

3 Month Market Activity Analysis – Index

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On March 1, 2010, market participants including dealers and buy-side institutions, as well as industry associations submitted a letter to a group of global supervisors detailing commitments to improving the OTC derivatives market infrastructure. As part of this letter, the signatories to the letter asked the Depository Trust and Clearing Corporation (DTCC) to perform periodic analyses on credit default swaps (CDS) to assist in the expansion of products eligible for clearing, using data available in the DTCC Trade Information Warehouse (TIW).

DTCC has previously made several versions of this data publicly available for single name transactions. As part of the ongoing commitment, DTCC will also produce the same type of flow summary for index and tranche activity on a quarterly basis going forward. As such, the output of the most recent analysis, including aggregated transaction data by index, has been made available on the Deriv/SERV public website for previous quarter.

Scope of transactions:

The transactions covered in this analysis include only transactions where market participants were engaging in market risk transfer activity. 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.

It was specifically designed to exclude transactions which did not result in a change in the market risk position of the market participants, and are not market activity. 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. These transactions still maintain the same risk profile and consequently are not included as “market risk transfer activity” transactions. This analysis also excluded 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 well as intra-family transactions (transactions between participants within the same legal hierarchy). 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 Index tranching and untranching CDS transactions. Tranching is labeled Tranche and untranching is labeled Index in the data snapshot. The analysis did not include single name transactions or transactions on asset-back securities such as CMBS or RMBS. The figures represent transactions and not "sides", therefore two submitted sides equal one transaction.

Detailed Output

This analysis was intended to help inform market participants and regulators as to the structure of the market, and particularly traded volumes, for use in the context of better understanding the potential for clearing. To do this, more detail is provided for the index and tranche activity with at least 10 billion (USD Equiv) gross notional in the Trade Information Warehouse at the end of the observation period. Only the index names in TIW with trading activity within the same period were further analyzed.

For this data set, the following attributes are included in the analysis, based on the definitions below:

- Total Number of Clearing Dealers
- Average Monthly Clearing Dealers
- Average Daily Notional
- Average Number of Trades per Day

Attribute definitions

Total Number of Clearing Dealers:

This analysis was meant to assist with the clearing function. Therefore, as part of the analysis, the TIW considered clearing dealers to include the 17 dealer families which were involved in an active clearinghouse as of the last quarterly roll. The 17 families are:

- Bank of America Merrill Lynch
- Barclays
- BNP Paribas
- Calyon
- Citibank
- Credit Suisse
- Deutsche Bank
- Goldman Sachs
- HSBC
- JPMorgan
- Morgan Stanley
- Natixis

- Nomura
- Royal Bank of Scotland
- Societe Generale
- UBS
- UniCredit

The third column shows the total number of the 17 dealer families that executed at least one transaction during the six month period.

Average Monthly Clearing Dealers:

The fourth column indicates the average monthly number of clearing dealers, out of the 17, that executed transactions on that reference entity on a monthly basis. A clearing dealer will be included for each month as long as they executed at least one transaction during each month. For purposes of this analysis, a month was considered to be from the 20th of each month through and including the 19th of the following month. This figure is shown rounded to one decimal place.

Average Daily Notional (USD equivalent)

For index (untranchéd), this average daily notional represents the average daily confirmed notional amount traded on that specific series, regardless of maturity date. For tranchéd transactions, the average daily notional represents the average daily confirmed notional amount traded on that specific series, regardless of maturity date or tranche (equity, mezzanine or senior).

All trading has been converted to its USD equivalent using FX rates from the end of the observation period. The average daily notional amounts have been rounded up to the nearest 25MM and put in 25MM buckets.

Average number of trades per day:

This represents the average number of transactions on each index executed on a given day. This is the rounded number of transactions and not sides.