



Labor Issues on Tap for U.S. Bankruptcy Commission

By Nick Brown

Dec 3 (Reuters) - A commission to explore major changes to U.S. bankruptcy rules said on Monday that labor and benefits will be key issues during a host of public hearings beginning early next year.

The fate of workers "has gotten a lot of attention" in recent high-profile bankruptcies, including those of Hostess Brands Inc. and American Airlines parent AMR Corp, said bankruptcy attorney Robert Keach, the commission's co-chairman.

"We'll be hearing from both labor and management about the way the bankruptcy code treats collective bargaining agreements, pension issues and the like," Keach, of law firm Bernstein Shur Sawyer & Nelson, said on a conference call.

Hostess was forced to liquidate after one of its key unions went on strike, while AMR is in a labor dispute with unionized pilots. Labor unions are considered creditors in bankruptcy cases, but their claims have a lower priority than those of secured creditors such as lenders.

The 19-member commission was formed by the American Bankruptcy Institute, an insolvency industry group, and charged with exploring overhauls of the Chapter 11 bankruptcy code. Its eventual aim is to issue a report on their recommendations - slated for April 2014 - and propose legislation to Congress.

Keach said in October the commission would consider reinventing the statutes "from scratch" to reflect the modern financial climate. When the current code was established in 1978, distressed investing and complex financial instruments such as derivatives were not as prevalent.

In the handful of hearings so far, the commission has heard largely from lenders, many of whom have expressed concern that the commission would look to limit the use of secured credit. Secured credit gives bankrupt companies access to credit by offering collateral to lenders, but it risks leaving companies overleveraged.

At a public hearing in October, Lee Shaiman, a managing director at the Blackstone Group's GSO Capital Partners, said major rules changes could "seriously impair the functioning of the capital markets and thus harm businesses both in and out of bankruptcy."

Commission members have said they are not looking to curb the use of secured credit so much as improve its transparency.

The commission will also consider changes to rules that exempt derivatives contracts from

certain bankruptcy rules and the effects on bankrupt retailers of a 2005 law that changed rules on treatment of leases in bankruptcy.

About six or seven hearings will be held throughout the country next year.

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