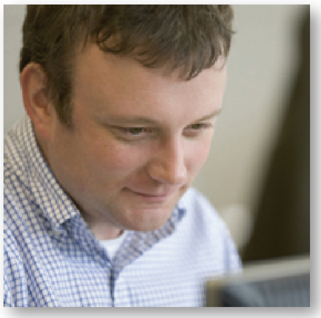
# Q-WIXX™ and Cairn Capital Case Study

Q-WIXX's automated CDS portfolio platform allows asset manager Cairn Capital to achieve efficient execution of large CDS lists and reduce its operational risk.



**Duncan Needham, Senior Portfolio Manager at Cairn Capital describes how Q-WIXX has helped his firm dramatically reduce the execution and operational risks inherent in executing portfolios of single name credit default swaps.**

### The Challenges

As the credit derivatives market continues to grow at an astonishing pace, industry participants have been under pressure by the New York Federal Reserve and the FSA to improve practices and operational efficiencies in the booming credit derivatives market. Best execution has been a particular area of focus, with firms seeking automated solutions to further reduce operational costs and risks associated with trading credit derivatives

An area that has experienced a sharp increase in activity over the past few years has been the trading of list transactions, known as Offers Wanted In Competition ("OWICs") and Bids Wanted In Competition ("BWICs"). Trading of these lists grew 68% between Q3 2005 and Q3 2006, reaching USD 125.6bn, according to Creditflux – and show no signs of slowing down. These lists can involve anywhere from twenty to several hundred individual CDS contracts being executed, with between 5 and 10 lists being brought to market on a daily basis. The execution and straight through processing of these high volume lists, however, has remained extremely manual, time-consuming and error prone.

The current process requires the initiator to manually prepare and distribute spreadsheets to the participating bidders. These are then disaggregated for traders to enter their prices followed by re-aggregation within the bidders' institutions and returned to the initiator. The auction initiator then has to further collate the prices received from other bidders, across multiple spreadsheets, in order to establish who has won which piece of business. This extremely manual process means the capacity for error is high when sorting through the prices and establishing the weighted average spread of the portfolio. The notification of winners and covers is also manually intensive, creating further execution risk on both sides of the trade.

The post trade processing of these lists is particularly cumbersome, more so than the processing of one-off single-name CDS trades. The bulk nature of the trading results in very high peak levels of operational activity. This creates increased potential for backlogs in trade booking, with consequent impact on confirmation times and heightened levels of operational risk around the accuracy of trade bookings.

### Working with Cairn Capital

Cairn Capital, a London based credit asset manager with a high level of activity in list trading, sought an electronic solution to increase operational efficiency and reduce the associated risks and costs. Cairn chose Q-WIXX as their preferred solution and was the first client to execute a list on the platform. Cairn were able to electronically execute a portfolio of 131 European and North American credits (USD $1.7bn) in under 10 minutes. Compared to the traditional spreadsheet based process, this represented a significant reduction in the amount of time taken to execute a portfolio of this size.

### How Q-WIXX Works

The Q-WIXX platform allows clients to upload a portfolio of CDS names, containing the basic economic details of the proposed trades, and a target price.

Q-WIXX's flexible portfolio upload wizard allows clients to map spreadsheet columns, specify column formats, map reference entity data and validate and modify all economic details.

Cairn was able to take such a set of portfolio data and submit a simultaneous request to 80 traders at seven trading desks in Europe and US for pricing. Cairn specified the start time for the Q-WIXX auction, the amount of time available for the dealers to price, and the time by which Cairn had to execute.

Once all dealers had submitted their prices Cairn was able to see a consolidated view of the pricing across all dealers. The best pricing for each credit was highlighted and the weighted average spread of the portfolio and each sector were clearly visible.

The prices submitted by the dealers were held firm for a "Live Period" of only 10 minutes while Cairn reviewed and executed their trades. Trades could be executed on an individual basis or using "Bulk Execute" functionality, a rich and flexible feature that executes multiple trades simultaneously.

All parties were immediately provided with a status update for each trade as it was executed, and this included post-trade information to facilitate STP. In this case where customers and dealers are users of the T-Zero STP platform, it was possible to execute, book and affirm $1.7bn of CDS trades in under 15 minutes.

> **'The time taken to run the auction from start to finish was significantly reduced. The execution process was considerably smoother by virtue of the full automated electronic trading process.'**
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> **Duncan Needham, Senior Portfolio Manager at Cairn Capital**