AFME warns on European Parliament’s decision to curb short selling of sovereign Credit Default Swaps (CDS)

The European Parliament’s decision to restrict short selling of sovereign CDS significantly increases the borrowing costs for both sovereigns and companies, causing real damage to the economy.

It impairs the ability of companies and pension funds to manage credit risk and will be potentially harmful in managing systemic risk. It will make financial markets less liquid and add uncertainty for European companies looking to hedge risk.

Moreover, the European Commission has found no evidence whatsoever that sovereign CDS have had a significant impact on sovereign debt prices. The increased sovereign CDS activity is largely due to new capital rules, introduced by the European Commission itself, that encourage banks to purchase sovereign CDS to manage risk of swap transactions with sovereign states. We strongly urge Member States to resist introducing these measures.