

P.R.I.M.E. Finance

Panel of **R**ecognized **I**nternational **M**arket **E**xperts in **F**inance

Panel Presentation: **R**esearch **U**nderpinnings of P.R.I.M.E. Finance



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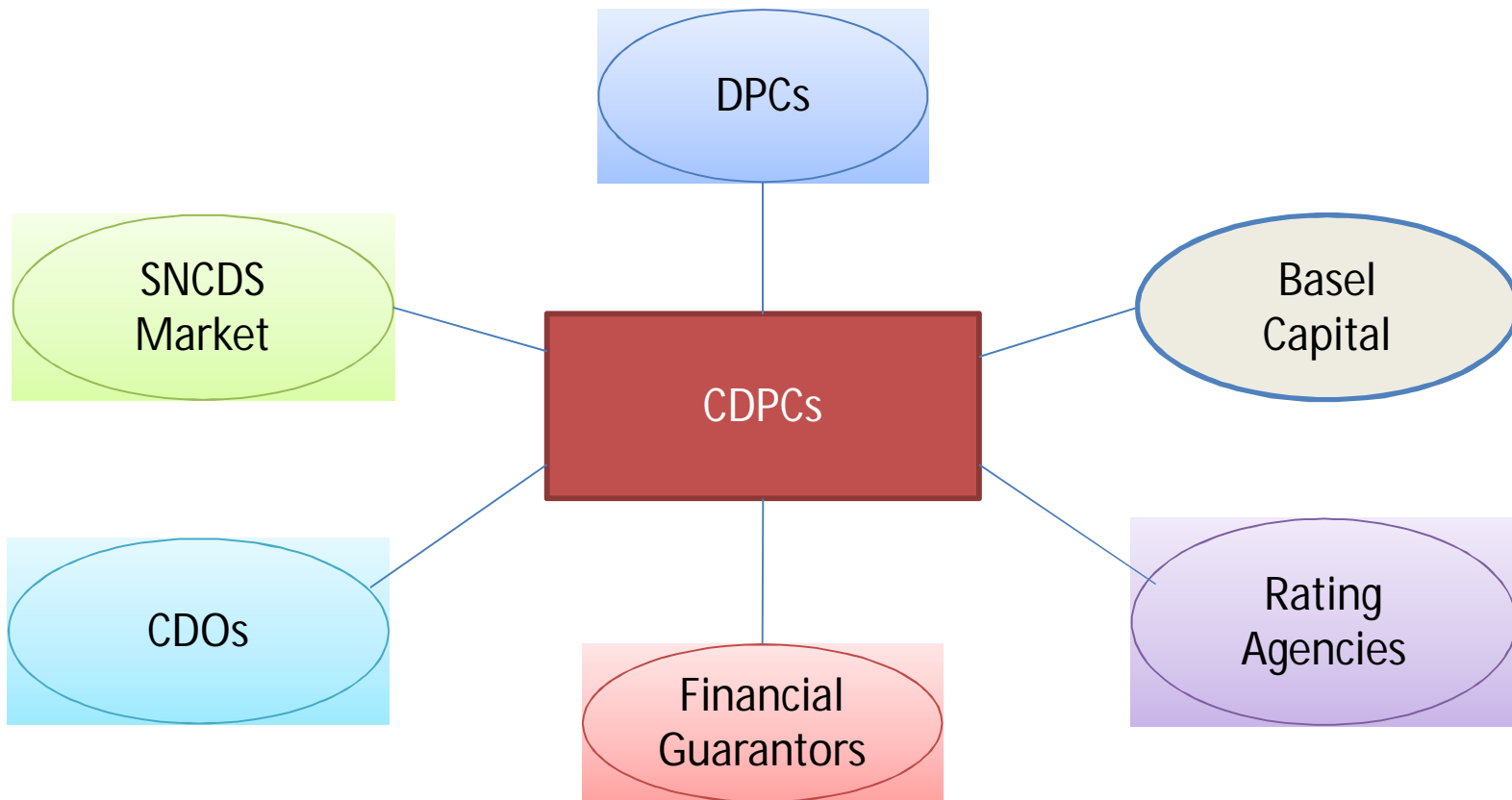


The Life Cycle of the Credit Derivative Product Companies

Joseph P. Bauman

**P.R.I.M.E. Finance Annual Conference 2018
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Origins of the Credit Derivatives Product Companies



What was a Credit Derivatives Product Company?

- A stand-alone operating company
- Bankruptcy remote legal structure
- A “one way dealer” in CDS
- BUT a “hold to maturity” investor
- Main product offering either single name or tranching corporate credit protection in the form of CDS
- AAA/Aaa ratings based on relationship of capital-to-expected loss
- No collateral or margin provided to counterparties
- Long term capital structure
- Investment vehicle managed by closely related service company



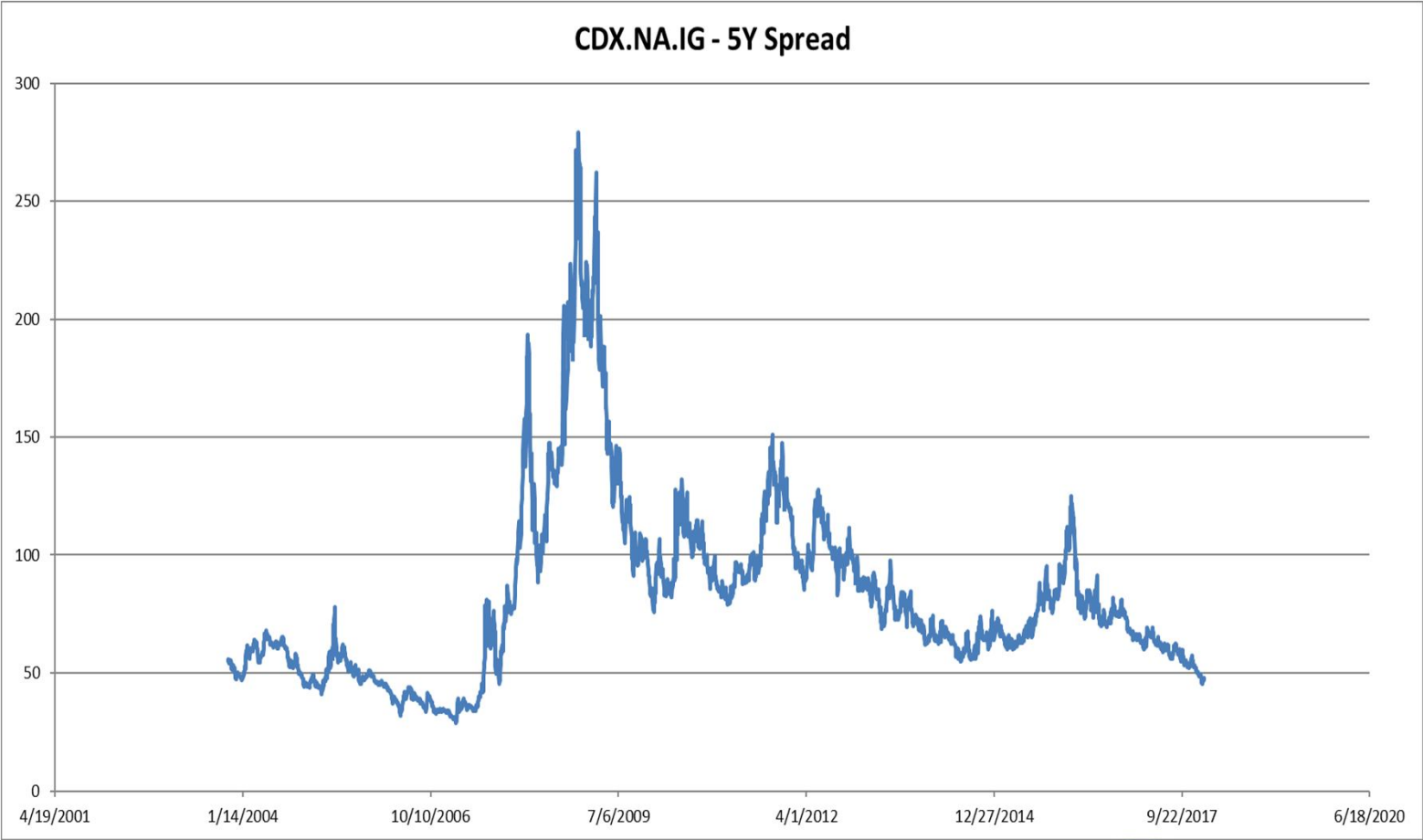
CDPCs that Obtained Rating Letters

Primus Financial Products	(May 2002)
Theta Corporation	(December 2004)
Athilon Capital Corp.	(January 2005)
Invicta Capital	(January 2007)
Newlands Financial	(March 2007)
Cournot Financial Products	(March 2007)
Koch Financial Products	(July 2007)
Channel Capital	(July 2007)
Quadrant Structured Credit	(October 2007)
Alladin Financial Products	(November 2007)
<u>Satago Financial Products</u>	<u>(November 2007)</u>
Bear Stearns Asset Management	
Deerfield Capital Management	
Harbor Road Financial Products	
Mandalay Financial Products	
Pallium Investment Management	
Structured Credit Holdings	



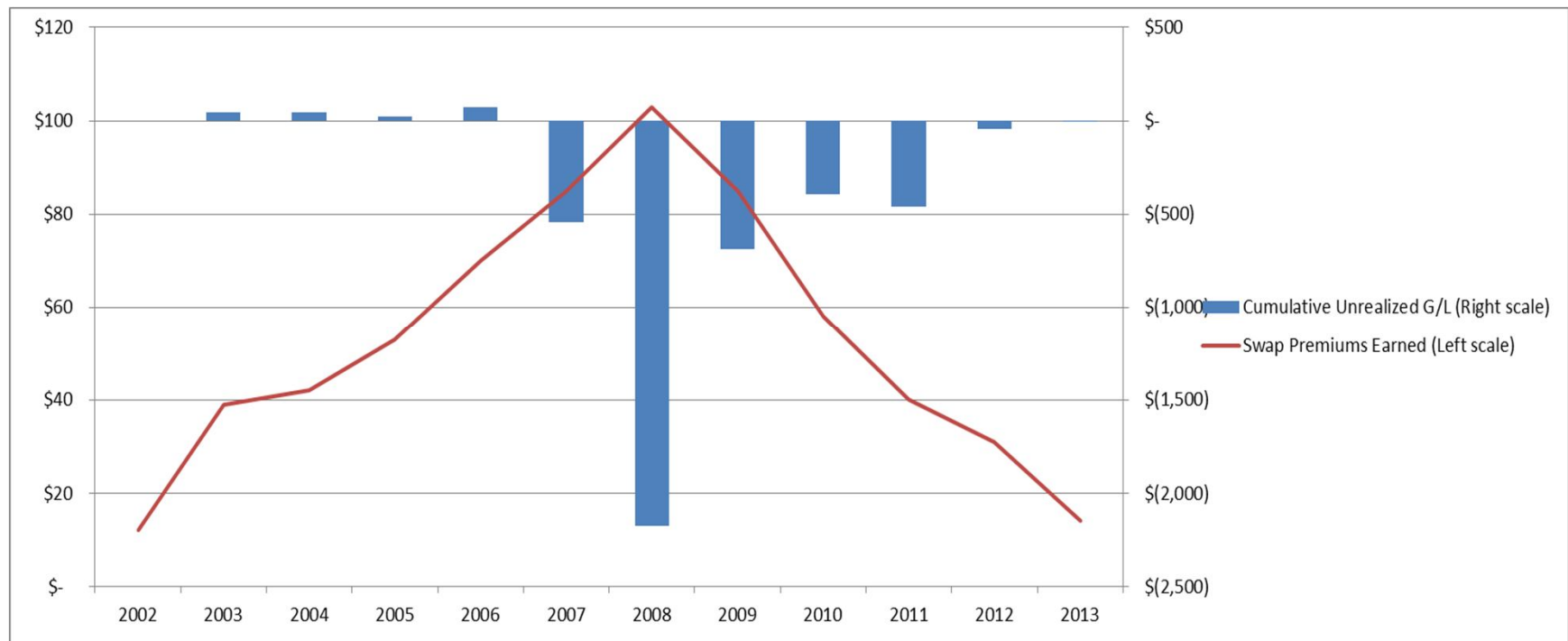
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Average Investment Grade CDS Spreads Increased Five-Fold from 2006 to 2008



Primus Guaranty Ltd.

Swap Premiums Earned and Cumulative Unrealized G/L (\$ millions)



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Disputes with and among the CDPCs

- Disputes arising from issues among counterparties, debt holders, equity investors, and management

UBS AG v. Cournot Financial Products LLC (2010)

Quadrant Structured Products Co. Ltd. v. Vertin et al. (2011)

- Disputes arising from termination or valuation of CDS transactions entered into by CDPCs (?)

Joe Bauman

jpbauman@gmail.com



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