

Submission Date

29/01/2013

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Additional Information

Level 1 Regulation

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

Topic

Other SSR-related topics

Subject Matter

Uncovered Credit Default Swap - Use of sovereign CDS index

Question

Article 15(2)(a) of the DR provides that “where the exposure being hedged relates to the Union or the Member States which have the euro as their currency, it shall be permissible to hedge it with an appropriate European or Euro area index of sovereign bond credit default swaps”. In cases where such indices are used, is it necessary to undertake a look through assessment of correlation and proportionality be to each underlying long position and

reference obligation that underlies the index being used?

ESMA Answer

29-01-2013

Original language

[ESMA70-145-408 SSR Q&A, Q&A 11.6]

ESMA's understanding is that where the risks being hedged are in each of the 27 EU Member States or of the members of the Euro area, the correlation and proportionality tests would need to be met in each of the components of the sovereign CDS index. So there would therefore need to be a full look through. However, if the asset being hedged was Union debt or debt of a Euro area institution such as the EFSF or ESM, this would be treated as a single asset which could be hedged by the appropriate sovereign CDS index.