

## **SPEECHES & TESTIMONY**

### **Statement on Manufactured Credit Events by CFTC Divisions of Clearing and Risk, Market Oversight, and Swap Dealer and Intermediary Oversight**

**April 24, 2018**

**Washington, DC** — The Commodity Futures Trading Commission (CFTC) Divisions of Clearing and Risk, Market Oversight, and Swap Dealer and Intermediary Oversight today issued the following statement regarding manufactured credit events in connection with credit default swaps (CDS):

"The CDS market functions based on the premise that firms referenced in CDS contracts seek to avoid defaults, and as a result, the instruments are priced based on the financial health of the reference entity. However, recent arrangements appear to involve intentional, or 'manufactured,' credit events that could call that premise into question. In a public statement dated April 11, 2018, the International Swaps and Derivatives Association's (ISDA) board of directors criticized manufactured credit events, writing that they 'could negatively impact the efficiency, reliability, and fairness of the overall CDS market,' and ISDA's board indicated that it advised its staff 'to consult with market participants and advise the Board on whether...amendments to the ISDA Credit Derivatives Definitions should be considered' to address manufactured credit events.

"Manufactured credit events may constitute market manipulation and may severely damage the integrity of the CDS markets, including markets for CDS index products, and the financial industry's use of CDS valuations to assess the health of CDS reference entities. This would affect entities that the CFTC is responsible for overseeing, including dealers, traders, trading platforms, clearing houses, and market participants who rely on CDS to hedge risk. Market participants and their advisors are advised that in instances of manufactured credit events, the Divisions will carefully consider all available actions to help ensure market integrity and combat manipulation or fraud involving CDS, in coordination with our regulatory counterparts, when appropriate."