

Finra pencils in proposals to trace extra detail in CLO trades

Finra is stepping up its efforts to provide greater transparency on secondary CLO pricing, according to several market sources. The agency, through its Trade Reporting and Compliance Engine (Trace) unit, has been speaking with CLO market participants about plans to publish trade prices for secondary CLOs. At the moment, Trace calculates daily CDO trade volumes.

After early consultation, it is understood that Finra favours an approach whereby it anonymises the name of each CLO that changes hands but gives guidance on the profile of the deal – such as vintage and rating, in addition to displaying the trade price.

A spokesperson for Finra declined to comment on the rumours, but did say consultation is a big part of its approach. In a statement to Creditflux the organisation says: “Leveraging the expertise of the industry is a critical component of our self-regulatory role in developing well-informed, effective and efficient oversight.”

Finra’s attempt to shed light on CLO auctions is likely to be warmly greeted by market



Basu: ‘transparency would help’

participants. One of the criticisms of the current b-wic model is that some CLO sellers will only release cover bids (second-highest bids) to the broker that executed the trade, rather than to all brokers in the auction.

Neil Basu, founder of anchor CLO equity investor Pearl Diver Capital, welcomes efforts to provide more disclosure. “At times, the bid-offer spread on CLO equity tranches can be wide and, as such, greater transparency would help the CLO market,” he says.

London-based Basu cautions that even if a higher degree of information is shared with market participants, inefficiencies will likely persist. “There is no standardisation in the way investors model CLO prices. There are many factors to weigh up, including marks on underlying loans, expected default rates, reinvestment spreads and prepayment rates.”

Fair Oaks founder Miguel Ramos agrees that any measures which improve transparency should be welcomed. “Additional information on trade flows and market depth should help current and prospective investors get comfortable with CLO investments,” he says.