

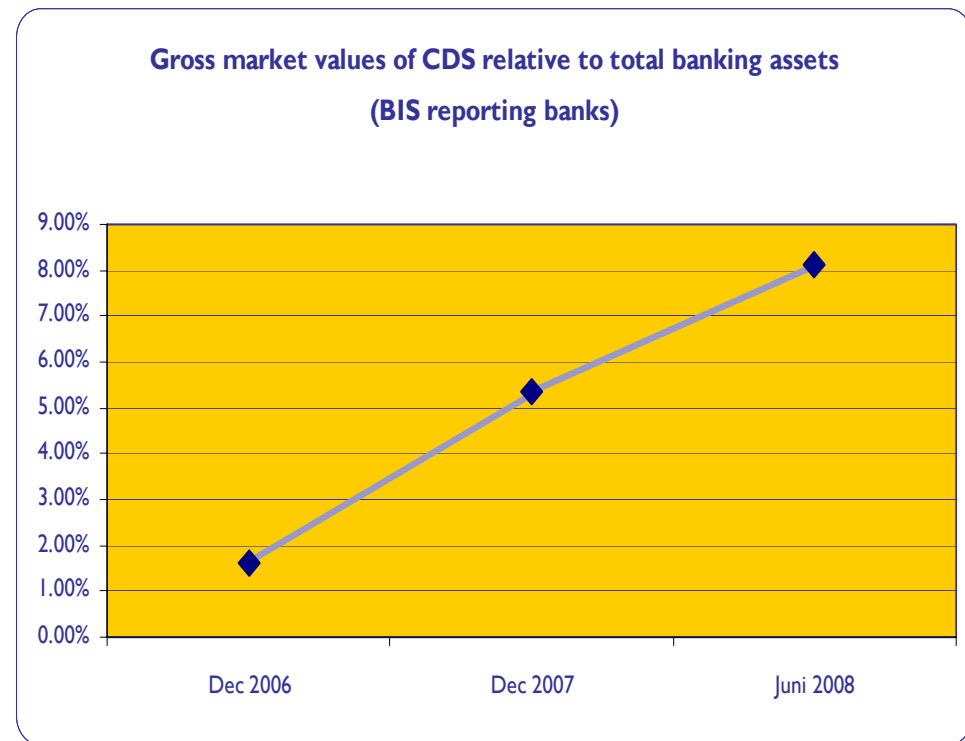
# **The role of Europe in the global CDS market**

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# Economic importance of CDS markets

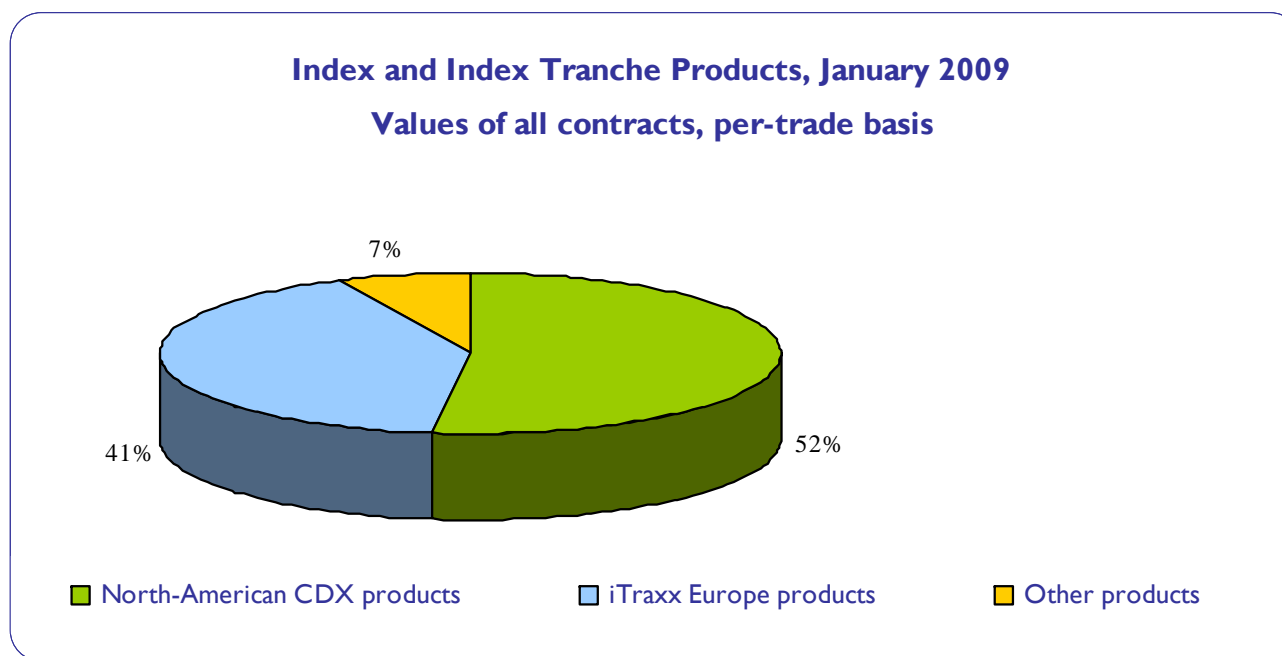
- **CDS markets are relevant for systemic financial stability**
  - ✓ **Banks' CDS exposures relative to total assets have increased significantly in recent years**
  - ✓ **CDS markets are closely linked to cash securities markets**
  - ✓ **CDS markets are highly concentrated**



Source: BIS, ECB calculations

# The European share of the global CDS market (I)

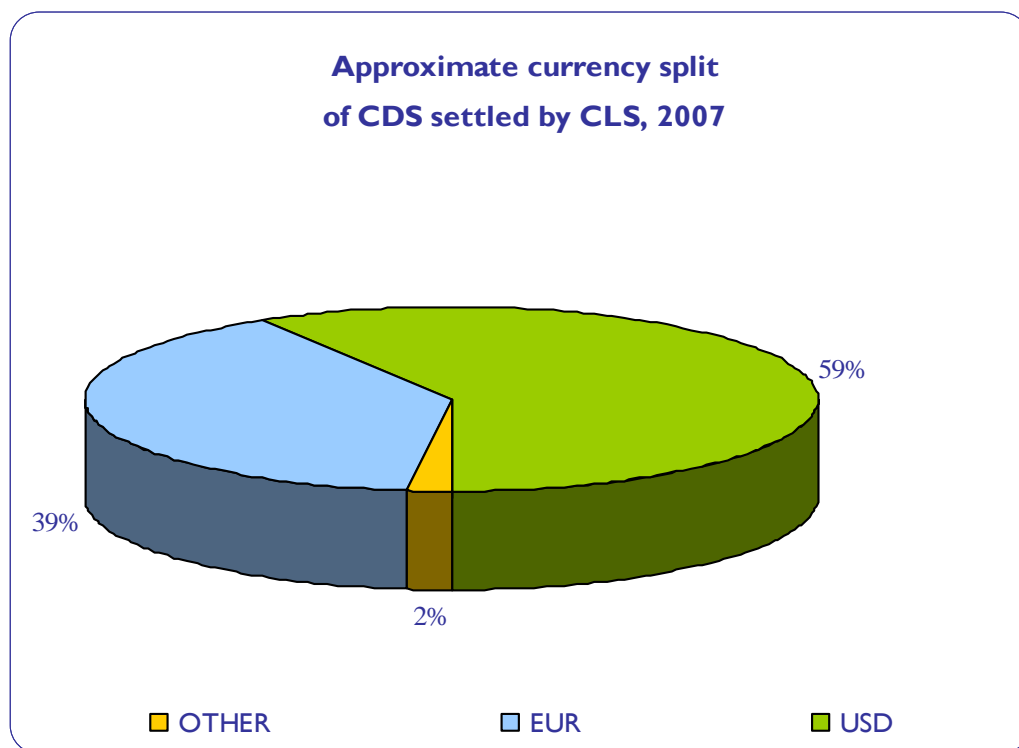
- **Around 40% of CDS index products are based on European entities**



Source: DTCC, ECB calculations

## The European share of the global CDS market (2)

- **Around 39% of CDS are denominated in euro**



Source: CLS estimates, ECB calculations

## The European share of the global CDS market (3)

- **European dealers account for a significant share of the global business**

**2007:**

- ✓ **Around 35% of global CDS trades involved at least one counterparty domiciled in the EU**

Source: BIS, Banking Supervision Committee

**2009:**

- ✓ **66% of the dealers contributing to calculation of the iTraxx Europe indices are domiciled in Europe**
- ✓ **50% of the dealers contributing to the CDX indices are domiciled in Europe**

Source: Markit

# Significance of the location of a CCP for CDS

- **Location of core market infrastructures should correspond to the location of the market**

## BENEFITS OF “DOMESTIC” INFRASTRUCTURES FOR ALL STAKEHOLDERS

### SUPERVISORS/ FINANCE MINISTRIES

Congruence between supervisory powers and ultimate supervisory and fiscal responsibilities

### USERS

Congruence between infrastructure procedures and requirements and the wider legal/regulatory framework and post-trading arrangements

### CENTRAL BANKS

Congruence between oversight powers and liquidity facilities and responsibilities for financial stability, monetary policy (including the possible provision of emergency liquidity assistance) and the smooth functioning of payment systems

**=> Benefits of domestic infrastructures particularly pronounced during situations of financial distress**

# Benefits of a European CCP solution for CDS

- **CDS markets are relevant for systemic financial stability**
- **Europe accounts for a significant share of the global CDS market in terms of geographical focus of products, market share of dealers and currency denomination**
- **A European solution for CDS would offer significant congruence benefits between the location of the market and the scope of the legal and regulatory framework and fiscal responsibility**
- **A euro area solution would in addition realise congruence benefits between the location of the euro-denominated market segment and central bank responsibilities and tools for monetary policy, financial stability, and payment systems**