

## Best law firm

### Davis Polk & Wardwell LLP

Two big deals paved the way for a successful 12 months for Davis Polk & Wardwell LLP, winner of law firm of the year. The first was an advisory role on the link-up between Citi and Morgan Stanley's brokerage networks, creating the largest of its kind in the US, and the second was the Alerian exchange-traded note for JP Morgan.

Further enhancements to the established legal practice came in the form of advising on regulatory initiatives aimed at the financial markets, structured products and derivatives, including the Financial Industry Regulatory Authority's (Finra) amendments to its communications and conflict-of-interest rules, and its guidance on the sale of principal-protected structured notes, as well as the numerous financial stability and derivatives reform bills proposed by the US Congress.

"They consistently get the work done on time, are very responsive, and have helped us complete deals under pressure several times," says one banker based in New York. "They are usually able to run with a project with minimal guidance or review required from our side."

The breadth of advice was a direct result of a client base that includes most of the top 10 issuers of structured products in the US – Credit Suisse, Deutsche Bank, JP Morgan, Morgan Stanley, Royal Bank of Scotland, ABN AMRO and UBS. "They came to us for specific regulatory initiatives in structured products and for our take on how the large regulatory reforms would affect products, especially the hedging," says Warren Motley, a partner in the corporate department at Davis Polk in New York.

Clients are happy and impressed. "Far and away the best firm I work with is Davis Polk & Wardwell," says another New York-based banker. "I work with their general corporate and securities lawyers and with other Davis Polk lawyers in the banking, antitrust and litigation areas. They are an outstanding team and bring to the table an unusual additional skill in that they are very attuned to our business needs and policies, and add sharp legal and business insight. They also distill the issues and communicate the analysis and solutions effectively and clearly."

The range of clients has helped with the ability to offer commercially constructive advice. "We have advised on the structuring and execution of more than 1,000 structured product offerings in 2009, the aggregate proceeds of which was \$13.2 billion," says Christopher Schell, counsel in Davis Polk's Capital Markets Group.

The firm has also observed and advised on the rebirth of hybrids – products that bundle different asset classes into a basket. "One of the



Warren Motley



most interesting, which we did a couple of times for one client, was a global recovery basket in the middle of 2009 made up of different equity, bond and commodity indexes," says Schell.

As well as hybrids, the firm has advised on some of the more exotic underlyings linked to certificate of deposit (CD) products, as well as a bearish trade on US Treasury futures.

As investors sought long-short strategies to generate returns regardless of market direction, Davis Polk took a hand in the development of the Credit Suisse Factor Index, in which the bank identified six factors that explain currency movements: carry, momentum, value, growth, terms of trade and emerging markets.

Picking up on the long-short theme, the firm worked with JP Morgan on the long-short version of its C-Igar Index, a momentum-based index that rebalances each month on the basis of historical performance of the S&P GSCI commodity indexes. As well as going long and short the sub-indexes, the product also aims to "account for very short-term, sudden changes in momentum," says Albert Cua, counsel in Davis Polk's corporate department. "It also includes volatility control to limit downside exposure when historical volatility is greater than a target volatility."

Further landmark deals include DB Emerald. "The Emerald thesis is that if you look at the S&P 500, daily movements up or down are going to be greater than weekly movements," says Courtenay Myers, counsel in Davis Polk's Financial Institutions Group. "The net weekly change is going to underrepresent the daily movement. The index has daily investments and sells weekly in equal amounts so you get that long/short theme. It seeks to capture the mean reversion of the index." Introduced in October 2009, over \$100 million of notes in it have been issued.

"We worked together with Deutsche Bank to translate the index rules and the mathematical equations into words that can be explained to the investor and understood and comply with the securities laws in the US."

Pride of place was reserved for the access on offer from the Alerian MLP ETN completed with JP Morgan. "Launched in April 2009, the ETN provides convenient access to the master limited partnership (MLP) sector," says Cua. Volumes have risen from \$75 million at launch to \$600 million in just under a year. The product pays a variable coupon linked to the cash distribution on the underlying equity in the index. "One benefit of investing in the ETNs rather than MLPs directly is you don't have to deal with the tax implications of partnership income," says Cua. The work the firm did on the ETN was lauded by bankers involved in the deal as "instrumental in connection with the launch and growth of the ETN". ●