

Issues in Market Transparency for Credit Derivatives: Price, Volume, and Exposure Information

Presented to the IMF-FSB Users Conference, 8 July 2009

Summary:

Supervisory efforts for addressing infrastructure risks in the OTC derivatives markets have traditionally been focused on solving collective action and coordination problems among market participants. Some of these problems have included fostering improvements in operational infrastructure, encouraging take-up of centralized platforms, and driving market-wide standardization and transparency in documentation, technology, and business processes. With the significant market turmoil of 2008, culminating in the failures and near-failures of major market participants, supervisors brought market transparency to the fore as one of the most critical policy objectives for addressing the systemic risks of the OTC derivatives markets in general, and credit derivatives markets in particular. While financial supervisors have promoted transparency in the OTC derivatives markets through ongoing efforts, the heightened focus on increasing the availability of market information to regulators and to the public is a welcome development. OTC derivatives market participants and service providers should acknowledge market transparency to be a top policy priority and work with supervisors to make market information available to both regulators and the public in a timely, comprehensive, and meaningful fashion.

Although “market transparency” has been declared a major policy objective (e.g. in a number of statements published by the U.S. Department of the Treasury), the term is subject to wide interpretation and can take multiple forms. Therefore it is appropriate, and in fact necessary, for policymakers and regulators to clearly define their terms, so that policy positions and regulatory activities are firmly grounded in explicit and reasonable objectives. Among the items to be considered are users, quality, and types of market information, as well as the means by which market information is made available to users.

The area of focus for today’s discussion is the availability and quality of various types of information in the credit derivatives markets. Supervisors generally agree that the amount and quality of credit derivatives market information presently available to regulators and the public is insufficient to address public policy concerns. Although a number of global efforts are underway to improve transparency for credit derivatives and credit risk transfer in general, there is considerable work to do. Among the current sources of information include providers of macro-level statistics such as the BIS and ISDA; centralized infrastructure platforms that can provide position information such as the DTCC Trade Information Warehouse and CDS clearinghouses; vendors of consensus pricing information for more liquid CDS instruments; and various providers of information on credit event management and settlement. To date there is no provider of discrete, near-real-time transaction information, such as is provided by the FINRA TRACE system for U.S. corporate bond markets.

The public and private sectors are involved in a number of efforts to address gaps in all of these areas. Some challenges include expanding the coverage of position and exposure information to all credit derivative transaction types, including the more bespoke segment of the market; improving the quality of presently available information, including more accurate data representation for counterparties and underliers; the suitability of CDS markets for transaction-level reporting; and ongoing global coordination among financial authorities.