

ENNs for Credit Markets Update as of December 13, 2019

by

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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 December 13, 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 September report, total credit swap notional slightly increased while total ENNs also increased slightly. 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 in June and December will also be consistently higher (controlling for other factors) than the other two quarters. The smaller than usual increase in ENNs in December is driven by a general decrease in credit spreads over the 3 month period.

Clearing rates increased slightly over the 3 months. This increase was primarily in high credit quality instruments. Clearing tends to be more common for high credit quality instruments, with an average of 56% of investment grade ENNs cleared, versus around a 47% 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	4.3	4.3	2.3	2.3	1.0	1.0
Bank	0.3	0.4	0.2	0.2	0.1	0.1
Other	1.1	1.2	0.8	0.9	0.6	0.7
Total CCP Adj	5.9	5.9	3.5	3.5	1.9	1.9

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	47%	49%	47%	48%	34%	36%
Bank	35%	32%	40%	35%	47%	36%
Other	40%	43%	49%	54%	51%	58%
All Sector	47%	47%	50%	50%	46%	46%

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

Type	Short	Long	Risk Adjusted Short	Risk Adjusted Long	ENNs Short	ENNs Long
HY	1.2	1.2	1.5	1.5	0.9	0.9
IG	3.7	3.7	1.3	1.3	0.7	0.7
SH	0.0	0.0	0.1	0.1	0.1	0.1
SI	1.0	1.0	0.6	0.6	0.3	0.3
All Credit	5.9	5.9	3.5	3.5	1.9	1.9

Table 4: Clearing Frequencies by Product Type

Type	Short	Long	Risk Adjusted Short	Risk Adjusted Long	ENNs Short	ENNs Long
HY	40%	40%	47%	47%	47%	47%
IG	53%	53%	62%	62%	56%	56%
SH	28%	28%	30%	30%	22%	22%
SI	34%	34%	35%	35%	25%	25%
All Credit	47%	47%	50%	50%	46%	46%