



HARVARD | BUSINESS | SCHOOL

KRISTIN W. MUGFORD

MELVIN TUKMAN SENIOR LECTURER OF BUSINESS ADMINISTRATION
FINANCE

September 15, 2015

Hon. Bob Goodlatte
Chairman
House Judiciary Committee
2138 Rayburn House Office Building
Washington, DC 20515

Hon. John Conyers, Jr.
Ranking Member
House Judiciary Committee
2142 Rayburn House Office Building
Washington, DC 20515

Hon. Chuck Grassley
Chairman
Senate Judiciary Committee
224 Dirksen Senate Office Building
Washington, DC 20510

Hon. Patrick J. Leahy
Ranking Member
Senate Judiciary Committee
224 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Goodlatte, Ranking Member Conyers, Chairman Grassley, and Ranking Member Leahy,

I write in support of H.R. 870 and S. 1774, the Puerto Rico Chapter Uniformity Act of 2015. This letter reflects my own opinions, rather than that of any organization or third party.

I am a member of the finance faculty at Harvard Business School, where I teach Bankruptcy and Restructuring. Prior to joining HBS, I spent nearly 20 years at Bain Capital in both their private equity and credit businesses. Founded by Mitt Romney, Bain Capital and its affiliated advisors manage over \$70 billion across multiple asset classes, geographies and industries. I helped start and lead Bain Capital's credit affiliate which today manages over \$26 billion of high yield bonds, leveraged loans, structured products and mezzanine investments with 230 employees in seven offices on four continents.

Opponents to H.R. 870 have argued that the proposed legislation is unfair to bond investors because it "changes the rules of the game". These bondholders purchased their Puerto Rican municipal bonds at a time when Puerto Rico's public corporations could not access Chapter 9 and therefore could not legally go bankrupt. H.R. 870 would remove this restriction, exposing some Puerto Rican municipal bondholders to potential losses. While this outcome would be disappointing to bondholders, it is not an appropriate rationale against the legislation. The risk of this type of legislative action is a well-understood basic risk borne by investors across

markets and industries. Professional investors understand legislative and regulatory risk and factor them into their investment theses.

This situation is not unique. Legislative and regulatory actions frequently impact companies or municipalities and, by extension, their investors. The introduction of any new law by definition “changes the rules” and there are numerous examples of legislative changes impacting investors. For example, the healthcare industry and its investors regularly assess the risk and financial impact of changes in Medicare reimbursement rates. Gaming companies and their investors assess whether states will change the competitive landscape by legalizing gaming or issuing new gaming licenses. Municipal bond investors need to assess the risk that states that have not yet adopted Chapter 9 will change their mind. Investors in coal, natural gas, power, and automotive manufacturers need to assess the risk and impact of changes to emissions standards. The list goes on and on - changes in labor rules, minimum wage, trade agreements, tax policy, subsidies, and import and export duties all can have a material positive or negative impacts on companies and their investors.

These legislative changes are so common in investing that we have names for these risks - “legislative risk” and “regulatory risk”. These risks are well understood by investors and permeate nearly every sector of the investment world. While difficult to quantify, it is nevertheless the responsibility of the of the investment community - not Congress - to assess and assume this risk. It is a basic part of investing and should not impede Congressional action. Lastly, I believe Congress has an obligation to act in the best interest of all stakeholders, not just investors. Without Chapter 9, municipalities are at the mercy of their financial creditors (bondholders and pensioners) at the potential detriment of their many different constituents. This is at best unbalanced and at worst unfair. Chapter 9 provides a forum for the U.S. Federal Courts to prudently consider the best interest of all stakeholders and to reach a fair and equitable resolution. Chapter 9 has worked well- and it does not pre-suppose an outcome. Taking into account the many different facts and circumstances, Chapter 9 allows municipalities to reduce their creditor claims, reinvest in needed infrastructure, maintain their population base and in doing so, eliminate the need for external bailouts.

I encourage you to support H.R. 870 and S. 1774.

Sincerely,



Kristin Mugford
Melvin Tukman Senior Lecturer of Business Administration
Harvard Business School