



## PRESS RELEASE

### Comment on EU's permanent ban on use of naked CDS

Brussels, 19 October 2011: **Finance Watch** welcomes news that the EU is to make the ban on naked use of credit default swaps (CDS) permanent, after Council and Parliament negotiators yesterday announced a ban on the so-called naked use of CDS with an opt-out to allow the hedging of certain correlated risks.

"We are delighted that negotiators reached this balanced and sensible conclusion. Their decision protects sovereign issuers from the most harmful types of speculation while making it still possible for people who provide real investment capital to hedge their exposure," said Thierry Philipponnat, Secretary General of Finance Watch.

"At the same time, we will be keeping a close eye on the exemption for hedging correlated assets to make sure it remains just that, rather than becoming a loophole for continued speculation," Mr Philipponnat added.

The EU's Commissioner for the single market, Michel Barnier, repeated Finance Watch's warning that naked CDS increases instability by mechanically accelerating price movements. "Short selling did not cause the crisis, but can aggravate price declines in distressed markets," said Mr Barnier.

Mr Philipponnat added: "We hope the industry will now drop its claim that the use of naked CDS lowers the cost of sovereign funding. This argument is simply incorrect, as we said in July".

Finance Watch's paper on naked CDS, "*Why sovereign credit default swaps do not lower the cost of funding of sovereign borrowers*" was published on 11 July 2011.

Council and Parliament must now ratify the agreement. A plenary vote in Parliament is expected in the third week of November.

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## NOTES TO EDITORS

- The Parliament's press release dated 18 October "*Crack down on short selling and sovereign debt speculation*" can be found here:

<http://www.europarl.europa.eu/en/pressroom/content/20111018IPR29720/html/Crack-down-on-short-selling-and-sovereign-debt-speculation>

- Finance Watch's paper dated 11 July "*Why sovereign credit default swaps do not lower the cost of funding of sovereign borrowers*" can be found here: <http://www.finance-watch.org/wp-content/uploads/2011/07/Why-sovereign-credit-default-swaps-do-not-lower-the-cost-of-funding-of-sovereign-borrowers.pdf>

- Finance Watch is an independent, non-profit public interest association dedicated to making finance work for society. Its 57 members represent, collectively, close to 100 million European citizens. Members include consumer groups, investor associations, trade unions, housing associations, financial experts, foundations, think tanks, environmental and other NGOs.

- Finance Watch is founded on the following principles:

- finance is essential for society
- capital should be brought to productive use
- finance should serve the economy
- the transfer of credit risk to society is unacceptable
- markets should be fair and transparent

- Finance Watch's work includes providing technical expertise and advocacy for its Members on European legislative dossiers, such as CRD4 and MiFID.

- Finance Watch was registered on 28 April 2011 as an *Association Internationale Sans But Lucratif* (non-profit international association) under Belgian law. For further information, please visit [www.finance-watch.org](http://www.finance-watch.org).