The role of Europe in the global CDS market

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• **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**

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**Gross market values of CDS relative to total banking assets**

- (BIS reporting banks)

- **Source:** BIS, ECB calculations
The European share of the global CDS market (1)

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

Source: DTCC, ECB calculations
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