congress can design a solution that both offers the island significant debt relief and also respects the hierarchy of debt obligations under which bondholders made their investments. Doing so is critical not only for preserving the rule of law in this case, but also for ensuring that future debt crises are handled in a way that respects the legal rights of all stakeholders.

We hope Congress will develop such a solution to Puerto Rico's debt problem, and we are happy to work with you and your colleagues toward such an end.

Sincerely,

A handwritten signature in blue ink that reads "Tom Giovanetti". The signature is written in a cursive, flowing style.

Tom Giovanetti
President

Cc: House Committee on Natural Resources