United States Senate
WASHINGTON, DC 20510

December 21, 2018

Mr. José Carrión III
Chairman
Financial Oversight and Management Board for Puerto Rico
P.O. Box 192018
San Juan, Puerto Rico 00919-2018

Dear Chairman Carrión:

We write to communicate our concerns related to McKinsey & Company ("McKinsey"), which was retained by the Financial Oversight and Management Board ("Board"), to assist in restructuring Puerto Rico's debt. We ask that you direct McKinsey to immediately disclose its conflicts of interest, and that you explain why the Board's contract with McKinsey allowed the latter to serve competing clients with potentially conflicting interests.

According to a recent *New York Times* report,[1] McKinsey has failed to disclose its conflicts of interest in Puerto Rico, taking advantage of the lack of disclosure rules in the Puerto Rico Oversight, Management, and Economic Stability Act.[2] To date, McKinsey has billed Puerto Rican taxpayers $50 million, but has failed to disclose its investment in Whitebox Advisors, a hedge fund which holds $140 million in Puerto Rico debt backed by sales tax revenue.[3] In addition, through a subsidiary called MIO Partners, McKinsey itself owns $20 million worth of bonds issued by Puerto Rico.[4] MIO Partners manages approximately $25 billion for McKinsey's employees and retirees, and runs three hedge funds, all of which reported owning Puerto Rico sales-tax bonds.[5] Clearly, McKinsey has an indisputable pecuniary interest in the resolution of Puerto Rico's debt.

Despite these clear financial interests, the Board signed a contract with McKinsey that allows the latter to serve competing clients with potentially conflicting interests and is, in fact, doing so without disclosing those potential conflicts. We are surprised that the Board would offer or agree to such a contract.[6]

McKinsey has asserted that it is unable to determine Whitebox Advisors' exposure in Puerto Rico or that of its own – McKinsey employee-led – hedge funds. Its spokesperson claims that McKinsey's own hedge fund is independently operated. There appears to be a pattern of

[1] https://www.nytimes.com/2018/09/26/business/mckinsey-puerto-rico.html
[2] P.L. 114-187.
[3] https://www.nytimes.com/2018/09/26/business/mckinsey-puerto-rico.html
[4] *Id.*
[5] *Id.*
[6] *Id.*

concealment that has been brought to light by several *Wall Street Journal* articles reporting on similar undisclosed conflicts in a half-dozen high-profile bankruptcy cases on the mainland.[7]

Through statements made by the U.S. District Court-appointed fee examiner, Brady Williamson, we were alarmed to learn that McKinsey is billing the government while providing little transparency in the process. In fact, McKinsey explained to the fee examiner, "the McKinsey governmental team for this assignment stated that it does not track, by individual professional, the time expended—by the hour, by the day, or by the week, nor does it record expenses, all of which are subsumed within its monthly flat fees."[8] By receiving $50 million of public money, to date, and surely much more in the future, McKinsey should be required, as all other professionals are, to describe in detail the work it does to earn its fees.

It strains credulity that McKinsey is permitted to compete for business in Puerto Rico, let alone operate on behalf of the Board and receive millions in consulting fees given these troubling revelations. In failing to disclose its conflicts, McKinsey's opaque business practices casts a shadow on its impartiality when making financial decisions that will impact the lives of every single Puerto Rican in the years to come.

As such, we respectfully ask that you direct McKinsey to immediately disclose all its conflicts as is standard procedure in bankruptcy proceedings. We also ask that you explain why the contract provision was included allowing McKinsey to service clients that may have direct conflicts and differing priorities in the ultimate outcome in Puerto Rico's path to recovery.

The Puerto Rican people deserve better and the Board must regain their trust by implementing transparency rules during these difficult economic times.

We ask that you respond to this letter by January 7, 2019.

Sincerely,

Robert Menendez

Debbie Stabenow

Richard Blumenthal

Kirsten Gillibrand

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[7] *See* https://www.wsj.com/articles/mckinsey-investments-werent-disclosed-in-bankruptcy-cases-1529423138 and https://www.wsj.com/articles/mckinsey-is-big-in-bankruptcyand-highly-secretive-1524847720.

[8] *See* United States District Court for the District of Puerto Rico Doc. 2645 at p. 23.

Elizabeth Warren

Bernard Sanders

Edward J. Markey