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IOSCO Issues Consultation Report on Post-Trade Transparency in the Credit Default Swaps Market

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TO: DERIVATIVES MARKETS ADVISORY COMMITTEE No. 79-14
ICI GLOBAL MEMBERS No. 50-14
INTERNATIONAL MEMBERS No. 39-14 RE: IOSCO ISSUES CONSULTATION REPORT ON POST-TRADE TRANSPARENCY IN THE CREDIT DEFAULT SWAPS MARKET

Recently, the Board of the International Organization of Securities Commissions ("IOSCO") issued a report analyzing the potential impact of mandatory post-trade transparency in the credit default swaps ("CDS") market [1]. The analysis is based on relevant works of international standard-setting bodies and academic literature, an examination of publicly available transaction-level post-trade data about CDS, and a survey of market participants and other market observers regarding their use of certain publicly available post-trade data and its perceived impact on the market. In the Consultation Report, IOSCO preliminarily believes that greater post-trade transparency in the CDS market – including making the price and volume of individual transactions publicly available – would be valuable to market participants and other market observers.

IOSCO examined, among other things, data related to North American corporate index CDS contracts ("CDX"), European corporate index CDS contracts ("iTraxx"), and single-named CDS contracts on entities that are CSX constituents. Generally, IOSCO concludes that the evidence presented did not suggest that the introduction of mandatory post-trade transparency had a substantial effect on market risk exposure or market activity in index CDS products. IOSCO intends to continue to study trends in the CDS market before issuing a final report.

IOSCO also identifies potential benefits and costs to mandatory post-trade transparency in the CDS market. To maximize the benefits of post-trade transparency and to minimize potential costs, IOSCO states that jurisdictions may want to consider the following:

- The maximum permissible delay between time of execution and time of public dissemination of the price and volume of an individual CDS transaction;

- Whether special rules are necessary for public dissemination of the price and volume of large or “block” transactions and, if so, rules that determine what constitutes such a transaction;
- Measures to ensure confidentiality of the identities of the market participants, which could include “capping” or “bucketing” the true notional size of the transaction, particularly in small or illiquid markets in which trading is concentrated in one or two key market participants;
- Whether the potential for loss of confidentiality in small or illiquid markets may be less pronounced for CDS products that are frequently traded in other larger, more liquid markets;
- Implementing post-trade transparency in phases, focusing on the most frequently traded standardized products and/or the largest or most frequent market participants in earlier phases and on less frequently traded products and/or the smaller or less frequent market participants in later phases; and
- Consulting with authorities in other jurisdictions as appropriate, recognizing that each member jurisdiction is best placed to judge the extent of any such consultation and the appropriate time and manner for enhancing post-trade transparency for CDS that trade in its respective market.

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endnotes

[1] Post-Trade Transparency in the Credit Default Swaps Market, IOSCO (Nov. 2014), available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD465.pdf (“Consultation Report”). Comments on the Consultation Report are due by February 15, 2015.