

# Good primary article 3 article review example

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## 1. Findings

CDS market concentrated at counterparty's levels, and less concentrated at the reference entity levels. This means the top ten active most traders account for 70% of the gross protection and less than 50% of total exposure. Secondly, the gross outstanding notional CDS amount on the EU reference utilities rose by roughly USD 1 trillion since 2010 summer rising to USD 4. 6 trillion in 2012. The total net amount of protection equivalently sold on the reference utilities is around USD 500 billion. An aggregate approach is that the major traders sell CDS protection while smaller traders buy it. These findings as described above carry with them some financial implications through an understanding that the EU CDS network is complex and large and centered on the G14 global bank derivative dealers. There is also a substantial amount of gross exposures for the main participants.

## 2. Analytical approaches used

The occasional paper gives a detailed analysis of the CDS market from a wide perspective the following are the analytical approaches used. First, it focuses on an analysis principle of the EU CDS market that describes the market structure evolution over time. Scenario analysis of the credit risk as it pertains sovereign credit is another approach, which touches on the impact of the sovereign credit of the EU banking industry. Market comparison with exposure trailed assessment is another approach where market based system risks compared with rankings of DTCC exposed data. This enables to understand how much the market participants are aware of systemic responsibility. Super- spreader analysis approach aims at identifying of key market players and their activities in the market.

### 3. Contagion analysis and the implications that flow it

Contagion analysis is the process of transmitting positive or negative shocks over the components in the financial system entailing the propagation of the excess shocks which are basic as per fundamentals. It also means the alteration in how shocks propagate between normal and crisis times. The general framework of this approach gives potential mechanisms of evaluating a financial system which may not be specific to the CDS markets. Therefore, implication caused by this approach could mean several aspects of contagion approach. This entails rational channels and psychological channels which in extend help in better understanding of systemic risk and thus give approaches to their mitigation. Rational channels within the financial sector for instance, deal with direct spillover effects due to domino effects and indirect spillover effects which cause effect on price, funding and information spillovers. With the understanding of the two main subcategories of originality of the systemic risks, then system risks mitigation ensures balance through contagion measures as specific.

### 4. Developments in the EU and US financial markets in CDS trading activity

Development facts about trading activities are evident in both the EU and US CDS markets. For the EU, it has grown steadily and tremendously in a period of four years from 2008 to 2012 at least valuing the development to USD 4.6 trillion in the open of 2012. This figure is the notional outstanding amount, which stabilized after October 2009 and declined in the year 2011. These growth activities were due to a decrease of net in non EU financial system. The CDS market in US has seen a strong development due to its more structured financial market activities and high concern on the mitigation of

system risk. Both EU and US measure have extraterritorial application, and they have seen both market segment and develop, through trading strategies. Considering the current development of the alleged contribution of CDS products, I think not so much of the largest banks at present are in danger if and only if they play systemic risk mitigation approaches well.

Credit exposure to large banks may be disruptive through potential imbalances and the hedging practices (Brunner Meier).

Contribution due to systemic risk will of course be deterioration of the CDS market and will give less notional outstanding figures. This limits the developments of the larger institutions while, the smaller ones may face a serious crackdown of bottoming out. Considering the case of JPMorgan Chase & Co, this in 2012 surprised market by its first market to market losses. It gives an insight of the risk management effects that have to be keenly taken. This bank is a real example of both large and small institution which depicts the real case of CDS market to market risk management need as required. Thus, it is important to do all analysis for systemic risk analysis.

## **Works Cited**

Brunner Meier, et al (2013). " Assessing Contagion Risks from the CDS Market." Occasional Paper (2012).