ICMA and ISDA study into the state and evolution of the European single name credit default swaps (SN-CDS) market

A joint initiative of ICMA SMPC and ISDA
Terms of Reference
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Background

ICMA, through its Secondary Market Practices Committee (SMPC), is actively involved in monitoring and discussing the liquidity conditions and evolution of the European corporate bond markets, and has published two key studies on the state and evolution of the European IG market, in 2014 and 2016.

ICMA has also been very focused on highlighting the inextricable link between the underlying bond markets and repo markets, as well as with related derivatives markets. It is now broadly recognized that any meaningful analysis of bond markets also requires a deep consideration of the related hedging and funding markets.

ISDA is the leading market body with respect to credit derivatives and credit default swaps, covering documentation, public policy, market structure, market practices, research, and other areas. ISDA has also been instrumental in promoting an efficient and liquid single name CDS market.

As part of its ongoing work related to both corporate bond market liquidity and evolution, ICMA, in cooperation with ISDA, proposes to conduct a study into **the state and evolution of the European single name credit default swaps (SN-CDS) market**. This is further intended to complement a study being undertaken in H1 2017 on the state and evolution of the European credit repo market.

Objective

The report of the study is intended to provide a comprehensive overview of the structure of the European SN-CDS market, including market participants, trends, regulatory and economic impacts, potential challenges and opportunities, and a description of how the market has evolved over time. Where relevant, the report may also include recommendations to support market efficiency and liquidity.

Scope

The study is intended to explore and describe the current state and ongoing evolution of the European SN-CDS market. In particular, it aims to analyze and illustrate trends and impacts related to:

(i) Market size and volumes

(ii) Market depth and liquidity
(iii) Distribution of underlying credits (non-financial, financial, IG, HY)
(iv) Cleared vs non-cleared transactions
(v) Relationship with bond (and loan) markets, repo markets, as well as CDS indices and other credit derivatives
(vi) Impacts of regulation, including margin requirements
(vii) Macro-economic factors and monetary policy

The study will also focus on the liquidity providers and users of SN-CDS, including:

(i) Market-makers
(ii) Credit derivatives/structuring desks
(iii) Asset managers and institutional investors
(iv) Hedge funds
(v) Corporate treasurers

Methodology

Interviews

The study will mostly be informed through a series of semi-structured interviews with:

- Banks/sell-side SN-CDS liquidity providers
- Credit traders/corporate bond market-makers
- Credit derivatives structuring desks
- Buy-side AMs and HFs (real money and leveraged)
- Corporates and other non-financial end users

As much as possible, interviews will be conducted in person, but will also be conducted by phone where this is more practical (e.g. with outside of London). A target of 20-30 interviews is proposed.

Data

The study will look to source data related to the European SN-CDS market, both for cleared and non-cleared transactions, particularly with respect to volumes and flows (disaggregated by underlying credit type). ISDA already has access to DTCC and ICE Date Services for European and US SN-CDS data, and will lead on the sourcing and analysis of this data.

Desk research

The study will also look to reference and utilize relevant research and publications, including that produced by ISDA.

Timing

The interviews (and data requests) are intended to run through May to June 2017, with a view to publishing the final report in July.

Publication and audience

As well as being of interest to ICMA's and ISDA's constituents active in the European credit markets (including sell-side, buy-side, intermediaries, and infrastructure providers), the report of the study should also be of interest to regulators and policy makers. In particular, it should be helpful in informing the work being undertaken by the European Commission's Expert Group on Corporate Bond Market Liquidity, which is due to produce a final report with policy recommendations by September 2017.

Principal researcher and author

Andy Hill (ICMA) will take responsibility for conducting the interviews, identifying any additional data, and authoring the study report. In doing so, he will be supported by Gabriel Callsen (ICMA). In conducting and writing the study, Andy will work closely with Audrey Costabile (ISDA).

Prepared by: Andy Hill, April 2017