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On the Greek CDS market [1]

Written by **Tim Worstall** [2] | Sunday 11 March 2012

To return to Felix Salmon [3] (just because he's the one writing interestingly about a currently interesting subject) on the Greek bailout. I find it very difficult to understand the concerns he has. A CDS, a credit default swap, is a form of insurance against someone you have lent money to by purchasing a bond, defaulting on what they owe you. Greece has defaulted, this has been declared to be a credit event, the CDS will pay out and it would appear that all is well with the world.

> Going forwards, then, I can?t imagine that investors will have much if any confidence that CDS will really perform the hedging function they?re designed for. My feeling is that if you look at the numbers for total single-name CDS outstanding, they?ll decline steadily from here on in. Because you ultimately can?t trust them when you really need them.

I really don't see that. The contracts have shadowed the bonds all the way down, they have been triggered and they will pay out.

> But still, the whole CDS saga in Greece and elsewhere does rather feel as though ISDA is making it up as it goes along.

As I've mentioned before, I like this in a decision making system. In a legal system, as I've said. Far too many of the world's problems are caused by people trying to write rules to deal with any and every possible and impossible eventuality. I would much prefer a few basic ground rules, the accretion of precedents and then on top, the ability to look to both of those when those unthought of impossible things happen.

But it's this that really puzzles me:

> The word that jumps out at me here is Restructuring. In Europe, restructuring counts as a credit event; in north America, by contrast, it doesn?t. Which means that the derivatives market was pretty lucky here. If the standard Greek CDS documentation had looked like the standard US CDS documentation, there *wouldn?t* have been a credit event,

I cannot see how the market was "lucky" simply because everyone has agreed to abide by the terms of the contracts they signed.

Oh, and just one more note, not about Felix. Now that the CDS have been triggered, now that we're going to see a settling of them all as a result of this "event". And given that we're not going to see the banking system of Europe fall over as a result, please, could we have a little less wittering about the evils and dangers of derivatives please?

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