



## Puerto Rico Governor's comments in Senate hearing raise questions of history of fraud October 23, 2015

Governor Alejandro Garcia Padilla's comments about past administrations of the **Government of Puerto Rico** concealing information from investors has raised questions of disclosure practice and fraud from market participants and observers.

At a US Senate hearing yesterday, 22 October, Garcia Padilla said that "it was part of the different governments' [strategies] in the past to hide information [from] the market so they were able to have more access to the market."

This is the definition of securities fraud, said a trader, noting that it's deception to induce investors to make decisions based on false information.

"I don't care about, 'I think this is going to help my claim against Puerto Rico,'" the trader said. "If fraud was committed, people need to go to jail."

Garcia Padilla's comments could indicate that a prior administration may have committed fraud, said Kenneth Klee, of Klee, Tuchin, Bogdanoff & Stern, who represented **Jefferson County** and **Mammoth Lakes** in their bankruptcies. But even if the case is proven, investors will be hard pressed to receive any significant monetary compensation.

The rights may also only be extended to the original holders. And fraud claims are subordinate to bondholder claims in the bankruptcy code, Klee said.

**Assured Guaranty** described Garcia Padilla's comments as "troubling" in a statement released after the hearing. "Congress should not take any action to approve a bankruptcy regime that permits the commonwealth and its instrumentalities to impair debt that was sold to investors based on possibly misleading or incomplete disclosure practices. Such an action would condone inadequate disclosure, ineffective financial management and poor governance," the statement reads in part.

"I was extremely disappointed with the governor and his explanation about the audited financial statements. He essentially said that the Government of Puerto Rico lied to the financial markets," said Carlos Colon-de Armas, former **Government Development Bank for Puerto Rico** official and current **University of Puerto Rico** economist.

"Between the governor's statement and [US Treasury Secretary counselor Antonio Weiss] from Treasury, they were essentially projecting that Puerto Rico has been lying to investors for a number of years, and that's just not true."

But because of the lack of current or reputable financial data, no one can disprove Garcia Padilla statements, said an analyst.

The senate did question Garcia Padilla about the lack of recent financials, and Garcia Padilla assured them that FY14, which ended 30 June 2014, nearly 16 months ago, would be available in the coming weeks to months, with FY15 following shortly thereafter.

That implies, however, that Puerto Rico may miss the 31 October deadline it set for itself to release financial statements in July, after missing earlier deadlines.

*by Maryellen Tighe, Simone Baribeau and Andrew Scurria*