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Bear CDO Series: S&P Partners with Sky Road for Credit Ratings Data

By Ivy Schmerken

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With the fall out from the credit crisis spreading to multiple asset classes and ravaging returns, the rating agencies are partnering with technology providers to get their data in the hands of hedge funds. Yesterday, [Standard & Poor's](#) said it will make its credit ratings data available through [Sky Road LLC](#), a provider of hosted technology to hedge funds engaged in cross-asset trading.

"It enables their clients to have the S&P credit data integrated into their workflow of choice which is Sky Road's product," says Caroline Cassar, global director for digital feed products for Standard & Poor's. "Ultimately the end users can make a stronger decision when they have the credit information because of the complexity of the asset classes," says Cassar.

While hedge funds could take the raw data feed directly, many of the shops are not equipped to take in a raw feed, parse the feed and database it and display it onto platforms, says Cassar. With the credit rating agencies reviewing billions of dollars of CDOs for possible downgrades, hedge funds are anxious to get this data into their portfolios.

Today hedge funds can subscribe to the S&P credit ratings data electronically through its Web product or through a [Bloomberg](#) or a [Reuters](#) terminal, "but it wouldn't be integrated into Sky Road," says Cassar. One advantage is "they won't have to switch to another screen or get up from their chair to get that rating information. Ultimately, that's the real benefit to the end user," says Cassar.

Sky Road provides a hosted portfolio management and risk management solution for hedge funds that do cross-asset trading, says Joe Clifford, Sky Road's founder and chief technology officer. It's based on Calypso's core technology. Sky Road customizes the solution for traditional buy-side firms, which include hedge funds as well as credit derivative product corporations (CDPCs). These are special purpose vehicles that obtain AAA ratings (from the agencies) to sell credit protection to the street.

What Sky Road does is "take the data in a relatively raw format, integrate it with the rest of the portfolio and does reporting and testing. That is our value add," says Clifford. It also integrates the data from other rating agencies (i.e., Moody's and Fitch) and ties it together with existing portfolios, reporting and tests, says Clifford.

One type of risk that hedge funds are sensitive to is industry concentration. For example, Moody's has a different classification system for companies that belong in the automobile sector. If hedge funds don't want any more exposure to the auto sector, Sky Road is able to "aggregate the different ratings of the companies in that sector and allow them to get transparency of the credit ratings into their portfolio and industry classifications in an automated way," he says.

Sky Road works with clients that track bank debt or corporate debt, index products, index tranches, cash bond trading— which are the products that are common to the hedge fund credit strategies in which the hedge funds look at the ratings in industry sectors.

“Whether clients are trading equity options or bonds or credit default swaps or indexes or index tranches, we can decompose that and show different exposures,” says Clifford. If a client is trading indexes or single-name bonds, they could easily have exposure to 500-to-700 names. “Tracking that down to the level of the individual company and the exposures and being able to aggregate that data, without a tight process is where it can become unwieldy,” he says.

With the current credit crisis, ratings data has become more critical to hedge funds that are tracking these concentrations. The fall out from this could be that funds aren’t supposed to hold debt that’s rated below a certain level, predicts Clifford. He says hedge funds will need to see if they are close to a certain level. “They don’t want you holding any concentrations to any one industry,” he continues. They will want to see what their portfolios look like and they’ll want ‘what if’ capabilities. “That’s the kind of risk management that is going to come out of this turmoil and being able to do that in an automated, internal way,” he says. “I think you’re going to see more (emphasis) on transparency and risk reporting to counterparties and investors and part of that is concentration and ratings-related information,” Clifford says.

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