

## A More Perfect Credit Default Hedge



**A new form of securities employing Smart Contract technology aims to enable sellers of single-name credit default protection to fully compress their exposure and collateral requirements through broad mutualization and offsetting of risk.**

As the single-name CDS market continues its decline to extinction - investors are increasingly left with no direct hedge to offset their corporate, municipal, sovereign, MBS and other default risks. To fill that void credit market innovator, DelphX Corporation, is implementing a flexible new form of inversely-correlated securities that employ Smart Contract technology to provide a natural, cost-effective and precise hedge against credit default risk.

The new "Default Swap Receipt" securities enable protection buyers and sellers to competitively negotiate the terms of tailored hedges within the regulated DelphX ATS. The agreed terms of each protection are then incorporated within a new DSR issued, secured and continually serviced by a AAA-rated Depository Trust. The Trust also manages the collateral supporting each protection, and systematically mutualizes and distributes the related risks among large pools of constituent risk holders.

For optimal utility, DSRs will incorporate standard ISDA Master Agreement terms and be structured to provide the bespoke protection required by the applicable buyer – creating a naturally-correlated security that increases and decreases in market value precisely as needed to offset movements in the value of a specified security or the credit issues of a referenced entity. DSRs will also offer the added utility of enabling DelphX participants to actively speculate on the future pricing of new and existing DSRs – which reflect the market’s current assessment of a potential credit event involving the referenced entity (issue).

The streamlined process by which new DSRs can be tailored to meet the needs of each buyer enables participants to buy new (and trade existing) protection as needed to dynamically adjust their gross and net risk positions in real-time. As DelphX participants can negotiate the terms of each new DSR as either the protection buyer or seller, they can also optimally manage their net exposure/protection for any single entity or issue in real-time.

Each DSR risk is combined with other risks of common tenor and collectively mutualized and distributed pro rata among the sellers of the pooled protection. The aggregate “Risk-Pool Share” of each seller, representing its net aggregate risk exposure for each reference entity (issue) in all pools, is also continually reported in real-time to each seller.

DSRs thus provide protection sellers a flexible, liquid and mirrored form of credit investment that pays a fixed quarterly yield and compresses their net risk and collateral requirements through broad mutualization and risk-offsetting. DSRs also enable all participants to continually monitor and manage (and, if needed, reduce to zero) their net DSR spread cashflow and risk exposure for each referenced entity/issue. For more information about DSRs, contact [info@delphx.com](mailto:info@delphx.com)

### **About DelphX**

DelphX is a leader in the development of optimal OTC markets. It is an unbiased service provider dedicated to promoting liquidity in the credit markets through digital Smart Contract technology, efficient risk management and market-wide transparency. DelphX is neither owned nor controlled by any entity with a vested interest in the success of particular issuers, securities or market participants. For more information about DelphX, visit [www.delphx.com](http://www.delphx.com)