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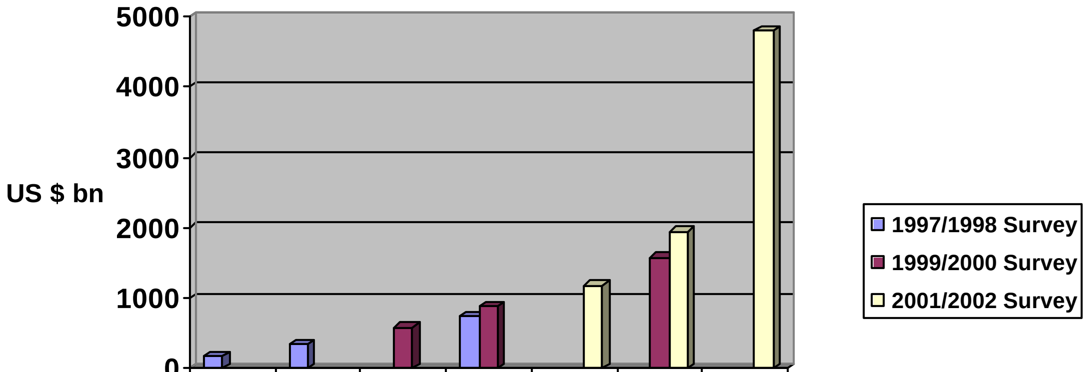
Executive Summary

1. Global market growth

The growth of the global credit derivatives market has again dramatically surpassed previous expectations. It is now estimated that at the end of 2001 the global market (excluding asset swaps) accounted for an estimated $1189 billion or over $1 trillion. The projected growth rate for the market is dramatic, with the global credit derivatives market predicted to nearly double from the previous year to $1952 billion in 2002 and reach a staggering $4.8 trillion by 2004. If asset swaps are included in the market size estimates, it is thought the global credit derivatives market will exceed $5 trillion by the end of 2004.

Global Credit Derivatives Market excluding asset swaps



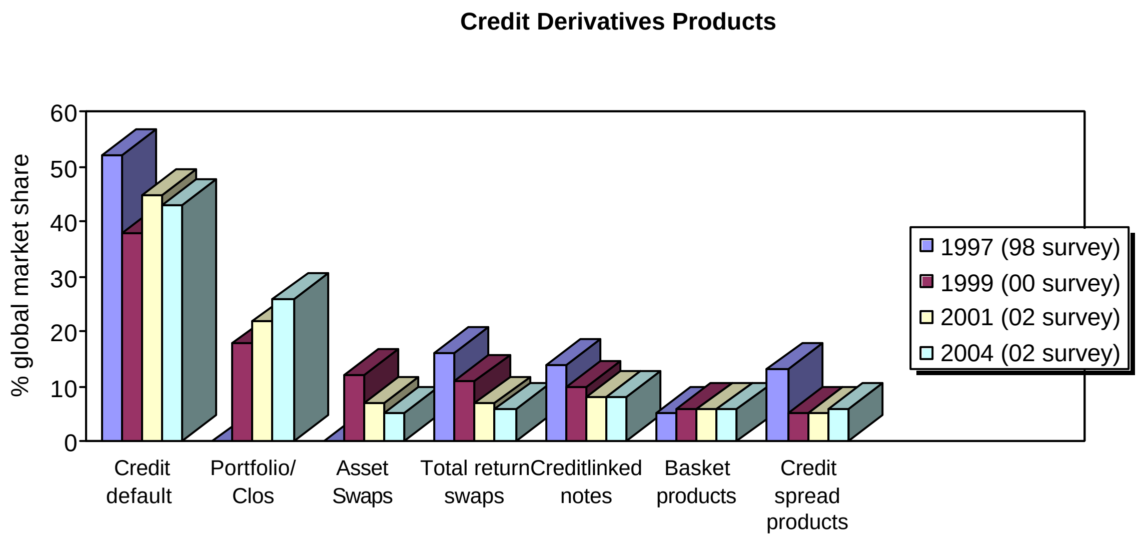
	1997	1998	1999	2000	2001	2002	2004
1997/1998 Survey	180	350		740			
1999/2000 Survey			586	893		1581	
2001/2002 Survey					1189	1952	4799

2. London market growth

London continues to be the dominant centre in the global credit derivatives market, well ahead of New York and Asia. By the end of 2002 the London market will reach an estimated $1036 billion, nearly doubling the BBA's estimate of $578 billion for the end of 2001. The London credit derivative market is set to grow to $2450 billion by the end of the year 2004. In terms of market share this means that in 2001, London accounted for 49% of the global market, a figure predicted to increase to 53% by 2002 and stabilise at 51% in 2004.

3. **Product range**

As in previous surveys, Single-name Credit Default Swaps continued to be the single most popular credit derivatives product in 2001, capturing 45% or nearly half of market share. The percentage of Portfolio Products/CLOs has substantially increased over the last few years and constituted 22% of market share in 2001. It is predicted to increase even further to 26% of market share by 2004. None of the other products captured more than 8% of market share in 2001 and are not predicted to do so in the near future.



4. **Credit events**

One of the key findings of this year's survey is the dramatic increase in credit events experienced by the survey participants. In the previous survey only a very small number of credit events had occurred. However, in this survey, at least 23 of 25 respondents had experienced one or more credit events, yet there seemed to be little evidence of disputes. In a year fraught with major bankruptcies such as Enron, Swissair and Argentina's failure to pay – the largest sovereign default ever – credit derivatives have proven their effectiveness in buffering major shocks to the global financial system.

5. **Documentation issues**

Over the last 2 years the standard ISDA Credit derivatives confirmations have further gained in acceptance for defaults swap contracts. By the end of 2001, between 91% and 98% of our respondents' active credit derivative portfolios, were based on standard documentation. However, our respondents highlighted substantial documentation issues surrounding restructuring and modified restructuring credit event definitions that still need to be addressed to the satisfaction of both European and US credit derivatives players.

6. **The Underlying**

The downward trend in the proportion of credit derivatives written against sovereign assets has continued in this survey. In 2001 only 15% of products were written on sovereign assets, down from 54% in 1996 when we first conducted the survey. The vast majority of credit derivatives are now written on corporate assets, with 60% of credit derivatives written on this asset class in 2001. This trend is expected to continue in 2004.

7. Constraints

Regulatory uncertainty, for instance over the outcome of the Basel II negotiations, constitutes one of the major constraints to the growth of the credit derivatives market. Other respondents voiced their hopes for a level regulatory playing field with the US.

8. Participants

Ever since its inception, the BBA Credit Derivatives Report has been practitioner-led with market practitioners providing substantial input to ensure that the report addresses current key issues whilst maintaining continuity of methodology and comparability of results. The majority of the 25 institutions that submitted detailed questionnaires have committed considerable time and resource in compiling their contributions and demonstrated strong market knowledge and strategic awareness. The BBA survey concentrated on key players from a large range of home countries, although a few smaller companies had also been invited to participate. 15 of the respondents had outstanding transactions of more than $30 billion (notional value), a category that had not even existed in the previous survey.

Summary of the Key Survey Statistics 2001/2002

	2001	2002	2004
Global Market Size	$1189 bn	$1952 bn	$4799 bn
London Market Size	$578 bn	$1036 bn	$2450 bn
London's Percentage of the Global Market	49%	53%	51%

	2001	2004
Banks' % of Protection Buyers Market	52%	47%
Securities Houses' % of Protection Buyers Market	21%	17%
Hedge Funds' % of Protection Buyers Market	12%	13%
Banks' % of Protection Sellers Market	39%	32%
Insurance Co's' % of Protection Sellers Market	33%	33%
Market Share of Credit Default Swaps	45%	43%
Market Share of Portfolio Products/CLOs	22%	26%
Market Share of Financials Assets	22%	22%
Market Share of Corporate Assets	60%	59%
Source: 2001/2002 BBA Credit Derivatives Survey		