

## Market Liquidity – On-the-Run CDS Index Trading (3rd Study – All Tenors – Tranched & Untranched)

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The Depository Trust & Clearing Corporation (DTCC) is publishing a second study on the liquidity of on-the-run credit default swap (CDS) indices over a period of time. This additional study, which was initiated at the request of the ISDA Credit Steering Committee and the Industry Clearing Committee, now includes trading activity for all commonly traded index tenors including 1, 3, 5, 7 and 10 year maturities. The analysis was prepared using data available in the DTCC Trade Information Warehouse (TIW).

Each quarter, DTCC publishes an analysis of the average daily notional amount and average daily number of trades done for index transactions. For more information, please refer to the Market Activity Reports for Index Names found at <http://www.dtc.com/products/derivserv/data/>. This study evaluates the average daily trading volume (notional and number of trades) for the most active family of indices and compares their liquidity, up to 18 months, after they are no longer the on-the-run series.

### Scope of transactions:

The transactions covered in this analysis include only transactions where market participants were engaging in market risk transfer activity. Market Risk Transfer activity is defined as transactions that change the risk position between two parties. These transaction types include new trades between two parties, a termination of an existing transaction, or the assignment of an existing transaction to a third party.

Transactions which did not result in a change in the market risk position of the market participants, and are not market activity were not included in this data set. For example, central counterparty clearing of existing bilateral trades and portfolio compression both terminate existing transactions and re-book new transactions or amend existing transactions. Another example is intra-family transactions (transactions between participants within the same legal hierarchy). These transactions still maintain the same risk profile and consequently are not included as “market risk transfer activity” transactions. This analysis also filtered out

transactions such as backloads (trades uploaded post trade date, and not as part of the original confirmation process for that trade but as a subsequent process) and amendments as the risk profile impact would occur at the time of the new trade execution and not on the processing of the backload or amendment. Additionally, the analysis included steps designed to identify prime brokerage transactions and count these only once to properly reflect the actual level of market risk transfer activity.

This analysis included Markit CDS Index transactions composed of corporate and sovereign reference entities. The study is divided into 2 reports, one for untranched trades, *Market Liquidity – Untranching On-the-run Index Trading*, and another for tranching trades, *Market Liquidity – Tranching On-the-run Index Trading*.

## 1<sup>st</sup> Report - **Market Liquidity – Untranching On-the-run Index Trading**

### Detailed Output:

This analysis was designed to inform market participants, regulators and other interested parties as to the liquidity surrounding the index transactions that could potentially be cleared. This analysis includes transactions for all commonly traded tenors including 1, 3, 5, 7 and 10 year maturities, irrespective of market trading volumes. For all 48 on-the-run indices evaluated (12 families with four series each), trades with a five year maturity constituted at least 94% of all market risk transactions, both notional and number of transactions, and typically represented 99-100% of the total market risk population. The absence of certain indices and series at individual tenors indicates there was no observed trading volume in that index for that maturity.

### Attribute Definitions

#### On-the-run average daily notional and average trade count:

For the six month period where that series of the index was considered on-the-run, these two columns represent the average daily notional and transaction count for those transactions at each tenor. For example, for the 5 year maturity, during the six month period starting March 20, 2010 and ending September 19, 2010, series 13 was the considered the on-the-run series for CDX.NA.EM indices. During that period, this index had an average daily notional of 653MM USD and the average daily number of contracts traded was 56. Note: Traded notional had been rounded to the nearest 1MM USD and the average daily contract count was rounded to the nearest 1 unit.

Because of the global nature of the trading parties, it was difficult to determine the proper holiday calendars to include in each six month period. Instead, it was assumed that all six month periods consisted of 126 business days (252 business days in a year). The roll period for each series of each index is based on the roll date as published by Markit.

### Traded Notional % after 1, 2, & 3 rolls:

For each maturity, these columns represent the average daily notional traded for that series one, two, or three roll periods after it was the on-the-run series as a percentage of the average daily notional when that series was on-the-run. For example, for the 5 year maturity, CDX.NA.EM.13 was one period after being on-the-run while CDX.NA.EM.14 was the on-the-run series and two periods after being on-the-run while CDX.NA.EM.15 was the on-the-run series, and so on. For example, CDX.NA.EM.13 had average daily notional of 14% of its original trading volume (653MM USD) for the six month period beginning September 20, 2010 and ending March 19, 2011. For the next roll period (March 20, 2011 through September 19, 2011), the percentage of notional was 1% of the original on-the-run value. For the third roll period (September 20, 2011 through March 19, 2012), the percentages for notional was 2%.

Note: For the next series in CDX.NA.EM family, it was only possible to represent the on-the-run roll period and two additional roll periods as the third roll period would be from March 20, 2012 through September 19, 2012.

Note: All percentages shown have been rounded to the nearest percent for display purposes. They were calculated using the actual average daily notional and the average daily contracts rather than the rounded figures shown.

### Traded Contracts % after 1, 2, & 3 rolls:

These columns represent the same calculations as those previously described for average daily notional but are based on the average daily number of contracts traded. For the CDX.NA.EM 5 year maturity, the average daily number of contracts traded represented 13%, 2%, and 4% of the on-the-run average of 56 contracts for the time periods representing 1, 2, and 3 roll periods after being on the run.

## 2nd Report - **Market Liquidity – Tranched On-the-run Index Trading**

### Detailed Output:

This analysis was designed to inform market participants, regulators and other interested parties as to the liquidity surrounding the index transactions that could potentially be cleared. This analysis includes transactions for all commonly traded tenors including 1, 3, 5, 7 and 10 year maturities, irrespective of market trading volumes. The analysis was conducted over a 2 year period beginning March 22, 2010 and ending March 20, 2012 including a review of 12 families of indices. The absence of certain indices and series at individual tenors for each attachment and exhaustion point combination, indicates there was less than 10 total trades during the 2 year observation for that maturity.

### Attribute Definitions

#### Average daily notional and average daily trade count:

For the two year period in which activity was observed for each index series and attachment/exhaustion point combination, these two columns represent the average daily notional and trade count for those transactions at each tenor. For index series that became on-

the-run at or before the beginning of the observation period, the average daily notional and average trade count were determined by the number of business days during the full period. For those series that became on-the-run during the period, the average daily notional and average trade count were determined by the number of business days after that series was issued. Because of the global nature of the trading parties, it was difficult to determine the proper holiday calendars to include in each six month period. Instead, it was assumed that all six month periods consisted of 126 business days (252 business days in a year). The roll period for each series of each index is based on the roll date as published by Markit.

Note: Average contract count was rounded to the nearest 1 unit. Any index series, tenor, attachment/exhaustion point combination with an average daily trade count of less than .5 trades per day is presented as “0 – 1.”

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