

## U.S. market brief

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# Puerto Rico: Bankruptcy judge halts COFINA payments

Puerto Rico did not pay the August 1 debt service on its COFINA (sales tax) bonds because the federal judge overseeing Puerto Rico's bankruptcy previously halted all COFINA debt service payments. The COFINA money is being held in escrow until the judge can weigh through the various creditor arguments regarding their rights to the sales tax revenues.



It is important to note that there is sufficient money in escrow to pay all August 1 COFINA payments. Therefore—probably unlike missed payments on other Puerto Rico debt—COFINA bondholders will ultimately receive the missed debt service payment if the judge rules in COFINA bondholders' favor.

We believe the judge took the most prudent approach by escrowing the money given the circumstances and time constraints, thereby allowing her to deliberate the arguments and arrive at a reasoned conclusion instead of rushing to a decision that may have unintended consequences.

Currently there is no timeframe on when the judge will render her opinion. She is likely aware of the impact of the missed debt service payment; however, she is unlikely to rush the process as a result.

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