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Credit Default Swaps Introduced in Russia

By The Moscow Times

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Credit default swaps, the financial instrument whose abuse catalyzed the 2008 financial crisis, may soon be seen in the Russian marketplace.

A draft of an order detailing the concept of CDSs was distributed to Russian banks by the Federal Service for Financial Markets on Wednesday, Vedomosti reported.

CDSs are essentially financial swaps in which the seller is paid in installments for agreeing to pay off a buyer's debt if they default on the loan. Invented in America during the 1990s, they shot to widespread use in 2003 as the credit market grew.

There is already some limited CDS activity on the market, Taras Semik, head of the derivatives department at the bank BCS, said. Major banks including Sberbank and VTB currently trade swaps on Russia's national debt and the debts of major state-owned companies with international parties.

Prohibitive taxation at the closing of the deals is the main obstacle to a strong CDS market in Russia, said Yevgeny Serdyukov, general director of the St. Petersburg stock exchange. He added that despite a demand for these financial instruments from major players on the bond market, there will be no CDS transactions under Russian law until the Tax Code is changed.

The cumulative value of CDSs reached a critical mass of $62.6 trillion at the end of 2007 according to the International Swaps and Derivatives Association. The deals contributed to the panic during the 2008 financial crisis, when major banks' bankruptcy would have meant defaults on all the loans underlying CDS transactions.

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