Ryan Stever
+41 61 280 9615
ryan.stever@bis.org

Goetz von Peter
+41 61 280 8326
goetz.von.peter@bis.org

Christian Upper
+41 61 280 8416
christian.upper@bis.org

Highlights of international banking and financial market activity[1]

The BIS, in cooperation with central banks and monetary authorities worldwide, compiles and disseminates several datasets on activity in international banking and financial markets. The latest available data on the international banking market refer to the second quarter of 2006. The discussion of the international debt securities market and exchange-traded derivatives markets draws on data for the third quarter of 2006, while data on positions in OTC derivatives are available up to the end of June 2006. This section also includes a box on syndicated lending in Asia.

The international banking market

Locational banking statistics

The total cross-border claims of BIS reporting banks expanded by $602 billion in the second quarter of 2006. The 15% year-on-year increase brought the total stock of cross-border claims to $24 trillion. While the rate of growth represented a cooling from the previous quarter's 18%, it was closer to the 11% average growth rate over the previous five years.

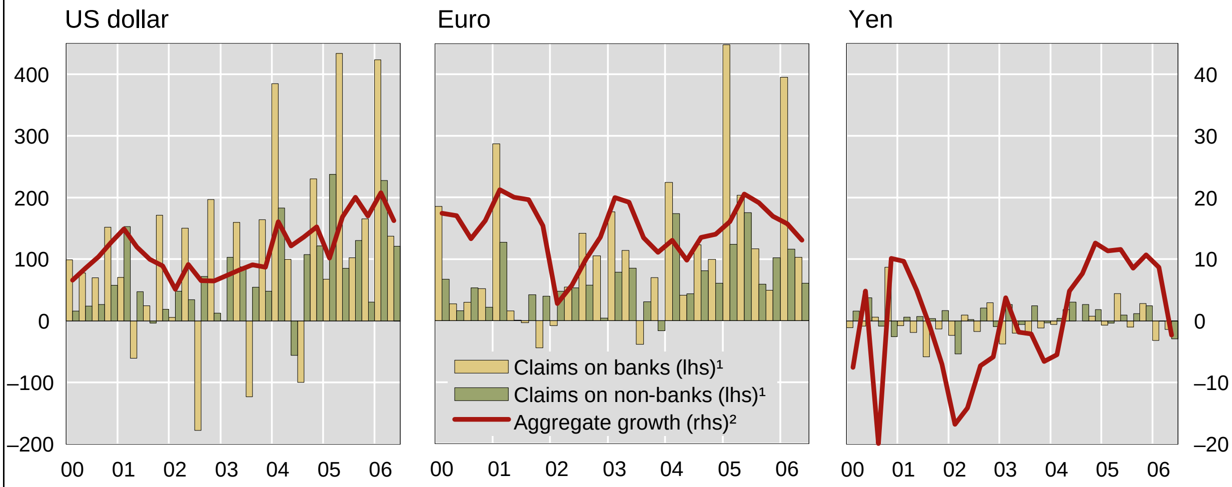
The growth of cross-border claims returns to more typical rates

The return to more modest growth in total cross-border claims reflected a deceleration in the expansion of claims of banks in the euro area and the United Kingdom. The first quarter of 2006 had seen a surge in bank loans initiated in these areas. The $92 billion in new loans from the euro area and the United Kingdom in the second quarter was more in line with previous experience. The year-on-year growth rate fell in each of the three major currencies as well (Graph 1).

Interbank and inter-office activity was responsible for a substantial part of the growth in cross-border claims in the second quarter. Of the $363 billion increase in claims on banks, 79% was due to inter-office transfers. Excluding inter-office claims, banks in France and Germany and the Cayman Islands

[1] Queries concerning the locational banking statistics and international debt securities statistics should be addressed to Ryan Stever, those concerning the consolidated banking statistics to Goetz von Peter, and those regarding the derivatives statistics to Christian Upper.

Cross-border claims by sector and currency



[1] Exchange rate adjusted quarterly changes in amounts outstanding, in billions of US dollars. [2] Annual changes, in per cent, calculated as the sum of exchange rate adjusted changes in amounts outstanding between periods *t*–3 and *t*, divided by the amount outstanding in period *t*–4.

Graph 1

expanded their cross-border claims the most, by $22 billion, $27 billion and $82 billion, respectively.

Yen-denominated claims fall for the second consecutive quarter

The stock of yen-denominated claims decreased for a second consecutive quarter. The outstanding stock of BIS reporting banks' yen-denominated claims had been trending upwards since early 2002, peaking at $1.1 trillion in the fourth quarter of 2005. By the second quarter of 2006, this stock had fallen to $1.0 trillion (Graph 2, left-hand panel), primarily the result of reduced claims of banks located in the United Kingdom, offshore centres and the euro area. Japanese banks' worldwide yen-denominated claims (excluding claims on residents of Japan) have remained relatively stable since 2000, at $30 billion (Graph 2, right-hand panel). In contrast, Swiss banks' worldwide yen-denominated claims have declined sharply, from a recent high of $170 billion in the third quarter of 2004 to $113 billion in the second quarter of 2006. Similarly, German and French banks have also reduced their yen-denominated claims since the fourth quarter of 2005, by $22 billion and $16 billion, respectively.

The growth in net claims on emerging market countries turned positive for the first time in five quarters. Reporting banks' total cross-border claims on developing countries increased by $66 billion. At the same time, growth in reporting banks' liabilities to the same economies slowed from $115 billion the previous quarter to $61 billion. The rise in net claims was most pronounced vis-à-vis Latin America and developing Asia, with increases of $22 billion and $11 billion, respectively.

Growth in lending to emerging Asia-Pacific was concentrated in China and Korea. Reporting banks' claims on China rose by $7.2 billion, following up on a similar increase the previous quarter. With little change in reporting banks' liabilities to China, net claims on China expanded by $5.4 billion. Reporting banks' net claims on Korea increased by a record $21.7 billion. The growth in claims on Korea stemmed from loans to both banks and non-banks.

Oil-exporting countries continued to place funds in BIS reporting banks in the second quarter, although at a somewhat slower pace than in previous

Russian deposits rise sharply ...

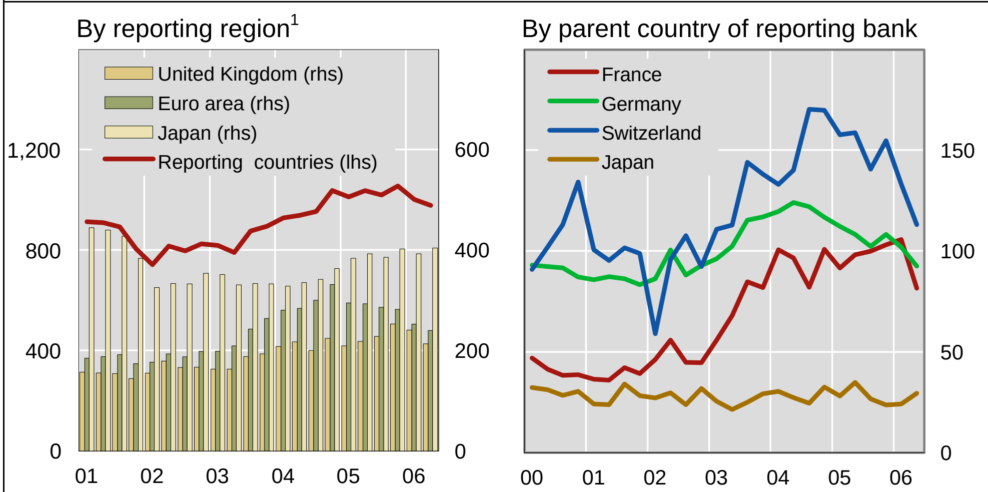
ones. Overall, residents of OPEC member states placed an estimated $8 billion in reporting banks, while Russian residents placed an additional $16 billion, pushing the total liabilities of BIS reporting banks to this group to $632 billion (Graph 3, left-hand panel). In fact, Russia experienced the largest net outflow of funds among all emerging market countries, thanks to the strong growth in Russian deposits at reporting banks, particularly in the United Kingdom (Graph 3, centre panel). The current stock of cross-border deposits by Russian residents stands at $220 billion.

... while the US dollar share of oil-exporting country deposits declines

While the data are not comprehensive, they do appear to indicate a modest shift over the quarter in the US dollar share of reporting banks' liabilities to oil-exporting countries.[2] Overall, deposits of US dollars by OPEC member states actually decreased, by $5.3 billion, while euro- and yen-denominated deposits rose by $2.8 billion and $3.8 billion, respectively. Placements of US dollars by Russian residents did increase, by $5 billion, but the bulk of the $16 billion in additions from them was denominated in euros. As a result, the share of US dollar liabilities to oil-exporting countries fell from 67% to 65% in a single quarter, while the euro share rose by 2 percentage points to 22% (Graph 3, right-hand panel).

The shift in the dollar share was evident in some but not all OPEC member states. For instance, US dollar deposits of residents of Iran in banks in developed European countries decreased by $4 billion. Similarly, residents of Saudi Arabia reduced their US dollar deposits in banks in the United Kingdom (by $3 billion) while increasing those in yen by a similar amount. Elsewhere, residents of Ecuador, Indonesia and Qatar reduced their US dollar deposits in BIS reporting banks by $2.3 billion, $1.9 billion and $2.4 billion, respectively. In contrast, residents of Libya placed greater US dollar funds ($5 billion), primarily

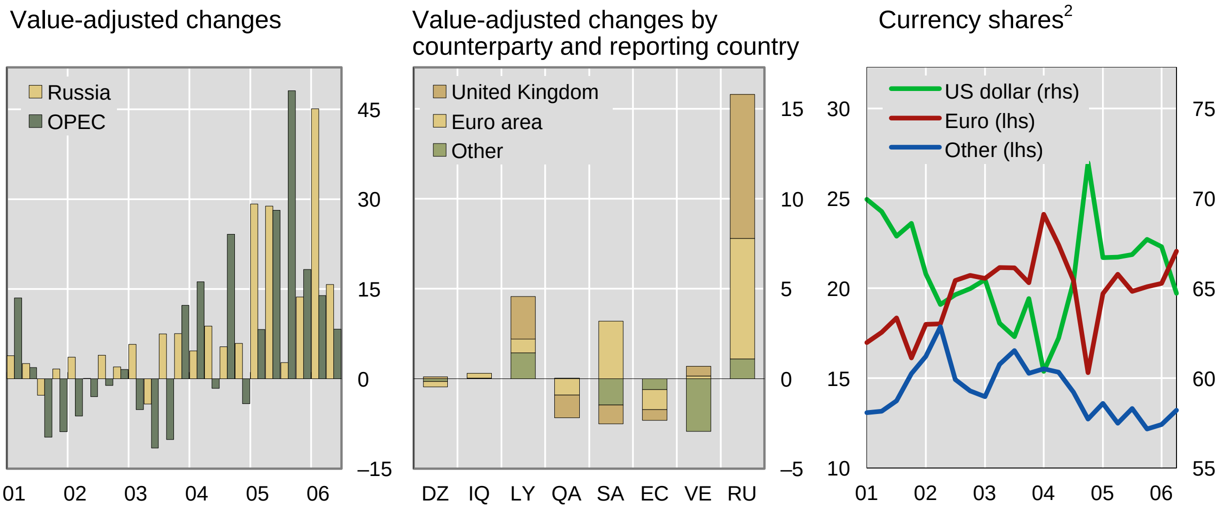
Bank lending in yen



[1] Total claims (for reporting countries' total, gross claims), in billions of US dollars. Graph 2

[2] The following figures should be interpreted with caution since the United States does not provide a complete breakdown of positions vis-à-vis individual oil-exporting countries in the Middle East but only for the Middle East region as a whole (which includes non-OPEC members). Thus, figures for many individual countries as well as OPEC do not include figures from banks in the United States.

Reporting banks' liabilities to oil-exporting countries[1]



DZ = Algeria; EC = Ecuador; IQ = Iraq; LY = Libya; QA = Qatar; RU = Russia; SA = Saudi Arabia; VE = Venezuela.

[1] Excluding liabilities of banks in the United States. OPEC member states and Russia. [2] Based on constant 2006 Q2 exchange rates.

Graph 3

in the United Kingdom, the euro area and Switzerland.

Consolidated banking statistics on an immediate borrower basis

Strong expansion due in part to a valuation effect

The consolidated banking statistics, which are compiled according to the nationality of reporting banks and net out inter-office positions, show an overall expansion of foreign claims to $24.7 trillion.[3] The reported change of $1.3 trillion (5.5%) in stocks during the second quarter of 2006 included a valuation effect, as the US dollar depreciated against several major currencies between end-March and end-June.[4] The outstanding stock of Dutch, French and German banks' claims rose the most, with greater credit to borrowers in the United Kingdom, the United States and emerging markets.

Share of lending to emerging markets remains stable …

Reporting banks' claims on emerging markets remained stable. Foreign claims on these borrowers, at $2.73 trillion, accounted for 11% of total foreign claims, up from 10% a year earlier. Austrian banks recorded the largest increase in foreign claims on emerging markets, almost exclusively vis-à-vis emerging Europe. These banks accounted for less than 2% of foreign claims worldwide, but for 20% of claims on emerging Europe. The growth of branches and new acquisitions have contributed to a tripling of this share since March 2005. For both Austrian and Greek banks, foreign claims on emerging markets amounted to some 50% of their total foreign claims, well above the shares of other banking systems.

[3] Foreign claims comprise international claims, which consist of cross-border claims in all currencies and local claims in foreign currencies, plus local claims in local currencies. Local claims are those booked by foreign offices on residents of the country where the foreign office is located.

[4] At constant exchange rates, an estimated $700 billion (+3.3%) can be attributed to increased lending and securities holdings. As the consolidated statistics do not report a currency breakdown, value-adjusted changes (at constant exchange rates) can only be approximated using information from the locational statistics.

The sectoral composition and maturity structure of international claims on emerging markets remained close to what they have been over the past seven years. The share of international claims maturing within a year declined by 1 percentage point, to 47%, as a result of the increasing share of longer-term claims on emerging Europe. The distribution across sectors shifted somewhat towards the private sector. Over the past year, the share of claims on emerging market public sector borrowers fell by 4 percentage points to 16%, with the shares of banks and non-bank private entities gaining 2 percentage points each. This was driven more by the overall expansion in emerging market claims than by the modest contraction in public sector claims.

Consolidated banking statistics on an ultimate risk basis

… and exposures are broad-based

Banks' country risk exposures can be gauged with the consolidated banking statistics on an ultimate risk basis, which take into account risk transfers and include information on banks' contingent exposures. The broad sell-off in financial markets during May and June left reporting banks' aggregate foreign claims largely unaffected; exposures to most countries increased in the course of the second quarter of 2006. Total foreign claims (UR basis) stood at \$20.3 trillion, up from \$19.2 trillion the previous quarter. The market value of derivatives exposures increased particularly vis-à-vis many countries that had experienced financial market volatility, including Chile, Korea, Hungary, India, Indonesia and South Africa.

BIS reporting banks raised their exposure to several emerging markets, notably to residents of China, Korea and Russia. The share of claims on China and Korea held by the three largest creditors remained broadly unchanged. In contrast, larger shifts took place in the case of Russia. Over the past year, the share of foreign claims on Russia held by the three largest creditors has declined from 57% to 44%.

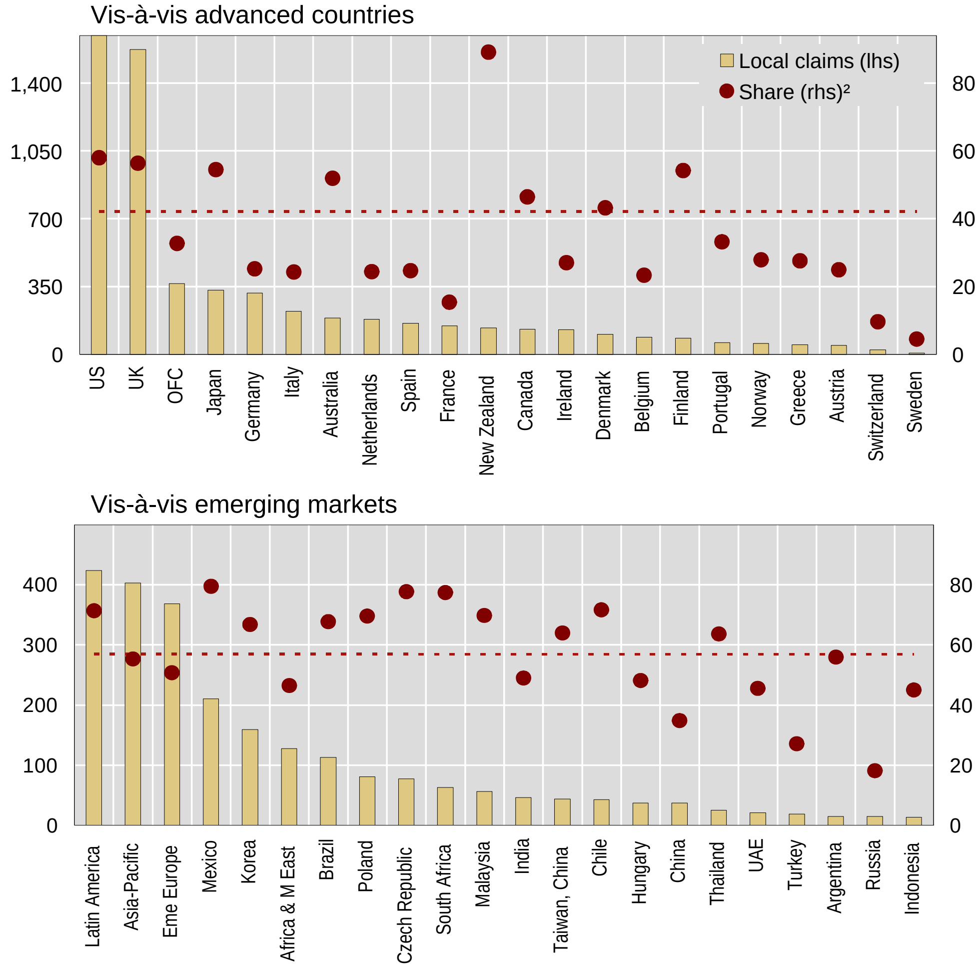
Lending through local offices: an important phenomenon …

A significant portion of foreign claims take the form of lending through local offices and subsidiaries (here referred to as "local claims"), as opposed to cross-border lending. For the 26 reporting countries combined, 44% of the stock of their foreign claims (UR basis) was conducted through local banking offices. Those banking systems responsible for the largest amounts of local claims (over \$600 billion each) also extended a substantial share through local offices. More than 50% of Dutch, Spanish, Swiss and UK banks' foreign claims were local, and the share was 50% for US banks and 30% for French and German banks.

The main destinations for lending through local branches and subsidiaries are areas with significant financial activity. The principal recipients were residents of the United States and the United Kingdom, followed by offshore centres, euro area countries and Japan (Graph 4). Emerging markets accounted for \$1.3 trillion, or 15%, of reporting banks' combined local claims. Of this total, 90% was almost equally divided between Latin America, Asia-Pacific and emerging Europe, while Africa and the Middle East accounted for 10%.

Worldwide consolidated local claims[1]

Amounts, in billions of US dollars; shares, in per cent



Eme Europe = emerging Europe; OFC = offshore centres. Some of the individual emerging markets are also contained in their regional group, eg Mexico in Latin America.

[1] Claims in all currencies on local residents by reporting banks' foreign offices; local claims on the United States stood at $3,059 billion as of 2006 Q2. The worldwide consolidated claims on an ultimate risk basis are reported by domestically owned banks in 26 reporting countries. [2] Local claims as a share of foreign claims. The dotted lines represent the overall shares as weighted averages. For the upper panel, the average includes all advanced countries and offshore centres, and in the lower panel it includes all emerging markets, not only those listed.

Source: BIS international consolidated banking statistics. Graph 4

The *share* of foreign claims extended through local offices shows considerable variation across recipient countries (Graph 4). At 57%, this share was higher on average for emerging markets (lower panel) than for advanced countries (42%, upper panel), although there is considerable variation across countries in either group. The 89% share of local claims on New Zealand, for instance, is the result of the exceptional degree of ownership by foreign, notably Australian, banks, while the UK share (56%) stems from London's role as an international banking centre. The high share associated with Mexico, and Latin America more generally, reflects the local presence of Spanish and US banks in the intermediation of funds.

… with much variation across destinations

Leveraged loans and Asian financial integration: the case of casino financing

Blaise Gadanecz and Robert N McCauley

To what extent are Asian banks financing investment spending in the Asian region? The recent boom in hotel and casino construction in Macao and now Singapore offers an interesting example in three respects. First, such investment projects serve domestic demand in the broad sense (through spending by mainland Chinese tourists). They thus represent an exception to the dearth of investment spending in East Asia relative to savings pointed out by many observers as a possible factor contributing to Asian current account surpluses. Second, resorts/gambling has been one of the few Asian sectors financed through highly leveraged loans during the past two years (Asian investors' appetite for high-yield US dollar and domestic currency paper has been low). And third, local currency loans are figuring prominently in the financing of these construction projects.

To assess the integration of Asian banking systems in the financing of these investments, this box analyses the syndicate composition of the loans set up to fund these projects at the senior and junior bank[①] levels. In keeping with McCauley et al (2002),[②] we find that US and European banks, rather than Asian ones, have served in the more remunerative role of arrangers. At the same time, the earlier finding of a high fraction, on average approaching one half, of the funding having been provided by Asian banks is observed in most but not all of the deals, with higher Asian participation for Asian currency loans.

In the past 12 months, loans totalling more than $4 billion have been syndicated for four hotel and casino construction projects in Macao. In addition, $2.9 billion of financing is currently being arranged for Macanese and Singaporean projects. One of the projects is entirely owned by a US casino group, while several of them are joint ventures with US groups and one with an Australian group. These projects are heavily financed with debt and thus the loans carry spreads of 250 basis points or more over Libor. At least 17% of the borrowing has been in Hong Kong and Singapore dollars (renminbi financing is unavailable for Macanese construction), the rest in US dollars.

An examination of syndicate composition at the senior level shows that the arrangers of these facilities have mainly come from the United States and Europe (in particular Portugal, through Macanese subsidiaries of Portuguese banks). US casino groups have tended to mandate their home banks to perform the high-end, fee-earning activity of arranging the loans. Consistent with the notion that arranger roles are allocated to relationship banks, relatively more Asian arrangers have tended to be present in loans syndicated to fund projects that are joint ventures with Asian partners.

The syndicate composition at the funds provider level shows a very uneven participation across the loans. Based on disclosed exact bank participations, loan shares provided by European banks tend to be highest, with Asian banks following with 30–50% shares. Asian banks achieved such a share notwithstanding very limited Japanese bank participation. Unsurprisingly, local banks figure prominently in the facilities or tranches denominated in Hong Kong or Singapore dollars, some of them explicitly targeted at Asian banks and carrying specific enhancements (collateral or guarantees). Asian shares are also often higher on joint hotel-casino (as opposed to just casino) operations, reflecting constraints on, inter alia, mainland Chinese banks' ability to finance casinos, and on facilities where the borrower is a joint venture with an Asian partner.[③] In the case of one large deal for a US-related resort project in Macao, a large part (called the term loan B) bypassed the bank syndication channels and through a Delaware obligor was marketed directly to US- and Caribbean-incorporated institutional investors. In common with other high-yielding term loan B paper, it trades actively and has to some extent been securitised into collateralised loan obligations.

In summary, while there is significant Asian bank participation in this small Asian loan sample, US investment banks can also tap US non-bank financial institutions, with Asian banks remaining out of the deals. This possibility reflects a greater direct entry of institutional investors into large leveraged loans.

____

① The creditors in a syndicated loan can be divided into two groups. The first group consists of senior syndicate members, typically acting as mandated arrangers, arrangers, lead managers or agents, to bring together the syndicate of banks prepared to lend money at the specified terms. The syndicate is formed around the arrangers – often the borrower's relationship banks – who retain a portion of the loan and look for junior participants. The junior banks, typically bearing manager or participant titles, form the second group of creditors. For a more detailed discussion, see B Gadanecz, "The syndicated loan market: structure, development and implications", *BIS Quarterly Review,* December 2004. ② R N McCauley, S S Fung and B Gadanecz, "Integrating the finances of East Asia", *BIS Quarterly Review*, December 2002. ③ More generally, higher Asian bank shares have also been observed on most high-yield loans arranged in East Asia over the past two years that were denominated in Asian currencies (as opposed to US dollars) and granted to joint ventures with an Asian partner (relative to local subsidiaries of US firms).

Foreign offices of emerging market banks

The consolidated statistics also help to track the extent to which banks headquartered in emerging markets set up offices in other countries.[5] Indian, Taiwanese and Turkish banks reported a local share in foreign claims of 23%, 13% and 18%, respectively, lower than the shares for banks headquartered in the major advanced countries. The pattern of local lending visible in the data is suggestive of economic and cultural ties; for instance, Brazilian banks held their largest local claims[6] on residents of Portugal, the United States and Argentina, whereas Indian banks directed more towards the United Kingdom, Canada and Singapore.

The international debt securities market

Gross issuance of bonds and notes falls

The robust state of international financial markets was reflected in strong issuance of international debt securities in the third quarter of 2006. Gross issuance of bonds and notes totalled nearly $1.1 trillion, making 2006 the first year on record with three quarters of gross issuance over $1 trillion. Though gross issuance was nearly 5% lower than in the previous quarter, this decline was less than half the average third quarter fall resulting from seasonal considerations. Since prepayments also remained at historically high levels, net issuance of bonds and notes slowed more than normal seasonal patterns would have suggested to $506 billion, though it remained well above the previous year's pace.

UK net issuance exceptionally strong

Patterns of net issuance differed significantly by issuer region. The euro area saw the largest decline, of $76 billion to $200 billion, more than twice the average seasonal decline, while the US contraction from $179 billion to $154 billion was even larger on a seasonally adjusted basis. The United Kingdom was one of the few developed countries to see strong growth in bond and note issuance, consistent with the longer-term trend which has seen that country accounting for an increasing proportion of international debt borrowings (Graph 5, left-hand panel). Last quarter's issuance out of the United Kingdom was driven by private financial institutions, including a significant number of securitisations. For instance, the two largest issues were mortgage funds launched by the Royal Bank of Scotland.

A number of very large securitisations

For the sample as a whole, the slowdown in net bond and note issuance was less marked in the financial sector, in particular for non-bank financials. Net issuance by financial institutions of $492 billion in bonds and notes was virtually unchanged from the previous quarter on a seasonally adjusted basis. Securitisations continued to account for a large share of such issuance, including several of the largest single issues in the quarter. For example, a special purpose securitisation trust (Canada Housing Trust No 1) advised by Canada Mortgage and Housing Corporation had the largest single issue in the public financial sector of $5.7 billion.

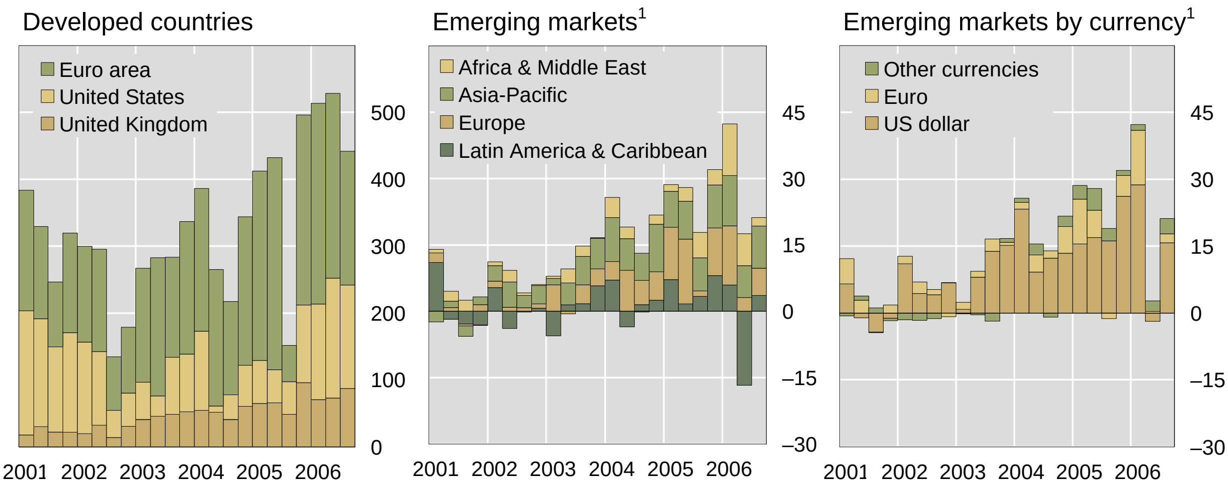
---

[5] Emerging markets reporting consolidated statistics on an ultimate risk basis are Chile, India, Taiwan (China) and Turkey. Two additional emerging markets, Brazil and Mexico, report consolidated statistics on an immediate borrower basis.

[6] This refers to local claims in local currency (IB); see previous footnote.

Net issuance of international bonds and notes

By nationality of issuer, in billions of US dollars



[1] Excluding issuance by the Argentine Republic in the first and second quarters of 2005.

Sources: Dealogic; Euroclear; ICMA; Thomson Financial Securities Data; BIS. Graph 5

While issuance in non-financial corporate debt slowed from the previous quarter, it remained at a historical high, at $449 billion. Utilities such as natural gas and electricity distribution corporations were responsible for a large share of total corporate issuance. In particular, the largest non-financial public corporate issue was $1.6 billion by Ras Laffan Liquefied Natural Gas Company, a Qatari natural gas company.

Emerging market issuance increases …

Issuance by emerging market borrowers was stronger than that of industrial country borrowers. Gross issuance increased from $31 billion to $39 billion, despite a seasonal tendency for it to decline in the third quarter. Net issuance also jumped from $0.8 billion to $21.2 billion, as emerging Asian, Latin American and European countries all saw an increase in activity (Graph 5, centre panel). Latin America in particular experienced a rebound in borrowing after a net repayment of $16.8 billion in the second quarter.

… thanks to prominent names in developing Asia …

In developing Asia, Korea and the Philippines were two of the most active countries in the international debt market. Korea saw total bond and note issuance surge to $6.8 billion in the third quarter, nearly all of which was accounted for by private financial institutions, both banks and non-banks. Close to 90% of Korea's new debt was US dollar-denominated. The new debt of $1.5 billion issued by the Philippines was entirely dollar-denominated. The dollar remains the largest single currency of issuance for emerging market countries on both a gross and a net basis (Graph 5, right-hand panel).

… and a return of sovereigns to the market

In contrast to the second quarter, when emerging market sovereigns were virtually absent from the international debt securities market, government issuance in the developing world was strong in the third quarter, at $8.2 billion on a gross basis. Net issuance returned to positive territory at $2.4 billion, after net repayments of more than $20 billion in the previous quarter. One large new issuer of note was Brazil, at $1.1 billion. A few countries, however, recorded net repayments. For example, Venezuela did so for the third quarter in a row.

Similarly, Mexico, after an $874 million net repayment in the second quarter, repaid $1.3 billion in the third quarter.

Derivatives markets

Exchange-traded derivatives

Seasonal decline in turnover of exchange-traded derivatives

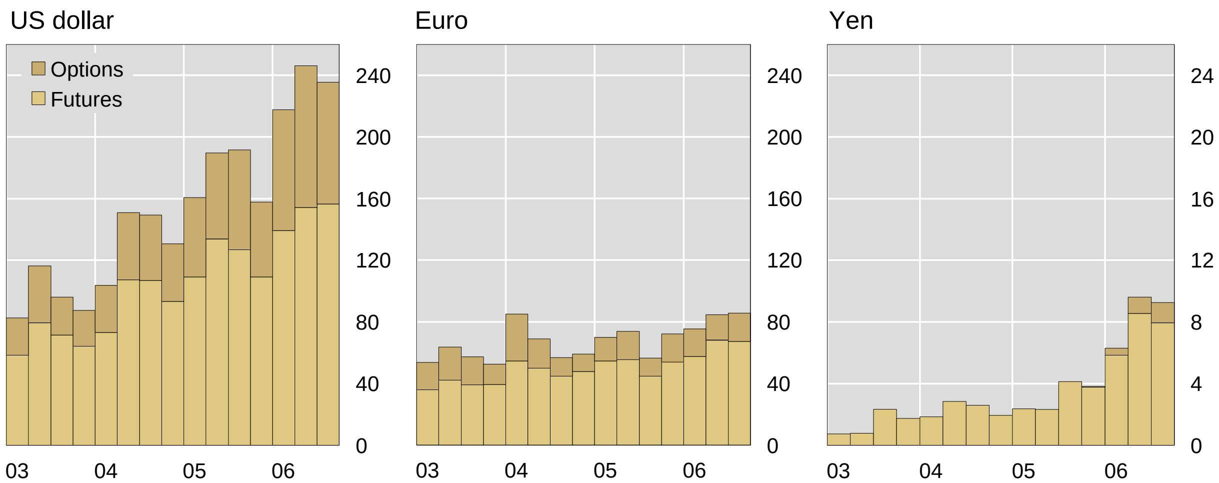
Activity on the international derivatives exchanges slowed in the *third quarter of 2006*. Combined turnover of interest rate, currency and stock index derivatives fell by 4% to $465 trillion between July and September.[7] In the previous quarter, activity had increased by 13%. Although volumes declined in all three risk categories, much of the slowdown appears to be related to seasonal factors, which depress trading in interest rate contracts in the second half of the year.

Little impact of monetary policy on volumes in money market contracts

In contrast to previous quarters, changes in the outlook for monetary policy provided little stimulus for trading in money market derivatives. July saw the first Japanese rate hike for years, but the move had been widely anticipated and therefore had little effect on trading. Turnover in futures and options on short-term yen contracts fell by 4% to $9 trillion in the third quarter (Graph 6). In the United States, a temporary reassessment of investors' outlook for policy rates in August and September had surprisingly little impact on turnover in contracts on short-term dollar interest rates, which fell by 4% to $235 trillion.[8] Turnover in derivatives on short-term euro interest rates remained stable at $86 trillion as monetary policy was largely in line with

Turnover in short-term interest rate contracts

Quarterly contract turnover, in trillions of US dollars



Sources: FOW TRADEdata; Futures Industry Association; BIS calculations. Graph 6

[7] All growth rates in the section on exchange-traded derivatives refer to quarter-on-quarter increases.

[8] Previous work has shown that changes in expected future interest rates tend to be an important driver of activity in exchange-traded derivatives on short-term interest rates, particularly in the case of contracts on three-month eurodollar rates. See C Upper, "Derivatives activity and monetary policy", *BIS Quarterly Review*, September 2006, pp 65–76.

expectations.

Declining activity in stock index contracts

Trading in futures and options on stock indices fell by 7% to $43 trillion in the third quarter.[9] Among the larger markets, turnover measured by notional amounts fell by 23% in Japan, 13% in the United Kingdom, 12% in the United States and 5% in Korea. The only increase in turnover was recorded in contracts on euro area stock indices, where valuation effects pushed up trading volumes measured in notional amounts by 5%. Turnover (measured by the number of contracts, since notional amounts are not available) also fell in the markets for options on individual stocks of firms domiciled in the United States and the euro area.

Higher turnover in energy derivatives offset by drop in other commodities

Turnover in commodity contracts was stable at a high level during the summer months, although there were substantial shifts between product categories. The number of energy contracts (notional amounts are not available) traded on the international derivatives exchanges increased by 22% to a new high, whereas trading volumes in other types of commodities declined despite stable or rising prices.

OTC derivatives markets[10]

Rapid growth in OTC derivatives …

The volumes outstanding of over-the-counter (OTC) derivatives expanded at a brisk pace *in the first half of 2006*. Notional amounts of all types of OTC contracts stood at $370 trillion at the end of June, 24% higher than six months before. Growth in credit default swaps (CDSs) was particularly strong; positions in these instruments increased by 46%. Rapid growth was also recorded in other market segments. Open positions in interest rate derivatives rose by 24%, while those in FX contracts expanded by 22%. Equity and commodity contracts grew at 17% and 18%, respectively. Gross market values, which provide a better measure of market risk at a given point in time than notional amounts, increased by 3% to $10 trillion at the end of June 2006.

… despite an increase in multilateral terminations of CDS contracts

Growth in the market for CDSs would have been even higher had it not been for an increase in the number of early terminations of such contracts. Multilateral terminations[11] had a substantial effect on growth in the CDS market. Terminations of CDS contracts reached almost $4 trillion in the first six months of 2006, thus shaving almost 30 percentage points off the rate of growth in that market (Graph 7). The corresponding figures in previous half-years were below 20 percentage points.

---

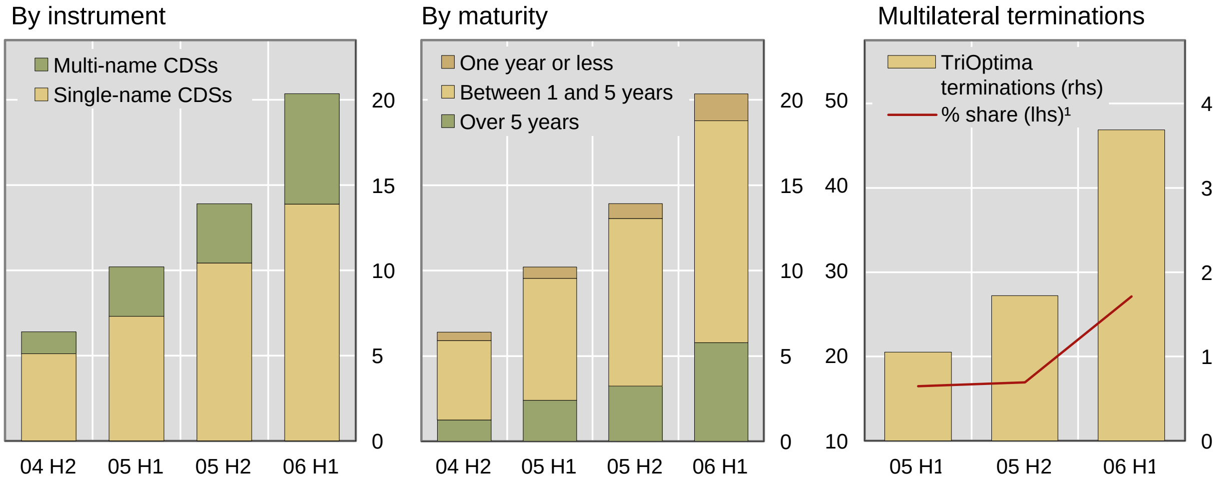
[9] It is not clear to what extent this slowdown is merely the result of seasonal factors, as it has not been possible to estimate a stable seasonal pattern for turnover in this market.

[10] A more detailed discussion of developments in the OTC derivatives markets is available at www.bis.org/publ/otc_hy0611.htm.

[11] The private firm TriOptima has been offering multilateral termination services to OTC derivatives dealers since the beginning of 2003, first for interest rate swaps and later for CDSs. A termination cycle consists of two steps. Dealers first provide TriOptima with contract by contract information on their derivatives positions. The firm then checks whether each individual contract is reported by both counterparties with identical terms. In a second step, it computes a set of bilateral contracts between participants that provides the same net exposures but lower gross exposures.

Credit default swaps

In trillions of US dollars



[1] Multilateral terminations during each half-year as a share of notional amounts outstanding of CDSs at the beginning of the period.

Sources: TriOptima; BIS. Graph 7

The rate of increase was particularly strong in multi-name CDSs, a category that includes index tranches. The notional amounts of such instruments expanded by 86% in the first six months of 2006 to $6.5 trillion, while those of single-name CDSs increased by just under one third to $13.9 trillion.

Activity in the CDS market has become more evenly spread across the maturity spectrum. Although most CDSs continue to fall into the maturity bracket ranging from one year up to five years, growth was much stronger in market segments of shorter and longer maturity. The notional amounts of CDSs with a maturity of less than one year increased by 83%, while those of instruments expiring in more than five years rose by 79%. The growth in the nearer-term segment may be explained in part by older contracts approaching expiry, whereas the sharp expansion in long-term CDSs points towards increasing liquidity at the far end of the maturity spectrum.