



Restructuring Process and Principles

Overview of the Proposed Restructuring Process

- Because the Commonwealth faces a significant funding gap that cannot be bridged by legislative and administrative measures alone, the Commonwealth plans to begin a process of engagement with its creditors to seek financial relief in the near term.
- Having disclosed the Fiscal and Economic Growth Plan on September 9, and provided additional information to all creditors (e.g., the Krueger Report and the Conway Report), the Working Group will make available additional information and provide creditors with the opportunity to diligence that information. This process will take a number of weeks and involve creditor groups that have formed or will form.
- The Working Group intends for its advisors to meet with creditors to help them understand the Fiscal and Economic Growth Plan. Concurrently the Working Group is working with the Commonwealth's advisors to structure a debt-relief transaction that will permit the Commonwealth's available surplus to be used to make payments on its indebtedness while the initiatives and reforms undertaken as part of the Fiscal and Economic Growth Plan take hold.
- This transaction will be structured as a voluntary exchange offer, in which creditors across the Commonwealth will agree to amended payment terms through a consensual negotiation.
- The consensual negotiation and ultimate transaction will seek to involve not just creditors of one governmental entity, but instead the creditors of many entities, as part of a single, comprehensive exchange transaction. The goal of this approach is to avoid a piecemeal strategy that may result in uncoordinated and inconsistent agreements with creditors, litigation among creditor groups, and a lower chance of success.
- The scope of the ultimate transaction – including how much debt relief will be sought – will depend on the funding gap identified by the Working Group that cannot be closed by the implementation of legislative and administrative measures alone.

Restructuring Principles

The voluntary exchange offer would be based on the following principles:

- **Avoid a default on the Commonwealth's debt**
 - The voluntary exchange offer will achieve the needed debt relief in a timely manner through gaining broad acceptance from creditors of the various Commonwealth issuers over the next few months.
- **Ensure that the Commonwealth can continue to make payments on its restructured debt while providing essential services to all Puerto Rican residents**
 - A consensual and voluntary adjustment of the Commonwealth's debt will maximize creditors' recovery while preserving the government's ability to serve its citizens.
- **Reflect, and seek to respect, Constitutional priorities for payment of the Commonwealth's public debt**
 - The transaction will be structured to take into account the priorities of the debt that creditors hold.
- **Create a long-term financing solution to the patchwork complex of issuers and indebtedness**
 - The transaction will not just attempt to solve a short-term problem, but instead will create a workable financing vehicle for the future that will attract new investors to Puerto Rico.
- **Design a structure that is attractive to existing creditors**
 - The new financing structure would offer benefits to existing creditors who participate in the exchange, including improved liquidity and security.
- **Restore market access on sustainable terms**
 - A transparent and successful exchange offer and process, along with the implementation of the measures recommended in the Fiscal and Economic Growth Plan, will enable the Commonwealth to access the capital markets to obtain financing on terms that aid the long-term growth strategy of Puerto Rico.