BANK FOR INTERNATIONAL SETTLEMENTS

Monetary and Economic Department

Guidelines for semi-annual credit default swaps statistics at end-December 2023

Contents

Guidelines and definitions for regular credit default swap reporting

1. Coverage

The statistics cover data on credit default swaps (CDS). These are bilateral financial contracts in which the protection buyer (risk shedder) pays a fixed periodic fee in return for a contingent payment by the protection seller (risk taker), triggered by a credit event on a reference entity. Credit events, which are specified in CDS contracts, may include bankruptcy, default or restructuring.

All contracts

- Data on all the open positions held in CDS contracts at the end of the corresponding reporting period should be reported in terms of notional amounts outstanding bought and sold, broken down by instrument, by counterparty, by rating category, by maturity and by sector (see sections 2 to 5 below). In addition, gross market values of contracts (positive and negative) and gross credit exposures (claims and liabilities) should be reported for all contracts and broken down by counterparty.
- Counterparty geographic allocation:

  Total notional amounts outstanding, bought and sold, should be allocated to one of the following categories (please see below) on an ultimate risk basis, i.e. according to the nationality of the counterparty. A list of reporting dealers (counterparties) and the geographical location of their corresponding head office is provided separately. “Home” country means country of incorporation of the reporter’s head office.
  - o With counterparties with head office incorporated in reporter’s home country
    - Reporting dealers in home country
    - Non reporting counterparties in home country
  - o With counterparties abroad:
    - Reporting dealers abroad,
    - Non reporting counterparties abroad ,

    Both groups should be broken down by country/region according to the nationality of the counterparty:
      - US
      - Japan
      - European developed countries[1]
      - Latin America[1]
      - Other Asian countries[1]
      - All other countries
- Instrument types

The following instrument breakdown is requested:

- Single-name instruments
- Multi-name instruments

[1] The detailed list of countries included/excluded in each regional group is available in Annex 2.

- Of which index products

Single-name CDS: Credit derivatives where the reference entity is a single named entity, eg a corporation.

Multi-name CDS: CDS contracts referencing more than one name as in portfolio or basket credit default swaps or credit default swap indices.

A basket credit default swap is a CDS where the credit event is the default of some combination of the credits in a specified basket of credits. In the particular case of an n'th-to-default basket it is the n'th credit in the basket of reference credits whose default triggers payments. Another common form of multi-name CDS is that of the "tranched" credit default swap. Variations operate under specifically tailored loss limits – these may include a "first loss" tranched CDS, a "mezzanine" tranched CDS, and a senior (also known as a "super-senior") tranched CDS.

Index products: Only total notional amounts outstanding bought and sold of these instruments are to be reported. Index products are multi-name credit default swap contracts with constituent reference credits and a fixed coupon that are determined by an administrator such Markit (which administers the CDX indexes and the iTraxx indexes). Index products include tranches of credit default swap indexes. Index products include, at a minimum, any multi-name credit default swap contract that is listed in Table 7 ("All Indexes and Index Tranches") of DTCC Deriv/SERV's trade information warehouse data[2].

Index contracts restrict the eligible types of credit events to bankruptcy or failure to pay in the US, and to bankruptcy, failure to pay or restructuring in Europe and in Japan. In the case of a credit event, the entity is removed from the index and the contract continues (with a reduced notional amount) until maturity.

Exclusions: Credit linked notes, options on CDS and total return swaps are not to be included when reporting[3].

Types of data requested

In order to gauge the size and exposures stemming from CDS activities, the reporting breakdown covers the following types of data for both proprietary and commissioned business of the reporting institution:

- Outstanding notional amounts bought and sold.
- Gross market values, positive and negative.
- Gross credit exposure, claims and liabilities (ie net market values, positive and negative).

Data reported should reflect both the trading and the banking book for reporters where this distinction is relevant. Reporting is semi-annual. Data reported should reflect positions as on the last business day of June or December, as appropriate.

(a) Nominal or notional amounts outstanding

Notional amounts outstanding provide a measure of market size. They are comparable with measures of market size in related underlying cash markets and shed useful light on the relative size and growth of CDS markets. This information is required for all contracts and instruments.

Nominal or notional amounts outstanding are defined as the gross nominal or notional value of all deals concluded and not yet settled at the reporting date.

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2 http://www.dtcc.com/products/derivserv/data_table_i.php

3 They are included in the more comprehensive BIS Triennial Survey.

No netting of contracts is permitted for this item. It follows that:

(1) protection sold by the reporting bank to third parties should not be netted against the reporting bank's protection bought from third parties, and

(2) contracts subject to bilateral netting agreements should not be netted for reporting purposes.

The notional value to be reported is that of the maximum default protection[4] specified in the contract itself and not the par value of the financial instruments intended to be delivered.

(b) Gross market values

Reporting institutions are requested to provide information on gross positive and gross negative mark-to-market values arising from outstanding CDS contracts. For transactions linked to synthetic portfolio products such as CDS for a super senior tranche, it may be difficult to calculate a market value. In these cases, the data may be partly estimated and should be reported on a best effort basis. This information is not requested for the index products and it should be broken down only by instrument and by counterparty, no further breakdowns by rating, sector, location of counterparty, etc., are requested for this particular data type.

(c) Gross credit exposure (gross market values after taking into account netting agreements, ie net market values):

Reporting institutions are requested to provide information on credit exposures and liabilities arising from credit default swaps contracts broken down by the counterparties only. For contracts which have a positive market value, reporting institutions are requested to report (1) the gross market value of these contracts, and (2) the net market value (i.e. current credit exposure) after taking account of legally enforceable bilateral netting agreements for CDS contracts. For contracts which have a negative market value reporting institutions are requested to report (1) the gross market value of these contracts and (2) the net market value (i.e. liabilities) after taking account of legally enforceable bilateral netting agreements for CDS contracts.

Collateralisation is not taken into account for the computation of notional amounts outstanding, gross market values and gross credit exposure and liabilities.

The differences between gross market values, net market values and gross credit exposure are illustrated by an example presented in annex 3.

Reporting basis

The reporting basis is the same as for the central bank semi-annual OTC derivatives statistics. For the amounts outstanding reporting is on a global consolidated basis. This means that data from all branches and (majority-owned) subsidiaries worldwide of a given institution must be added together and reported by the parent institution only to the central bank in the country where the parent institution has its head office. However, deals between affiliates of the same institution must not be reported.

Currency of reporting and currency conversion

All positions are to be reported in US dollar equivalents. In principle, non-dollar amounts should be converted into US dollars using the end-of-period exchange rates. However, for practical

[4] Please see also the 2003 ISDA Credit Derivatives Definitions according to which the notional amount should be determined in case of cash settlements (Section 7.3) and physical settlements (Section 8.5) as follows: For cash settlements, the amount specified as such in the related confirmation or, if an amount is not specified, the greater of (a) (i) the Floating Rate Payer Calculation Amount multiplied by (ii) the Reference Price minus the final price and (b) zero. For physical settlements, the Floating Rate Payer Calculation Amount is multiplied by the Reference Price.

reasons, reporting institutions may use their internal (book keeping) exchange rates to convert figures booked in non-dollar currencies, as long as these exchange rates correspond closely to market rates.

Rounding

All data entered in the CDS table should be rounded to the nearest million US dollars (decimals should not be used).

2. Counterparty types

Categories used

In the CDS table reporting institutions are requested to provide for a breakdown of contracts by counterparty type as follows:

- *Reporting dealers*: These cover all institutions that contribute to these statistics. See separate list.[5]
- *Non-reporting financial institutions*: all financial institutions that do not contribute to these statistics. The non-reporting financial institutions should be broken down as follows:
    - banks and securities firms,
    - Central Counterparties (CCPs): A Central Counterparty is an entity that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer (see current list of CCPs in attachment 1).
    - Insurance firms (including pension funds[6]), reinsurance and financial guarantee firms.
    - Special Purpose Vehicles, Special Purpose Corporations and Special Purpose Entities[7]: legal entities that are established for the sole purpose of carrying out single transactions, such as in the context of asset securitisation through the issuance of asset-backed and mortgage-backed securities. These entities often lack any own employees.
    - Hedge funds: mainly unregulated investment funds that typically hold long or short positions in commodity and financial instruments in many different markets according to a predetermined investment strategy and that may be highly leveraged. In the absence of a comprehensive definition of hedge funds in these guidelines, reporting institutions may use the internal definitions of hedge funds that are set by their own credit department for reporting purposes.

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[5] In order to derive measures of overall market size, it is necessary for the BIS to make adjustments for inter-dealer double counting. In order to allow the accurate elimination of double counting of inter-reporter transactions, reporting institutions need to identify transactions with other reporting participants separately. A list of reporting dealers and consolidated subsidiaries active in derivatives markets is made available by central banks to the reporting institutions for this purpose.

[6] As a general rule pension funds should be included under insurance firms. However, if they do not offer savings schemes involving an element of risk sharing linked to life expectancy they are more akin to mutual funds and should be included with the latter under “other” financial institutions. It is recognised that the recommended latter distinction might only be possible on a best effort basis.

[7] See detailed definition in Annex 1.

  - Other financial institutions: these will cover all remaining financial institutions that are not listed above. In practice, they will mainly include mutual funds

- *Non-financial customers*: all counterparties other than those described above.

3. Rating

A breakdown by rating is requested. The current rating for any contract should be used when reporting and not the rating at inception. The categories used are those provided by several major rating companies. If no public ratings are available, but internal ratings are, please modify those for use against the categories in the table as appropriate.[8] The categories used are:

- Investment grade (AAA-BBB)
  - Upper investment-grade (AAA and AA)
  - Lower investment-grade (A and BBB)
- Below investment grade (BB and below)
- Non-rated

If a CDS contract refers to a specific underlying reference asset for which several public ratings are available, the lower of the two highest should be used for reporting. However, if the CDS contract specifies merely a corporate name (or country) as the underlying credit rather than a specific reference obligation, individual banks are allowed to report the internal credit rating which meets their business requirements.

For single name instruments the rating of the underlying reference obligation(s) should be used.

For rated multi-name instruments the rating of the contract (entire basket, portfolio, or index) should be used. If the portfolio or basket underlying a multi-name instrument is unrated or not available, then it is recommended to allocate the contract to (1) "investment grade" if all underlying contracts are investment grade, and to (2) "below investment grade" if the underlying reference entities are sub-investment grade.

Instruments should be classified as "non-rated" only if (1) it does not have any rating and (2) it is not possible or very burdensome to classify the contract based on the ratings of the underlying reference entities.

4. Maturities

A breakdown is requested by remaining contract maturity. The maturity bands are as follows:

- One year or less
- Over one year and up to and including five years
- Over five years.

The remaining contract maturity is to be determined by the difference between the reporting date and the expiry date for the contract and not by the date of execution of the deal.

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[8] Scale translations for major rating companies are available on Bloomberg. For access on Bloomberg, please type "RATD <GO>" and select "Long-term rating scales comparison".

5. Sector

A breakdown is requested by economic sector of the obligor of the underlying reference obligation (reference entity) as follows:

- *Sovereigns*: Restricted to a country's central, state or local government, excluding publicly owned financial or non-financial firms.
- *Non-sovereign*, of which
  - *Financial firms*: all categories of financial institutions, including commercial and investment banks, securities houses, mutual funds, hedge funds and money market funds, building societies, leasing companies, insurance companies and pension funds. This definition of financial firms is consistent with the definition of financial institutions in section 3 above.
  - *Non-financial firms*: all categories of institutions other than financial firms and sovereigns (as defined above).
  - *Securitized products, i.e. portfolio or structured products*: CDS contracts, written on a securitised product or a combination of securitised products, i.e. ABS or MBS. The reference entity of these types of contracts is not the securitised product itself, i.e. the ABS or the MBS, but the individual securities or loans that were used to construct it. From this perspective, these contracts should be classified as multi-name rather than single-name instruments. Hence, by default, all CDS contracts written on securitised products should be classified as multi-name instruments.
    - CDS on ABS and MBS[9]
    - CDS on other securitised products (including CDO)
  - *Multisectors:* CDS on <u>other than securitised products</u> where the reference entities belong to different sectors (such as in the case of basket credit default swaps).

[9] See detailed definition in Annex 1.

Attachment:

Central counterparties (CCPs) that are currently serving or have plans to serve the credit default swap (CDS) market.

Region	Name
Europe	Eurex Credit Clear ICE Clear Europe LCH.Clearnet SA
North America	CME CMDX Clearing ICE Clear Credit
Japan	Japan Securities Clearing Corporation

ANNEX 1: Definition of technical terms

1. Financial V**ehicle Corporations (FVC), Special Purpose Entities (SPE) et al:**

US FED definition: A trust or other legal vehicle that meets *all* of the following conditions: a) it is distinct legal entity and b) its permitted activities are significantly limited and are entirely specified in the legal documents establishing the SPE.

ECB definition: “Financial vehicle corporations" (FVCs) are undertakings whose principal activity meets both of the following criteria: (1) to carry out securitisation transactions and which are insulated from the risk of bankruptcy or any other default of the originator; (2) to issue securities, securitisation fund units, other debt instruments and/or financial derivatives and/or to legally or economically own assets underlying the issue of securities, securitisation fund units, other debt instruments and/ or financial derivatives that are offered for sale to the public or sold on the basis of private placements

2. Assets Backed Securities (ABS):

ABS are debt instruments that are backed by a pool of ringfenced financial assets (fixed or revolving), that convert into cash within a finite time period. In addition, rights or other assets may exist that ensure the servicing or timely distribution of proceeds to the holders of the security. Generally, asset-backed securities are issued by a specially created investment vehicle which has acquired the pool of financial assets from the originator/seller. In this regard, payments on the asset-backed securities depend primarily on the cash flows generated by the assets in the underlying pool and other rights designed to assure timely payment, such as liquidity facilities, guarantees or other features generally known as credit enhancements.

ANNEX 2: Composition of regional breakdowns

European countries

Europe excluding Albania and the successor republics of the former Soviet Union and Yugoslavia that are not part of the European union.

Latin America

Argentina, the Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, the British West Indies, the Cayman Islands, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, the Falkland Islands, the French West Indies, French Guinea, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, the Netherlands Antilles, Nicaragua, Panama, Peru, Suriname, Trinidad and Tobago, Uruguay, Venezuela and other Latin America and Caribbean.

Other Asian countries

Afghanistan, Bahrain, Bangladesh, Bhutan, Brunei, Burma, Cambodia, China, Chinese Taipei, Hong Kong SAR, India, Indonesia, Iran, Iraq, Israel, Jordan, Korea, Kuwait, Laos, Lebanon, Macao SAR, Malaysia, the Maldives, Mongolia, Nepal, North Korea, Oman, Pakistan, the Philippines, Qatar, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, the United Arab Emirates, Vietnam, Yemen and other Asia and Middle East.

ANNEX 3: Example illustrating the differences between gross market values, net market values and gross credit exposure

Hypothetical derivatives book of a reporter (Barclays) showing the market values of outstanding contracts to Barclays and its counterparties

	Reporter	Counterparties	
	Barclays	HSBC (reporting dealer)	Prudential (other financial institution)
CDS 1	10	-10	
CDS 2	-3	3	
CDS 3	-5		5
IRS 1	6	-6	
IRS 2	1		-1

Gross and net positive (or, equivalently, negative) CDS market values

	Total	Contribution of …		Total reported by Barclays in table 1.1 (CDS)		
		Barclays-HSBC trades	Barclays-Prudential trades	All contracts	of which vis-à-vis reporting dealer	of which vis-à-vis other financial institutions
Gross positive CDS market value	10	10	0	10	10	0
Gross negative CDS market value	8	3	5	8	3	5
Net positive CDS market value	7	7	0	7	7	0
Net negative CDS market value	5	0	5	5	0	5

Gross credit exposure

	Total	Contribution of …		Total reported by Barclays in table 5 (regular OTC)	
		Barclays-HSBC trades	Barclays-Prudential trades	All contracts	of which vis-à-vis reporting dealer
Gross credit exposure - claims	13	13	0	13	13
Gross credit exposure - liabilities	4	0	4	4	0