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Penalties for CLO b-wic sellers who routinely do not trade would improve the secondary CLO market

When looking to source or sell CLO securities away from primary issuance, participants often want to maximise the number of eyes on a bond.

The best way to do this has historically been through b-wics – the “bids wanted in competition” process. But as the global CLO market has grown over the past decade to more than a trillion dollars, the b-wic process has not kept pace.

Today, b-wics are ripe with frivolity. They still take multiple hours to conduct and often end with bonds not trading. Sometimes sellers use the process solely to achieve some price discovery for their own bonds without actually planning to sell. This wastes – perhaps even steals – multiple hours of time from dozens of market participants. Despite these frustrations, participants continue to run head first into the b-wic brick wall.

Don't waste everyone's time

As the CLO market has grown, bond liquidity and trading volumes have increased tremendously. In addition, technological advances have made bond analysis and comparison much more efficient. With these tools and data widely available, shouldn't general bond pricing be well known? If so, why do fake sellers need to abuse the b-wic process for price discovery? We implore these

It also takes an unreasonable amount of time to complete a b-wic. First, the time at which bids are due is more a suggestion than an actual deadline. There is no fixed time when a b-wic actually finishes, leaving traders to chase sellers until they finally make a decision. I've lost track of the number of times we've heard “the PM is in a meeting” to delay completing a b-wic. Don't run an auction if you're not free to review the bids!

Another frustration market participants face is how the rules of the game can change. For example, a b-wic process can begin by requiring participants to put their best foot forward, but can then quickly allow multiple rounds to emerge. Sellers should be required to pick and stick to a single process, while adhering to the time allotted.

The search for 'colour' is painful

In an environment with growing levels of market volatility and widening spreads, the distance between the best bid, cover and third can widen quickly. To avoid the shame of having a large cover and showing participants who bought bonds at “expensive” levels, a growing number of market participants choose not to post colour.

But simply posting “traded” provides no benefit to the market. If participants are unwilling to share colour, dealers should ponder whether or not to

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people to cease wasting the market's time. Furthermore, the use of b-wics to set market values for cross trading between separately managed accounts should be substantially limited. Valuation of CLO securities today is robust and can be achieved without undertaking a fake sale process.

So how can we ensure this process does not waste participants' time? First, we need a method to distinguish market participants who intend to trade from those who do not. Dealers could be permitted to post the “did not trade” percentage of sellers or categorise them based on activity, allowing the market to discern which are above or below standard percentages.

The identity of the seller would remain masked, but posting non-identifying information would incentivise participants to be less flippant as to what they put up for sale. Publishing these statistics would help keep the market honest.

support their lists and potentially go as far as not reciprocating colour to them when they enquire on other lists.

As we continue to allow our auction process to be flawed, abuse of it will continue. As investors, we need to hold each other accountable, so we don't end up wasting many hours.

Electronic systems could potentially increase efficiency, but it seems they have a long way to go before being widely adopted. For now, if we all do our part and adhere to the points above, we could at least make the brick wall a touch softer.