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News from the International Capital Market Association (ICMA)

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For immediate release

ICMA publishes study into the European single name credit default swap market

ICMA has published a report on the current state and evolution of the European corporate single name credit default (SN-CDS) market, focused on its benefits for liquid and efficient corporate bond markets.

The report is based on interviews with market participants, including buy-side users, as well as extensive data and quantitative analysis. It sets out to map the state of the market, establishing who are its main users and what benefits and risks are associated with the product. Concentrating on the European corporate SN-CDS market it looks at where and how liquidity is provided, and the related costs and challenges of the CDS product.

A study into the state and evolution of the European corporate SN-CDS market, ICMA, 2018

Martin Scheck, ICMA Chief Executive, said: "Resilient, well-functioning international debt capital markets are essential in supporting economic growth, jobs, and productivity. Building on previous studies on the efficiency and liquidity of European corporate bond secondary markets, this new study looks at the SN-CDS market as one of the factors supporting liquidity."

Corporate single name credit default swaps (SN-CDS) are used by a range of participants in bond markets. Corporate bond market-makers can use the SN-CDS market to hedge the credit risk element of their corporate bond exposures (buying or selling protection against their long or short positions), allowing them to reduce their overall trading book exposure. Asset managers and other investors also use the SN-CDS market in different ways, for example as a means of hedging credit exposure or as an alternative to investing in cash bonds.

Previous research has shown that a well-functioning SN-CDS market makes an important contribution to deep and liquid secondary corporate bond markets. This report looks at amounts outstanding in the European SN-CDS market and the notional amounts traded, noting the decline in activity in the market, which can be attributed to the reduction in numbers of market-makers, amongst other factors. It also examines the effects of other drivers of change in the market, including regulation, clearing and improved definitions for CDS, while also noting some recent high-profile credit events.

The report concludes that single name credit default swaps provide an efficient, market-based means of managing credit risk. Whilst recognising that specific CDS trigger events have generated controversial outcomes, the study calls for better understanding of how the corporate SN-CDS product operates and how a well-functioning SN-CDS market could benefit liquidity and efficiency in the European corporate bond market, with positive implications for the economy.

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International Capital Market Association (ICMA)

ICMA is the trade association for the international capital market with over 530 member firms from more than 60 countries, including banks, issuers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to help to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market
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