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"Shock" UK bankruptcy ruling favours pensions

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* Judge says pension claims can jump creditor queue

* Administrators and banks lament "shock ruling"

* Decision widely expected to be appealed

By Nia Williams

LONDON, Dec 10 (Reuters) - A UK court ruling on Friday that bankrupt companies should fill their pension gaps before settling creditor claims drew warnings from administrators that it would stifle their appetite to take on cases.

"It's a shock ruling, everybody I have spoken to has got their mouths wide open," said Nick Moser at law firm Taylor Wessing LLP.

"Administrators will be discouraged from implementing rescues of businesses because super-priority for pension schemes could wipe out any return for any other creditor."

In a packed courtroom at London's High Court, judge Michael Briggs ruled in favour of the UK pensions regulator which is seeking to recoup funds from Lehman Brothers and Canadian telecoms firm Nortel.

By classing deficits as an expense rather than as debt, the ruling considerably shrinks the pot of funds available to administrators, leaving no guarantee they will be paid for their work if unexpected claims arise.

The pensions regulator ordered Lehman and Nortel to support their underfunded pension schemes after they filed for bankruptcy, with pension deficits of 148 million ($19.91 million) and 2.1 billion pounds respectively.

Both companies disputed the pension claim, arguing it was invalid because they are in administration. Administrators for both groups are widely expected to appeal the decision.

"It's a big shift. Technically the decision seems correct as a matter of black letter law, but no one expected this kind of pension debt would suddenly rank above unsecured creditors," said Kristy Zander, restructuring and insolvency senior associate at law firm Mayer Brown.

PricewaterHouseCoopers, the administrator of Lehman's European arm, has already been paid 262 million pounds ($419.6 million) over the last two years.

In total, fees paid out to lawyers and accountants for unwinding Lehman were close to $2 billion in September, but the super-priority of pension schemes could take a chunk out of returns for other creditors.

Another consequence is that banks could become more wary of lending to groups and companies with large pension schemes, because the High Court ruling pushes them further down the repayment hierarchy in case of bankruptcy.

"The people who will really suffer from this are the secure creditors who have been kicked down the line," said Rosalind Connor, partner at law firm Jones Day.

"Banks are going to have to think about lending to companies who have defined benefit pension schemes in case things go wrong," she said, referring to pension schemes that have promised their members guaranteed benefits.

(Editing by David Cowell)

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