ENNs for Credit Markets
Update as of June 14, 2019

by

Richard Haynes, Madison Lau, John Roberts and Bruce Tuckman[1]

June 2019

The tables below provide an update on the notional and entity-netted notional (ENN) size of the CDS market, including both index and single-name products. Entity-netted notionals for the FX and credit asset classes were introduced in a paper published in February 2019.[2] ENNs aim to provide a measure for the amount of risk transfer in credit swaps and represent risk-adjusted swap risk netted within a counterparty pair and reference entity.[3] The tables below represent aggregated credit swap position data as of June 14, 2019 sourced from DTCC's Trade Information Warehouse. The tables provide breakdowns of swap notionals and ENNs by participant type and by product type.

Compared to the prior report, total credit swap notional increased by just over 2% while total ENNs increased by around 30%. The larger increase in ENNs during the periods was in part driven by a decrease in average swap tenor as well as a general increase in credit spreads during the 3 month period. More generally, because ENNs are calculated on a quarterly basis, whereas the credit roll is done on a semi-annual basis, average swap tenors for the June and December reports will be consistently higher than those for the March and September reports. Because of this, ENNs is June and December will also be consistently higher (controlling for other factors) than the other two quarters. Clearing rates increased slightly since the March report at a notional level, with clearing frequencies around 44% when measured by notional, versus 42% in March. Clearing tends to be more common for high credit quality instruments, with an average of 51% of investment grade ENNs cleared, versus around a 38% clearing rate for high yield ENNs. In addition, while clearing rates for Swap Dealers are higher than other categories on a notional basis, clearing rates as measured by ENNs are lower, indicating more significant netting within cleared swaps for dealers than the other categories.

Table 1: Notional Amounts and ENNs by Sector ($ Trillions)

Sector	Short	Long	Risk Adjusted Short	Risk Adjusted Long	ENNs Short	ENNs Long
SwapDealer	4.4	4.2	3.5	3.4	1.7	1.6
Bank	0.4	0.4	0.3	0.3	0.1	0.2
Other	1.1	1.2	1.0	1.0	0.8	0.8
Total CCP Adj	6.0	6.0	5.0	5.0	2.8	2.8

[1] Office of the Chief Economist, Commodity Futures Trading Commission. While this paper was produced in the authors' official capacity, the analyses and conclusions expressed here are those of the authors and do not necessarily reflect the views of other Commission staff, the Office of the Chief Economist, or the Commission.
[2] The link to the original paper on FX and credit ENNs can be found here.
[3] Risk-adjustments are made relative to a 5-year benchmark CDS contract with a flat 100 bps spread.

Table 2: Clearing Frequencies by Sector

Sector	Short	Long	Risk Adjusted Short	Risk Adjusted Long	ENNs Short	ENNs Long
SwapDealer	45%	45%	44%	45%	29%	31%
Bank	37%	22%	48%	28%	56%	21%
Other	38%	34%	45%	42%	48%	45%
All Sector	**44%**	**44%**	**46%**	**46%**	**40%**	**40%**

Table 3: Notional Amounts by Product Type ($ Trillions)

Type	Short	Long	Risk Adjusted Short	Risk Adjusted Long	ENNs Short	ENNs Long
HY	1.1	1.1	2.2	2.2	1.4	1.4
IG	3.8	3.8	1.7	1.7	0.9	0.9
SH	0.0	0.0	0.1	0.1	0.1	0.1
SI	1.1	1.1	0.9	0.9	0.4	0.4
All Credit	**6.0**	**6.0**	**5.0**	**5.0**	**2.8**	**2.8**

Table 4: Clearing Frequencies by Product Type

Type	Short	Long	Risk Adjusted Short	Risk Adjusted Long	ENNs Short	ENNs Long
HY	39%	39%	44%	44%	38%	38%
IG	49%	49%	58%	58%	51%	51%
SH	28%	28%	29%	29%	23%	23%
SI	32%	32%	34%	34%	25%	25%
All Credit	**44%**	**44%**	**46%**	**46%**	**40%**	**40%**