ESMA_QA_1955

Submission Date
29/01/2013

Status: Answer Published

Additional Information

Level 1 Regulation
Short Selling Regulation (SSR) Regulation (EU) No 236/2012

Topic
Uncovered short sales

Subject Matter
Uncovered Credit Default Swap - Use of a sovereign CDS position to hedge different risks

Question
Can a sovereign CDS position be used to hedge against the risk not only of default in respect of an exposure but also against the risk of credit spreads widening e.g. by maintaining different durations in static or dynamic hedges to hedge against spread widening risk?

ESMA Answer

29-01-2013

Original language

[ESMA70-145-408 SSR Q&A, Q&A 11.5]

ESMA considers that this would be permissible as long as the sovereign CDS position never became uncovered. Article 19(3) of the DR recognises that the same sovereign CDS position can be used to hedge different risks i.e. when one risk is liquidated another risk could be substituted provided it met the tests.