



Systemic Risk Monitoring and Prudential Supervision

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The Federal Reserve Board uses data on credit default swap transactions from the Depository Trust and Clearing Corporation's (DTCC's) Global Trade Repository to monitor the CDS market with an eye towards identifying developments that may constitute sources of systemic risk. We approach this problem in two ways: by monitoring the risk exposures of individual institutions that may be systemically important, and by monitoring the network structure of the CDS market as a whole. At the micro level, we use trade repository data to monitor individual institutions' exposures to counterparties and market risk factors. We examine institutions' exposures to their trading counterparties by measuring the notional value of trading positions with other market participants with respect to single-name reference entities and CDS indexes, broader industry sectors, and the total CDS market. To assess developments in the CDS market as a whole, we apply network analysis tools to identify sources of risk concentration and frailty in CDS trading. Network-wide centrality statistics tell us how buy-side and sell-side network concentration has changed over time. Other network statistics, such as clustering coefficients and measures of connectedness, provide information on the extent to which trading is intermediated through third parties and on the robustness of the network structure to the removal of key nodes. Our experience thus far suggests that detailed data on bilateral swaps positions can be an important source of information on the risk exposures of systemically important institutions and the health of vital financial markets.