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Regulatory, Tax and Credit Documentation Factors Impacting Hedge Funds' Trade Risk in European Secondary Loans

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For the majority of 2011, European secondary loan markets had buy-side traders frustrated by low liquidity, volume and deal flow, and sell-side traders were left to wonder if and when they do source, will enough friends come out and play. Is this the calm before the storm? We, along with many in the distressed community, believe it is, and that loans will play a significant role in the corporate distressed wave expected to hit shore in 2012 as part of €221 billion worth of European leveraged loans set to mature between now and through 2015. The high yield market was a savior in 2011 for many borrowers whose loans were set to mature in 2013 and 2014. However, with some of these deals already having gone sour and the pool of remaining loans deteriorating, the high yield market is not likely to save the day again. Regardless of the capital market options, when the refinancing peak reaches its heights in Europe and the U.S. in 2014, bad loans will likely be left behind in droves. To assist investment funds in filling their proverbial sandbags and preparing to pick up potentially lucrative pieces in the aftermath, we are delivering a two part series on trade risk specific to loans in the European market.

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