

**ESRB**

European Systemic Risk Board

European System of Financial Supervision

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Press release

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ESRB publishes report on credit default swaps (CDS)

- CDS spreads are widely regarded as key metric of credit risk, but market imperfections can hinder effective price discovery
- Global trading combined with local regulation calls for greater cross-border cooperation and policy coordination
- ESRB sets forth a medium-term policy roadmap to address the challenges identified

The European Systemic Risk Board (ESRB) has today released a [report analysing the credit default swaps \(CDS\) market](#).

CDSs are contracts used to transfer credit risk between counterparties. Market participants and policymakers widely use CDS spreads to assess credit risk.¹ However, the ESRB analysis reveals imperfections in the single-name CDS market, which should be taken into account when utilising CDS spreads for the assessment of creditworthiness.

First, the formation of CDS spreads is driven by low volumes traded between a limited number of counterparties. High trading concentration also raises concerns about effective market functioning during periods of stress, such as the March 2023 banking turmoil, which is further analysed in a [report published today by the International Organization of Securities Commissions](#).

Second, information asymmetries persist as the single-name CDS market exhibits incomplete post-trade transparency. A large share of CDSs on European sovereigns and on Global Systemically Important Banks are still not subject to real-time public disclosure requirements under the Markets in Financial Instruments Regulation (MiFIR), leaving critical information gaps for market participants and EU authorities.

¹ The CDS spread refers to the premium paid to buy protection against the default risk of a reference entity and should, in principle, reflect the perceived credit risk of the reference entity.

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Furthermore, timely access to high-quality, complete and standardised data remains an essential condition to be achieved for authorities to monitor the CDS market effectively and fulfil their mandates.

Lastly, the global nature of CDS trading contrasts with the scope of regulation, which remains regional or local. This calls for greater cross-jurisdictional cooperation and policy coordination to ensure both effective information sharing and addressing systemic risks.

In light of these observations, the report puts forward policy proposals to improve market functioning and liquidity, enhance market transparency and improving the quality of the information reported to authorities. The proposed policies constitute a medium-term roadmap intended to improve the functioning of the single-name CDS market and address systemic risks.

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