

United States Senate

WASHINGTON, DC 20510

June 14, 2016

The Honorable Mary Jo White
Chair
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chair White:

Puerto Rico is in the midst of a dire debt crisis, with approximately \$71 billion in debt and an estimated pension liability of \$46 billion. Faced with debt service payments that consume more than one-third of its revenues, the government of Puerto Rico has undertaken significant cuts to essential services. The 3.5 million American citizens who reside in Puerto Rico are in immediate need of a solution that will allow the island to restructure its debts, protect public employees and pension holders, and provide essential services. However, beyond these common-sense solutions, Puerto Ricans deserve to know whether illegal activity contributed to the current debt burden. Therefore, the residents of Puerto Rico and its municipal entities merit the full attention of the Securities and Exchange Commission (SEC) to investigate any possible misconduct by financial advisors to municipal entities in Puerto Rico in the years leading to the current crisis.

As you know, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) included important provisions to reform the regulation of the municipal bond markets and specifically mandated that municipal entities be protected from fraud and abuse. In light of Puerto Rico's municipal debt crisis, we write to ask that you investigate possible market manipulation, conflicts of interest, trading practices, and fraud in the underwriting, sale, distribution, and trading of municipal securities of and relating to Puerto Rico, as well as any other fraudulent, illegal or wrongful conduct.¹

Section 975 of the Dodd-Frank Act amended the Securities Exchange Act of 1934 to now require the Municipal Securities Rulemaking Board (MSRB) to adopt and impose on financial professionals rules "designed to prevent fraudulent and manipulative acts and practices... and, in general, to protect investors, municipal entities, obligated persons, and the public interest."² In addition to this legal mandate, the Exchange Act gives the SEC and Financial Industry Regulatory

¹ This is especially important in light of various reports of wrongdoing, including structuring, sales and distribution and trading of the Commonwealth's municipal bonds. See Wall Street Journal, *How Wall Street struck tobacco deals that left states with billions in toxic debt* (August 9, 2014) (online at <https://www.washingtonpost.com/blogs/govbeat/wp/2014/08/09/how-wall-street-struck-tobacco-deals-that-left-states-with-billions-in-toxic-debt/>); Bloomberg, *How UBS Spread the Pain of Puerto Rico's Debt Crisis to Clients* (September 22, 2015) (online at <http://www.bloomberg.com/news/articles/2015-09-22/how-ubs-spread-the-pain-of-puerto-rico-s-debt-crisis-to-clients>); Bloomberg, *Puerto Rico Luring Individuals as Trading Examined: Muni Credit* (March 23, 2014) (online at <http://www.bloomberg.com/news/articles/2014-03-23/puerto-rico-luring-individuals-as-trading-examined-muni-credit>).

² 15 U.S.C. § 78o-4 (b)(2)(c).

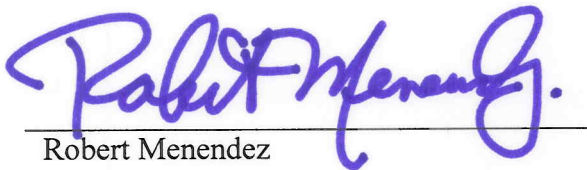
Authority (FINRA) broad enforcement and examination authority to implement the "municipal entity protection" mandate.

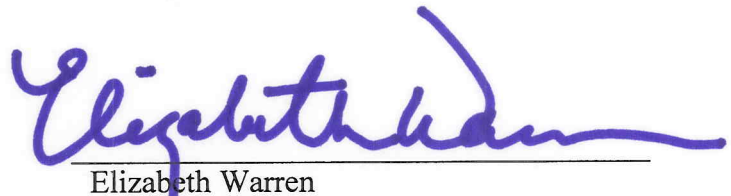
The SEC has in the past devoted significant attention to municipal securities markets. In 2010-2011, it held multiple field hearings that unearthed significant facts and shed light on serious deficiencies and illegal practices that harmed investors and state and local governments. Importantly, these efforts helped restore the troubled municipalities' access to low-interest, long-term debt. The hearings also informed a report later released by the SEC in 2012 on the state of municipal securities market, which called for far-reaching reforms (some but not all of which have been implemented). These reforms were in addition to what were then-still-new rules mandated by the Dodd-Frank Act requiring municipal advisors to register with the SEC and MSRB and be subject to a series of conflicts of interest, competency, anti-manipulative rules, and, above all, a fiduciary duty towards the issuer. We further ask that you update us on the status of the 2012 recommendations, and whether the SEC needs new authorities to better protect municipal entities in Puerto Rico and elsewhere.

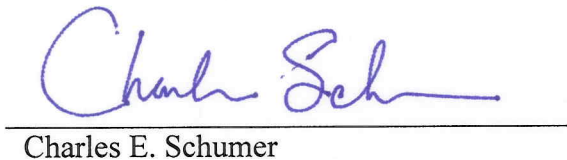
Separate from Congressional efforts to provide a path for Puerto Rico out of its municipal debt crisis, we believe that SEC should immediately commence an investigation into the acts, actions, and activities in connection with the underwriting, sale, distribution and trading of Puerto Rico debt in the years leading up to the present crisis. The SEC should determine whether laws and rules have been broken and whether illegal conduct occurred. Without this, there is a risk that investors will not regain confidence in Puerto Rico's debt markets and Puerto Rico's access to normal credit markets will remain impaired.

Thank you for your prompt attention.

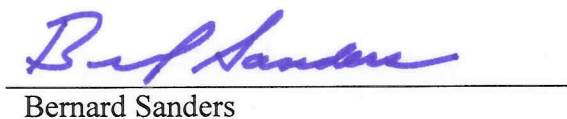
Sincerely,

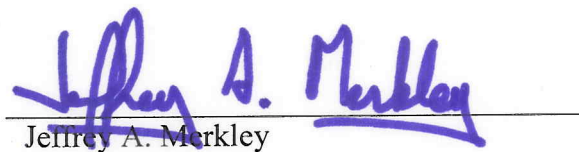

Robert Menendez


Elizabeth Warren


Charles E. Schumer


Kirsten Gillibrand


Bernard Sanders


Jeffrey A. Merkley

A handwritten signature in blue ink, reading "Richard Blumenthal". The signature is fluid and cursive, with the first name "Richard" and last name "Blumenthal" clearly legible.

Richard Blumenthal