Smooth densities for SDEs driven by degenerate subordinated Brownian motion with state-dependent switching

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Abstract. In this paper, by using Malliavin calculus, under uniform Hörmander’s type condition, we obtain the existence of smooth densities for the solutions of stochastic differential equations driven by degenerate subordinated Brownian motion with state-dependent switching.

Keywords: Malliavin calculus, state-dependent switching, subordinated Brownian motion, $\alpha$-stable process, smoothness of density

Mathematics Subject Classification (2000). Primary: 34D08, 34D25; Secondary: 60H20

1 Introduction

This paper considers the following jump-diffusion with state-dependent switching on $\mathbb{R}^n$:

$$dX_t = b(X_t, \alpha_t)dt + \sigma dL_t, \quad (X_0, \alpha_0) = (x, \alpha) \in \mathbb{R}^n \times \mathcal{S}, \quad (1.1)$$

where $b : \mathbb{R}^n \times \mathcal{S} \to \mathbb{R}^n$ is an appropriate function, $\sigma$ is a $n \times d$ constant matrix, $L_t$ is a $d$-dimensional subordinated Brownian motion, $\mathcal{S} = \{1, 2, \ldots, m_0\}$, and $\{\alpha_t, t \geq 0\}$ is an $\mathcal{S}$-valued state-dependent switching process described by

$$\mathbb{P}\{\alpha_{t+\Delta} = j | \alpha_t = i, X_s, \alpha_s, s \leq t\} = \begin{cases} q_{ij}(X_t) \Delta + o(\Delta), & i \neq j \\ 1 + q_{ii}(X_t) \Delta + o(\Delta), & i = j \end{cases}, \quad (1.2)$$

Stochastic differential equations with state-dependent switching have been studied in the literature and they have applications to mathematical finance. Many important problems related to this kind of SDEs, such as existence and uniqueness of solutions, Feller property, strong Feller property, ergodicity and etc, have been studied (see \cite{9, 10, 12}). However, the smoothness of the densities of the solutions to this kind of SDEs has not been studied much. If the noise is the classical Brownian motion, the smoothness of the densities of the solutions has been proved under the uniform Hörmander’s condition in \cite{4}. Smoothness of densities of solutions for SDEs driven by subordinated Brownian motions has been studied in

\textsuperscript{*}Research is supported by NSFs of China (No.11271169) and the Project Funded by the Priority Academic Program Development of Jiangsu Higher Education Institutions.

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In [5], Kusuoka proved the solution has a smooth density under a nondegenerate condition on $\sigma$. Using Malliavin calculus, Zhang established in [13], the solution has smooth density under a special degenerate case. Furthermore, Zhang improved this result in [14], i.e., the solution has smoothness of the density in the uniform Hörmander’s type condition. Similarly, Xie used Malliavin calculus to obtain the estimations of the smooth densities of one-dimension stochastic differential equation with jumps in [11].

In this paper we add the switching term into the SDE driven by degenerate subordinated Brownian motions, i.e., the solution $(X_t, \alpha_t)$ satisfies equations (1.1) and (1.2). For the reason of technique, we only consider the case of additive noise in this paper. We remark that the results of this paper can be applied to case of the noise is an $\alpha$-stable process. In order to show the smoothness of density for $X_t$, we need to develop Malliavin calculus for $X_t$. The difficulty here is the appearance of the switching term $\alpha_t$. Our procedure is to follow the method in [4], i.e., we consider the product probability space produced by a Brownian motion, a subordinator and a Poisson random measure. We will perturb the Brownian motion, while keeping the other two quantities unchanged.

As is well-known, the most difficult part in applying Malliavin calculus to study the smoothness of the density is to prove that the Malliavin covariance matrix has all the negative moments. When the switching is not present, this was done in [14] in the uniform Hörmander’s type condition. When switching is present, the fact that $X_t$ depends on the jump process $\alpha_t$ makes things even more difficult. We will find some random intervals on which $\alpha_t$ is fixed, and then follow the approach developed in [14] under these intervals. More precisely, we will use the following strategy (see [3, 4]): First we notice that the jump times of $\alpha_t$ form a subset of the jump times of some Poisson process $N_t$, independent of the subordinated Brownian motion. Then conditioning on $N_t = k$, there exists some random interval $[T_1, T_2)$ with $0 \leq T_1 < T_2 \leq t$ such that $T_2 - T_1 \geq \frac{t}{k+1}$ and $\alpha_t = \alpha_{T_1}, t \in [T_1, T_2)$. On this time interval, we apply the Norris’ type lemma developed in [14].

The paper is organized as follows. In the next section, we introduce some notation and assumptions that we use throughout the paper. We develop the Malliavin calculus for $X_t$ in Section 3. In Section 4, we consider the small jump and the large jump separately. We first show that the Malliavin covariance matrix has all negative finite moments under the uniform Hörmander’s type condition, assuming subordinator $S_t$ has finite moments of all orders, then we prove that $X_t$ has smooth density. Finally, using the techniques of subsection 3.3 in [13], we also prove $X_t$ has smooth density without the assumption of $S_t$ has finite moments of all orders.

## 2 Preliminaries

Let $(\Omega_1, \mathcal{F}_1, \mathbb{P}_1)$ be the $d$-dimensional canonical Wiener space. That is, $\Omega_1$ is the set of all continuous maps $\omega_1 : \mathbb{R}_+ \to \mathbb{R}^d$ such that $\omega_1(0) = 0$ and $\mathbb{P}_1$ is the canonical Wiener measure such that coordinate process

$$W_t(\omega_1) := \omega_1(t)$$

is a standard $d$-dimensional Brownian motion.

Let $(\Omega_2, \mathcal{F}_2, \mathbb{P}_2)$ be the space of all increasing, purely discontinuous and càdlàg functions from $\mathbb{R}_+$ to $\mathbb{R}_+$ with $\omega_2(0) = 0$, which is endowed with the Skorohod metric and the probability measure $\mathbb{P}_2$ so that the coordinate process

$$S_t(\omega_2) := \omega_2(t)$$

is a subordinator.
is an increasing one dimensional Lévy process (called a subordinator) on $\mathbb{R}_+$ with Laplace transform:

$$\mathbb{E}_2 e^{-sS_t} = \exp \left\{ t \int_0^\infty (e^{-su} - 1) \nu_S(du) \right\},$$

where $\mathbb{E}_2$ is the expectation with respect to $\mathbb{P}_2$, $\nu_S$ is the Lévy measure satisfying $\nu_S\{\{0\}\} = 0$ and

$$\nu_S((-\infty, 0]) = 0, \quad \int_0^\infty (1 + u) \nu_S(du) < \infty.$$

Let $(\Omega_3, \mathcal{F}_3, \mathbb{P}_3)$ be a complete probability space, on which $N(dt, dz)$ is a Poisson random measure with intensity $dt\lambda(dz)$, where $\lambda(\cdot)$ is the Lebesgue measure on $\mathbb{R}$.

We will use $(\Omega, \mathcal{F}, \mathbb{P})$ to denote the product probability space $(\Omega_1 \times \Omega_2 \times \Omega_3, \mathcal{F}_1 \times \mathcal{F}_2 \times \mathcal{F}_3, \mathbb{P}_1 \times \mathbb{P}_2 \times \mathbb{P}_3)$. We extend $W_t$, $S_t$ and $N(dt, dz)$ to $\Omega$ by letting $W_t(\omega) = \omega_1(t)$, $S_t(\omega) = \omega_2(t)$ and $N(dt, dz, \omega) = N(dt, dz, \omega_3)$ respectively. Thus on $(\Omega, \mathcal{F}, \mathbb{P})$, $W_t$, $S_t$ and $N(dt, dz)$ are independent. We define

$$L_t(\omega) := W_{S_t}(\omega) = \omega_1(\omega_2(t)).$$

Then $(L_t)_{t \geq 0}$ is a Lévy process (called a subordinated Brownian motion) with characteristic function:

$$\mathbb{E} e^{iz \cdot L_t} = \exp \left\{ t \int_{\mathbb{R}^d} (e^{iy} - 1 - iy1_{|y| \leq 1}) \nu_L(dy) \right\},$$

where $\mathbb{E}$ is the expectation with respect to $\mathbb{P}$, $\nu_L$ is the Lévy measure given by

$$\nu_L(\Gamma) = \int_0^\infty (2\pi s)^{-d/2} \left( \int_{\Gamma} e^{-\frac{|y|^2}{2s}} dy \right) \nu_S(ds),$$

where $\Gamma \in \mathcal{B}(\mathbb{R}^d)$. Obviously, $\nu_L$ is a symmetric measure.

Let $\mathcal{S} = \{1, 2, \ldots, m_0\}$, where $m_0$ is a given positive integer which will be fixed throughout the paper. For $k \in \mathbb{N}$ we denote by $C^k(\mathbb{R}^n \times \mathcal{S}; \mathbb{R}^n)$ the family of all $\mathbb{R}^n$-valued functions $f(x, \alpha)$ on $\mathbb{R}^n \times \mathcal{S}$ which are $k$-times continuously differentiable in $x$ for any $\alpha \in \mathcal{S}$. The $k$-th derivative tensor of $f$ with respect to $x$ is denoted by $\nabla^k f(x, \alpha)$.

For $x \in \mathbb{R}^n$ and $\sigma \in \mathbb{R}^n \times \mathbb{R}^d$, we use the notation $|x|^2 = \sum_{i=1}^n |x_i|^2$ and $|\sigma|^2 = \sum_{i=1}^n \sum_{j=1}^d |\sigma_{ij}|^2$. We will consider the metric $\Lambda$ on $\mathbb{R}^n \times \mathcal{S}$ given by $\Lambda((x, i), (y, j)) = |x \cdot y| + d(i, j)$, for $x, y \in \mathbb{R}^n$, $i, j \in \mathcal{S}$, where $d(i, j) = 0$ if $i = j$ and $d(i, j) = 1$ if $i \neq j$. Let $\mathcal{B}_b(\mathbb{R}^n \times \mathcal{S})$ be the family of all bounded Borel measurable functions on $\mathbb{R}^n \times \mathcal{S}$.

Now we make the following assumptions on function $b: \mathbb{R}^n \times \mathcal{S} \to \mathbb{R}^n$.

**(H1)** There is a positive constant $C_1$ such that

$$|b(x, i) - b(y, i)| \leq C_1 |x - y| \quad \text{for any } x, y \in \mathbb{R}^n, i \in \mathcal{S}.$$

**(H2)** For each $i \in \mathcal{S}$, the function $b(\cdot, i)$ belongs to $C^2(\mathbb{R}^n; \mathbb{R}^n)$ and has first and second bounded partial derivatives.

It is clear that (H2) implies (H1).

The switching rate $Q(x) = (q_{ij}(x))$ is assumed to satisfy the following assumption.

(i) $q_{ij}(x)$ is Borel measurable and there exists $K > 0$ such that

$$\sup_{i,j \in \mathcal{S}, x \in \mathbb{R}^n} |q_{ij}(x)| \leq K,$$
(ii) \( q_{ij}(x) \geq 0 \) for \( x \in \mathbb{R}^n \) and \( i \neq j \),

(iii) \( q_{ii}(x) = -\sum_{j \neq i} q_{ij}(x) \) for \( x \in \mathbb{R}^n \) and \( i \in S \).

It is well known (see [9]) that the process \( \{\alpha_t, 0 \leq t \leq T\} \) can be described as follows. Introduce a function \( g : \mathbb{R}^n \times S \times [0, m_0(m_0 - 1)K] \to \mathbb{R} \) defined by

\[
g(x, i, z) = \sum_{j \in S \setminus \{i\}} (j - i)\mathbf{1}_{z \in \Delta_{ij}(x)}, \quad \forall i \in S,
\]

where \( \Delta_{ij}(x) \)'s are the consecutive (with respect to the lexicographic ordering on \( S \times S \)) left-closed, right-open intervals of \( \mathbb{R}_+ \), each having length \( q_{ij}(x) \), with \( \Delta_{12}(x) = [0, q_{12}(x)) \). Then, (1.2) can be rewritten as

\[
\alpha(t) = \alpha + \int_0^t \int_{[0, m_0(m_0 - 1)K]} g(X_s, \alpha_s, z) N(ds, dz).
\]

Using the method in [11] or [2], we have the following:

**Theorem 2.1** Suppose that the condition \((H1)\) holds. For any given initial value \((x, \alpha) \in \mathbb{R}^n \times S\), there exists a unique solution \(\{X_t, \alpha_t, t \geq 0\}\) to equations (1.1) and (2.1).

If we consider the natural filtration:

\[
\mathcal{F}_t := \sigma\{L_t, N([0, t], \Gamma) : t \geq 0, \Gamma \in \mathcal{B}([0, m_0(m_0 - 1)K])\},
\]

then the solution \((X_t, \alpha_t)\) is a Markov process and the associated Markov semigroup \(P_t\) satisfies

\[
P_tf(x, \alpha) = \mathbb{E}f(X_t(x, \alpha_t(\alpha))), \quad t > 0, f \in \mathcal{B}_b(\mathbb{R}^n \times S).
\]

3 **The Malliavin calculus for SDE (1.1)**

In this section we analyze the regularity, in the sense of Malliavin calculus, of the random vector \(X_t\) solution to the system (1.1) and (2.1). Denote by \(H\) the Hilbert space \(H = L^2([0, \infty); \mathbb{R}^d)\), equipped with the inner product \(\langle h_1, h_2 \rangle_H = \int_0^\infty \langle h_1(s), h_2(s) \rangle_{\mathbb{R}^d} ds\).

For a Hilbert space \(U\) and a real number \(p \geq 1\), we denote by \(L^p(\Omega_1; U)\) the space of \(U\)-valued random variables \(\xi\) such that \(\mathbb{E}_1\|\xi\|_U^p < \infty\), where \(\mathbb{E}_1\) is the expectation in the probability space \((\Omega_1, \mathcal{F}_1, \mathbb{P}_1)\). We also set \(L^\infty(\Omega_1; U) := \cap_{p < \infty} L^p(\Omega_1; U)\).

We introduce the derivative operator for a random variable \(F\) in the space \(L^\infty(\Omega_1; U)\) following the approach of Malliavin in [3]. We say that \(F\) belongs to \(\mathbb{D}^{1,\infty}(U)\) if there exists \(DF \in L^\infty(\Omega_1; H \otimes U)\) such that for any \(h \in H\),

\[
\lim_{\varepsilon \to 0} \mathbb{E}_1 \left\| \frac{F(\omega_1 + \varepsilon \int_0^1 h_s ds) - F(\omega_1)}{\varepsilon} - \langle DF, h \rangle_H \right\|_U^p = 0
\]

holds for every \(p \geq 1\). In this case, we define the Malliavin derivative of \(F\) in the direction \(h\) by \(D^h F := \langle DF, h \rangle_H\). Then, for any \(p \geq 1\) we define the Sobolev space \(\mathbb{D}^{1,p}(U)\) as the completion of \(\mathbb{D}^{1,\infty}(U)\) under the following norm

\[
\|F\|_{1,p,U} = [\mathbb{E}_1(\|F\|_U^p)]^{1/p} + [\mathbb{E}_1(\|DF\|_{H \otimes U}^p)]^{1/p}.
\]
By induction we define the $k$th derivative by $D^kF = D(D^{k-1}F)$, which is a random element with values in $H^{\otimes k} \otimes U$. For any integer $k \geq 1$, the Sobolev space $D^{k,p}(U)$ is the completion of $D^{k,\infty}(U)$ under the norm

$$
\|F\|_{k,p,U} = \|F\|_{k-1,p,U} + \|D^kF\|_{1,p,H^{\otimes k} \otimes U}.
$$

It turns out that $D$ is a closed operator from $L^p(\Omega_1; U)$ to $L^p(\Omega_1; H \otimes U)$. Its adjoint $\delta$ is called the divergence operator, and is continuous form $L^p(\Omega_1; H \otimes U)$ to $L^p(\Omega_1; U)$ for any $p > 1$. The duality relationship reads

$$
\mathbb{E}_1((DF, u)_{H \otimes U}) = \mathbb{E}_1((F, \delta(u))_U),
$$

for any $F \in D^{1,2}(U)$ and $u \in D(\delta)$ which is the domain of $\delta$.

A square integrable random variable $F \in L^2(\Omega)$ can be identified with an element of $L^2(\Omega_1; V)$, where $V = L^2(\Omega_2 \times \Omega_3)$.

We assume that $S_t$ has finite moments (i.e. $\mathbb{E}|S_t|^p < \infty$, for all $p \geq 1, t > 0$) in this section.

The following theorem is the main result of this section. The key idea of the proof of following theorem is inspired from Theorem 4.2 in [12], in which Yin and Zhu study the differentiability in mean square with respect to initial value $x$ for $X_t(x)$, and as known to all, the Malliavin derivative actually is the derivative with respect to path space. Hence, we believe that the techniques used in Theorem 4.2 in [12] also can be applied to study the Mallivian differentiability.

**Theorem 3.1** Suppose that condition (H2) holds. Then for any $t > 0$, $h \in H$, $X_t \in D^{1,\infty}(\mathbb{R}^n \otimes V)$ and $D^bX_t$ satisfies

$$
\begin{cases}
     dD^bX_t = \nabla b(X_t, \alpha_t)D^bX_tdt + \sigma d\left(\int_0^{S_t} h_sds\right), \\
     D^bX_0 = 0.
\end{cases}
$$

(3.1)

Let $(X_{t}^{\varepsilon h}(x), \alpha_{t}^{\varepsilon h}(\alpha))$ be the solution of (1.1) and (1.2) with $W_{S_t}$ replaced by $W_{S_t} + \varepsilon \int_0^{S_t} h_sds$, i.e.,

$$
\begin{cases}
     dX_{t}^{\varepsilon h} = b(X_{t}^{\varepsilon h}, \alpha_{t}^{\varepsilon h})dt + \sigma dW_{S_t} + \varepsilon \sigma d\left(\int_0^{S_t} h_sds\right), \\
     (X_{0}^{\varepsilon h}, \alpha_{0}^{\varepsilon h}) = (x, \alpha) \in \mathbb{R}^n \times \mathbb{S}
\end{cases}
$$

(3.2)

and

$$
\mathbb{P}\{\alpha_{t+\Delta}^{\varepsilon h} = j | \alpha_{t}^{\varepsilon h} = i, X_{s}^{\varepsilon h}, \alpha_{s}^{\varepsilon h}, s \leq t\} = \begin{cases}
     q_{ij}(X_{t}^{\varepsilon h})\Delta + o(\Delta), & i \neq j \\
     1 + q_{ii}(X_{t}^{\varepsilon h})\Delta + o(\Delta), & i = j.
\end{cases}
$$

Thus, we have

$$
\frac{X_{t}^{\varepsilon h} - X_{t}}{\varepsilon} = \frac{1}{\varepsilon} \int_0^{t} [b(X_{s}^{\varepsilon h}, \alpha_s) - b(X_{s}^{\varepsilon h}, \alpha_s)]ds + \sigma \int_0^{S_t} h_sds + \phi_{t}^{\varepsilon h},
$$

where

$$
\phi_{t}^{\varepsilon h} = \frac{1}{\varepsilon} \int_0^{t} [b(X_{s}^{\varepsilon h}, \alpha_s^{\varepsilon h}) - b(X_{s}^{\varepsilon h}, \alpha_s)]ds.
$$

In order to prove Theorem 3.1 we first give some preliminary lemmas. In the remainder of this paper, $C$ will denote a generic constant which may vary from line to line and it might depend on $T$, the exponent $p$, the initial value $x$ and a fixed element $h \in H$. 

5
Lemma 3.1 Suppose that condition (H1) holds. Then for any $T > 0$, $h \in H$ and $p \geq 2$, we have

$$\mathbb{E} \left[ \sup_{t \leq T} |X_t^{\varepsilon h}|^p \right] \leq C.$$ 

**Proof** From (5.2) it is easy to see that

$$|X_t^{\varepsilon h}|^p \leq C \left[ |x|^p + \int_0^t b(X_r^{\varepsilon h}, \alpha_r^{\varepsilon h})ds \right]^p + |\sigma|^p |W_s|_p^p + \varepsilon^p \int_0^{S_t} \sigma h_s ds \right]^p$$

$$:= C \left[ |x|^p + I_1(t) + I_2(t) + I_3(t) \right].$$

By the condition (H1), H"older's inequalities and the assumption that $S_t$ has finite moments, we obtain

$$\mathbb{E} \left[ \sup_{t \leq T} (I_1(t) + I_2(t) + I_3(t)) \right] \leq C \int_0^T (\mathbb{E}|X_s^{\varepsilon h}|^p + 1)ds.$$ 

Then the desired estimate follows from Gronwall's lemma. ♦

Lemma 3.2 Suppose that condition (H1) holds. Then for any $h \in H$, $p \geq 2$ and $0 \leq s \leq t$ with $|t - s| \leq 1$, we have

$$\mathbb{E}|X_t^{\varepsilon h} - X_s^{\varepsilon h}|^p \leq C(t - s).$$

**Proof** Note that for $0 \leq s \leq t$ with $|t - s| \leq 1$,

$$X_t^{\varepsilon h} - X_s^{\varepsilon h} = \int_s^t b(X_r^{\varepsilon h}, \alpha_r^{\varepsilon h})dr + \sigma(W_{S_t} - W_{S_s}) + \varepsilon \int_{S_s}^{S_t} \sigma h_r dr.$$ 

Then, we have

$$|X_t^{\varepsilon h} - X_s^{\varepsilon h}|^p \leq C \left[ \left( \int_s^t b(X_r^{\varepsilon h}, \alpha_r^{\varepsilon h})dr \right)^p + |\sigma|^p |W_{S_t} - W_{S_s}|^p + \varepsilon^p \int_{S_s}^{S_t} \sigma h_r dr \right]^p.$$ 

Notice that $S_t$ has finite moments, we can obtain $\mathbb{E}|S_t - S_s|^p \leq C|t - s|$. Combining this with H"older's inequalities and Lemma 3.1 yield

$$\mathbb{E}|X_t^{\varepsilon h} - X_s^{\varepsilon h}|^p \leq C|t - s|.$$ 

The proof is complete. ♠

The following lemma will be a basic ingredient in the proof of Theorem 3.1. Using Lemmas 3.1, 3.2 and following the steps of Lemma 3.4 in [4] or Lemma 4.3 in [12], we can obtain the following lemma. Because the proof is almost the same, we omit the proof.

Lemma 3.3 Suppose that condition (H1) holds. Then for any $T > 0$, $h \in H$ and $p \geq 2$ we have

$$\lim_{\varepsilon \to 0} \mathbb{E} \left[ \sup_{t \leq T} |\phi_t^{\varepsilon h}|^p \right] = 0.$$ 

Lemma 3.4 Suppose that condition (H1) holds. Then for any $T > 0$, $h \in H$ and $p \geq 2$, we have

$$\mathbb{E} \left[ \sup_{0 \leq t \leq T} |X_t^{\varepsilon h} - X_t|^p \right] \leq C\varepsilon^p.$$ 

6
Proof

We write

\[ X_t^{\varepsilon h} - X_t = \int_0^t [b(X_s^{\varepsilon h}, \alpha_s^{\varepsilon h}) - b(X_s, \alpha_s)] ds + \varepsilon \int_0^{S_t} \sigma h_s ds := A(t) + B(t), \]

where

\[ A(t) = \int_0^t [b(X_s^{\varepsilon h}, \alpha_s^{\varepsilon h}) - b(X_s^{\varepsilon}, \alpha_s)] ds \]

and

\[ B(t) = \int_0^t [b(X_s^{\varepsilon h}, \alpha_s) - b(X_s, \alpha_s)] ds + \varepsilon \int_0^{S_t} \sigma h_s ds. \]

With this notation we can write

\[ \sup_{0 \leq t \leq T} |X_t^{\varepsilon h} - X_t| \leq C \left( \sup_{0 \leq t \leq T} |A(t)|^p + \sup_{0 \leq t \leq T} |B(t)|^p \right) \]

\[ = C \varepsilon^p \sup_{0 \leq t \leq T} |\phi_t^{\varepsilon h}|^p + C \sup_{0 \leq t \leq T} |B(t)|^p. \]

Hölder’s inequalities and the assumption that \( S_t \) has finite moments yield

\[ \mathbb{E} \left[ \sup_{0 \leq t \leq T} |X_t^{\varepsilon h} - X_t|^p \right] \leq C \varepsilon^p \mathbb{E} \left[ \sup_{0 \leq t \leq T} |\phi_t^{\varepsilon h}|^p \right] + C \int_0^T \mathbb{E} |X_t^{\varepsilon h} - X_t|^p dt + C \varepsilon^p. \]

By Lemma 3.3 and Gronwall’s inequality, we obtain

\[ \mathbb{E} \left[ \sup_{0 \leq t \leq T} |X_t^{\varepsilon h} - X_t|^p \right] \leq C \varepsilon^p, \]

which completes the proof.

\[ \star \]

The proof of Theorem 3.1

Let \( \psi_t^{h} \) be the solution of equation (3.1) and it is easy to verify that \( \mathbb{E} \left[ \sup_{s \leq t} |\psi_s^{h}|^p \right] \leq C \). Then, we have

\[ \frac{X_t^{\varepsilon h} - X_t}{\varepsilon} - \psi_t^{h} = \frac{1}{\varepsilon} \int_0^t [b(X_s^{\varepsilon h}, \alpha_s) - b(X_s, \alpha_s) - \varepsilon \nabla b(X_s, \alpha_s) \psi_s^{h}] ds + \phi_t^{\varepsilon h} \]

\[ = \int_0^t \left( \int_0^1 \nabla b(X_s + \nu(X_s^{\varepsilon h} - X_s), \alpha_s) d\nu \right) \frac{X_s^{\varepsilon h} - X_s}{\varepsilon} ds + \nabla b(X_s, \alpha_s) \psi_s^{h} ds + \phi_t^{\varepsilon h} \]

\[ = \int_0^t \left( \int_0^1 \nabla b(X_s + \nu(X_s^{\varepsilon h} - X_s), \alpha_s) d\nu \right) \left( \frac{X_s^{\varepsilon h} - X_s}{\varepsilon} - \psi_s^{h} \right) ds + \phi_t^{\varepsilon h} + \varphi_t^{\varepsilon h}, \]

where \( \phi_t^{\varepsilon h} \) is defined before and

\[ \varphi_t^{\varepsilon h} = \int_0^t \left( \int_0^1 \nabla b(X_s + \nu(X_s^{\varepsilon h} - X_s), \alpha_s) d\nu - \nabla b(X_s, \alpha_s) \right) \psi_s^{h} ds. \]

By the condition (H2) (This is the only place we use this stronger condition rather than (H1) in the proof of the theorem), we obtain

\[ \mathbb{E} \left[ \sup_{s \leq t} \left| \frac{X_s^{\varepsilon h} - X_s}{\varepsilon} - \psi_s^{h} \right|^p \right] \leq C \int_0^t \mathbb{E} \left[ \left| \frac{X_s^{\varepsilon h} - X_s}{\varepsilon} - \psi_s^{h} \right|^p \right] ds + C \mathbb{E} \sup_{s \leq t} |\phi_s^{\varepsilon h}|^p \]

\[ + C \left( \mathbb{E} \sup_{s \leq t} |X_s^{\varepsilon h} - X_s|^{2p} \right)^{1/2} \left( \mathbb{E} \sup_{s \leq t} |\psi_s^{h}|^{2p} \right)^{1/2}. \]
By Lemmas 3.2–3.3 and Gronwall’s inequality, we obtain
\[
\lim_{\varepsilon \to 0} \mathbb{E} \left[ \sup_{s \leq t} \left| \frac{X^{\varepsilon h}_s - X_s}{\varepsilon} - \psi^h_s \right|^p \right] = 0.
\]
This implies that for \( p \geq 2 \),
\[
\lim_{\varepsilon \to 0} \mathbb{E}_1 \left\| \frac{X^{\varepsilon h}_t - X_t}{\varepsilon} - \psi^h_t \right\|^{p}_{\mathbb{R}^n \otimes V} = 0.
\]
Now, let \( D_s X_t \) be the solution of the following equation:
\[
D_s X_t = \sigma + \int_0^t \nabla b(X_r, \alpha_r) D_s X_r dr \quad s \leq S_t,
\]
and \( D_s X_t = 0 \) for \( s > S_t \). Then we can easily obtain that \( \langle DX_t, h \rangle_H = \psi^h_t \) and \( DX_t \in L^{\infty-}(\Omega \times \mathbb{R}^n \otimes V) \). The proof is complete.

\textbf{Remark 3.1} Following the same idea as the above we can prove that if the function \( b(x, i) \) is infinitely differentiable in \( x \) with bounded partial derivative of all orders, then \( X_t \in D^\infty_{\mathbb{R}^n \otimes V} \).

\textbf{Remark 3.2} Theorem 3.1 says that \( D^h X_t \) is a directional derivative of the solution \( X_t \) when we shift the Brownian motion with the deterministic function \( h \). It is surprising to see that the switching variable \( \alpha_t \) is not modified under this perturbation.

The following theorem is the chain rule. Because the proof is almost the same as Theorem 3.6 in [4], we omit it.

\textbf{Theorem 3.2 (Chain rule)} Assume that condition (H2) holds. Then for any \( h \in H \), \( p \geq 1 \), \( f \in C^2_b(\mathbb{R}^n \times S) \), we have
\[
\lim_{\varepsilon \to 0} \mathbb{E} \left| f(X^{\varepsilon h}_t, \alpha^{\varepsilon h}_t) - f(X_t, \alpha_t) - \nabla f(X_t, \alpha_t) D^h X_t \right|^p = 0.
\]
Moreover, \( f(X_t, \alpha_t) \in D^{1,\infty}(V) \) and \( Df(X_t, \alpha_t) = \nabla f(X_t, \alpha_t) DX_t \).

\textbf{Definition 3.1} Suppose that \( F(x, \alpha) : \Omega \to \mathbb{R}^n \) is a measurable function for all \( x \in \mathbb{R}^n \) and \( \alpha \in S \). We say that its gradient with respect to \( x \) exists (in mean square sense) if there is \( A(x, \alpha) : \Omega \to \mathbb{R}^{n^2} \) such that for any \( \xi \in \mathbb{R}^n \) such that
\[
\lim_{\varepsilon \to 0} \mathbb{E} \left| \frac{F(x + \varepsilon \xi, \alpha) - F(x, \alpha)}{\varepsilon} - A(x, \alpha) \xi \right|^2 = 0.
\]
We denote the gradient matrix \( A(x, \alpha) \) by \( \nabla F(x, \alpha) \).

By an argument similar to that used in the proof of Theorem 3.1 or Theorem 4.2 in [12], we can obtain the following theorem.

\textbf{Theorem 3.3} Assume condition (H2) holds. Let \( \{ (X_t(x), \alpha_t(\alpha)), t \geq 0 \} \) be the solution of (1.1) and (1.2), which starts from \( (x, \alpha) \). Then the gradient of \( X_t(x) \) with respect to \( x \) (in mean square) exists. If we denote \( J_t := \nabla X_t(x) \),
then
\[ J_t = I + \int_0^t \nabla b(X_s, \alpha_s) J_s ds, \] (3.3)
where \( I \) is the \( n \) dimensional identity matrix. Moreover, \( J_t \) is invertible and its inverse \( K_t \) satisfies
\[ K_t = I - \int_0^t K_s \nabla b(X_s, \alpha_s) ds. \] (3.4)

By Gronwall’s inequality, we can easily get \( \max\{\|J_t\|, \|K_t\|\} \leq e^{\|\nabla b\| \infty t}. \) Using the integration by parts formula, we have
\[ K_t D^h X_t = \int_0^t K_s \sigma d \left( \int_0^{S_s} h_r dr \right). \]

The Malliavin covariance matrix \( M_t \) is defined by:
\[ M_t := \langle DX_t, (DX_t)^* \rangle_H. \]

By the method developed in Theorem 3.3 in [5], we can obtain that
\[ M_t = J_t \int_0^t K_s \sigma^* K_s^* dS_s J_t^* \]
where \( J_t^*, \sigma^* \) and \( K_s^* \) are the matrix transposes of \( J_t, \sigma \) and \( K_s \) respectively.

4 Smoothness of density

In this section, we will prove that the solution \( X_t \) has a smooth density. As is well-known, the key step is to prove the Malliavin covariance matrix \( M_t \) has all the negative moments. The difficulty in our current situation is that \( b \) depends on the switching process \( \alpha_t \). Following the idea in [3] or [4], for any fixed \( t > 0 \), define \( N_t := N([0,t], m_0(m_0 - 1)K) \), so \( N_t \) is a Poisson process with parameter \( m_0(m_0 - 1)K \), conditioned on the number of jumps of the Poisson process up to time \( t \), that is, \( N_t = k \); there exists a random interval \([T_1, T_2]\) with \( 0 \leq T_1 < T_2 \leq t \) such that \( T_2 - T_1 \geq \frac{t}{k+1} \) and \( \alpha_t = \alpha_{T_1} \) for all \( t \in [T_1, T_2] \) (because that the jump times of \( \alpha_t \) is a subsequence of the jump times of \( N_t \)). On this time interval, we apply the results of Malliavin calculus in [14].

We first assume the following condition:

(H3) The Lévy measure \( \nu_S \) satisfies for some \( \theta \in (0,2) \),
\[ \lim_{\varepsilon \to 0} \varepsilon^{\frac{\theta}{2}-1} \int_0^\varepsilon \nu_S(du) = c_\theta > 0. \] (4.1)

Remark 4.1 Let \( \nu_S(du) = u^{-(1+\alpha/2)} du \) be the Lévy measure of \( \alpha/2 \)-stable subordinator. It is easy to see that (4.1) holds for \( \theta = \alpha \).

The following lemma is a key step to prove that the Malliavin covariance matrix \( M_t \) has finite negative moments, which is a consequence of using Norris’ type lemma. As is known to all, the classical Norris’ lemma (for example, see Lemma 2.3.2 in [8]) is used to the case that the solution is a continuous semimartingale. However, the solution \( X_t \) here is a jump process, for this reason, we have to mention a recent paper [14], in which Zhang developed the Norris’ type lemma for jump process. For our purpose in this paper, we will simplify this kind of Norris’ type lemma and prove it also holds on time interval.
Lemma 4.1 Assume that condition (H3) holds. Let \( V(x, i) : \mathbb{R}^n \times \mathbb{S} \rightarrow \mathbb{R}^n \times \mathbb{R}^n \) be a function of infinitely differentiable in \( x \) with bounded partial derivative of all orders. For any \( i \in \mathbb{S}, \ p \geq 2, \ \beta \in (0 \vee (4\alpha - 7), 1), \ 0 \leq t_1 < t_2 \leq 1, \) there exists \( \epsilon_0 = (t_2 - t_1)^{1(\beta,p)}(p), \) where \( C(\beta,p) \) and \( \epsilon(\beta) \) are two positive constants dependent on \( \beta, p \) and \( p \) respectively, such that for all \( \epsilon \in (0, \epsilon_0), \)

\[
\sup_{|v| = 1} \mathbb{P}\left( \int_{t_1}^{t_2} |v^* K_s^{i}(b, V)(X_s^{i}, i)|^2 ds \geq \epsilon^{1-\frac{\beta}{2}}, \int_{t_1}^{t_2} |v^* K_s^{i}(V(X_s^{i}, i)|^2 ds \leq \epsilon \right) \leq \epsilon^p, \ 
\]  
(4.2)
where \( [b, V](x, i) = b(x, i) \cdot \nabla V(x, i) - V(x, i) \cdot \nabla b(x, i), \) \( X_t^{(i)} \) and \( K_t^{(i)} \) satisfy the following two equations respectively:

\[
X_t^{(i)} = X_t^{(i)} + \int_{t_1}^{t_2} b(X_r^{(i)}, i)dr + \sigma(L_t - L_{t_1}), \quad t_1 \leq t \leq t_2 
\]

and

\[
K_t^{(i)} = K_t^{(i)} - \int_{t_1}^{t_2} K_t^{(i)} \nabla b(X_r^{(i)}, i)dr, \quad t_1 \leq t \leq t_2. 
\]

Proof We first show that for any fixed \( i \in \mathbb{S}, \ \beta \in (0 \vee (4\alpha - 7), 1), \ 0 \leq t_1 < t_2 \leq 1, \) there exist two constants \( C_1 \geq 1 \) and \( C_2 \in (0, 1) \) such that for all \( \delta \in (0, 1), \)

\[
\sup_{|v| = 1} \mathbb{P}\left( \int_{t_1}^{t_2} |v^* K_s^{(i)}[b, V](X_s^{(i)}, i)|^2 ds \geq (t_2 - t_1)\delta^{1-\frac{\beta}{2}}, \int_{t_1}^{t_2} |v^* K_s^{i}(V(X_s^{(i)}, i)|^2 ds \leq (t_2 - t_1)\delta^{2-\frac{\beta}{2}} \right) 
\]

\[
\leq C_1 \exp\{-C_2(t_2 - t_1)\delta^{-\frac{\beta}{2}}\}. \ 
\]  
(4.3)

In fact, by changing of variable, we have that, for any \( v \in \mathbb{R}^n, \)

\[
\mathbb{P}\left( \int_{t_1}^{t_2} |v^* K_s^{(i)}[b, V](X_s^{(i)}, i)|^2 ds \geq (t_2 - t_1)\delta^{1-\frac{\beta}{2}}, \int_{t_1}^{t_2} |v^* K_s^{i}(V(X_s^{(i)}, i)|^2 ds \leq (t_2 - t_1)\delta^{2-\frac{\beta}{2}} \right) 
\]

\[
= \mathbb{P}\left( \int_{0}^{t_2-t_1} |v^* \tilde{K}_s^{(i)}[b, V](\tilde{X}_s^{(i)}, i)|^2 ds \geq (t_2 - t_1)\delta^{1-\frac{\beta}{2}}, \int_{0}^{t_2-t_1} |v^* \tilde{K}_s^{(i)}(V(\tilde{X}_s^{(i)}, i)|^2 ds \leq (t_2 - t_1)\delta^{2-\frac{\beta}{2}} \right), \ 
\]  
(4.4)
where \( \tilde{K}_s^{(i)} := K_{s+t_1}^{(i)}, \tilde{X}_s^{(i)} := X_{s+t_1}^{(i)}, \) for \( 0 \leq s \leq t_2 - t_1. \) Obviously,

\[
\tilde{X}_s^{(i)} = X_t^{(i)} + \int_{0}^{s} b(\tilde{X}_r^{(i)}, i)dr + \sigma \tilde{L}_s, \quad 0 \leq s \leq t_2 - t_1 
\]

and

\[
\tilde{K}_s^{(i)} = K_t^{(i)} - \int_{0}^{s} \tilde{K}_r^{(i)} \nabla b(\tilde{X}_r^{(i)}, i)dr, \quad 0 \leq s \leq t_2 - t_1, 
\]

where \( \tilde{L}_s := L_{t_1+s} - L_{t_1} \) is also a Lévy process and has the same distribution of \( L_s. \)

So, the estimate of (4.3) is changed into an estimate in the case of general SDE driven by subordinated Brownian motions without switching. Hence, applying Lemma 5.1 in [14] directly, it is easy to see that (4.3) holds.

Now, setting \( \epsilon := (t_2 - t_1)^{1-\frac{\beta}{2}}. \) Then notice that \( \epsilon^{1-\frac{\beta}{2}} \geq (t_2 - t_1)\delta^{1-\frac{\beta}{2}}, \) and by (4.3), for any \( \epsilon \in (0, t_2 - t_1), \)

\[
\sup_{|v| = 1} \mathbb{P}\left( \int_{t_1}^{t_2} |v^* K_s^{(i)}[b, V](X_s^{(i)}, i)|^2 ds \geq \epsilon^{1-\frac{\beta}{2}}, \int_{t_1}^{t_2} |v^* K_s^{i}(V(X_s^{(i)}, i)|^2 ds \leq \epsilon \right) 
\]

\[
\leq C_1 \exp\{-C_2(t_2 - t_1)\delta^{-\frac{\beta}{2}}\}. \ 
\]
Therefore, there exists \( \varepsilon_0 = (t_2 - t_1)^{C(\beta, p)}\varepsilon(p) \), where \( C(\beta, p) \) and \( \varepsilon(p) \) are two positive constants dependent on \( \beta, p \) and \( p \) respectively, such that for all \( \varepsilon \in (0, \varepsilon_0) \), (4.2) holds. The proof is complete.

Next, we are going to study the smoothness of density for \( X_t \). For the reason of the technique, we will divide the proof into two subsections.

### 4.1 If \( S_t \) has finite moments of all orders

In this section, we suppose that \( S_t \) has finite moments of all orders and \( b \in C^\infty(\mathbb{R}^n \times S) \) has bounded derivatives of all orders.

**Lemma 4.2** For any \( m, k \in \mathbb{N} \) with \( m + k \geq 1 \) and \( p \geq 1 \), we have

\[
\sup_{(x, \alpha) \in \mathbb{R}^n \times S} \mathbb{E} \left( \|D^m \nabla^k X_t(x, \alpha)\|_{\mathcal{H}_{m \otimes 0}}^p \right) < +\infty. \tag{4.5}
\]

**Proof** By Theorem 3.1 and \( \|J_t\| \leq e^{\|\nabla b\|_t} \), we know that (4.5) holds for \( m + k = 1 \). For general \( m \) and \( k \), it follows by similar calculations and induction method.

We need the following assumption for the Malliavin covariance matrix has all negative moments.

**\( H_4 \) (Uniform Hörmander’s type condition)** There exists some \( j_0 \in \mathbb{N}_+ \), such that

\[
\inf_{(x, i) \in \mathbb{R}^n \times S} \inf_{|\kappa| = 1} \sum_{j=1}^{j_0} |v^* B_j(x, i)|^2 =: \kappa_1 > 0, \tag{4.6}
\]

where \( B_1(x, i) = \sigma \) and \( B_{j+1}(x, i) := [b, B_j](x, i) \) for \( j \in \mathbb{N}_+ \).

**Theorem 4.1** Assume that conditions \( H_3 \) and \( H_4 \) hold. Then the Malliavin matrix \( M_t \) is invertible \( \mathbb{P} \)-a.s. and \( \det(M_t^{-1}) \in L^p(\Omega) \) for all \( p \geq 2 \), \( t \in (0, 1] \).

**Proof** We recall that \( M_t = J_0 \otimes Q_t J_{0,t}^* \), where \( Q_t := \int_0^t K_s \sigma \sigma^* K_s^* ds \). It suffices to prove \( \det(Q_t^{-1}) \in L^p(\Omega) \) for all \( p \geq 2 \).

Recall that \( \{N_t = N([0, t], m_0(m_0 - 1)K)\} \) is a Poisson process with parameter \( \lambda := m_0(m_0 - 1)K \). For a fixed \( t > 0 \), conditioned on \( N_t = k \), there exists a random interval \([T_1, T_2]\) such that \( T_2 - T_1 \geq \frac{t}{k+1} \) and \( \alpha_t = \alpha_{T_1} \) for all \( t \in [T_1, T_2] \).

By lemma 3.1 in [13] and for the given \( \theta \) in (4.1), and using the fact that the Poisson process \( N_t \) is independent of \( W, S \), for any \( p \geq 2 \), there exists an \( \varepsilon_0 = \varepsilon_0(\theta, \rho) > 0 \) such that for all \( \varepsilon \in (0, \varepsilon_0) \),

\[
\begin{align*}
\mathbb{P} \left\{ \int_{T_1}^{T_2} |v^* K_s \sigma|^2 dS_s \leq \varepsilon |N_t = k \right\} & \leq \mathbb{P} \left\{ \int_{T_1}^{T_2} |v^* K_s \sigma|^2 dS_s \leq \varepsilon, \int_{T_1}^{T_2} |v^* K_s \sigma|^2 ds \geq \varepsilon^{\theta/4} |N_t = k \right\} \\
& + \mathbb{P} \left\{ \int_{T_1}^{T_2} |v^* K_s \sigma|^2 ds < \varepsilon^{\theta/4} |N_t = k \right\} \\
& \leq \exp \left\{ 1 - \frac{1}{2\varepsilon^{1-\theta/4}} \int_0^{C_\varepsilon} u \nu_S(du) \right\} + \mathbb{P} \left\{ \int_{T_1}^{T_2} |v^* K_s \sigma|^2 ds < \varepsilon^{\theta/4} |N_t = k \right\} \\
& \leq \exp \left\{ 1 - \varepsilon^{-\theta/8} \right\} + \mathbb{P} \left\{ \int_{T_1}^{T_2} |v^* K_s \sigma|^2 ds < \varepsilon^{\theta/4} |N_t = k \right\} \\
& \leq \varepsilon^p + \mathbb{P} \left\{ \int_{T_1}^{T_2} |v^* K_s \sigma|^2 ds < \varepsilon^{\theta/4} |N_t = k \right\}. \tag{4.7}
\end{align*}
\]
define $F$ for $0 < \varepsilon < \varepsilon_2 = \left(\frac{r}{k+1}\right)^{C(p)} \varepsilon(p)$, where $C(p)$ and $\varepsilon(p)$ are two positive constants dependent on $p$. 

Now, for any fixed $\beta \in (0 \lor (4\beta - 7), 1)$, $j = 1, 2, \ldots, j_0$, denote $m(j) = (\frac{18 - \beta}{1 - \beta})^{j - 1}$ and define

$$E_j := \left\{ \int_{T_1}^{T_2} |v^* K_s B_j(X_s, \alpha_s)|^2 ds < \varepsilon^{\frac{m(j)}{4 \beta}} \right\}.$$ 

Clearly, $\{ \int_{T_1}^{T_2} |v^* K_s \sigma|^2 ds < \varepsilon^{\theta/4} \} = E_1$. Consider the decomposition

$$E_1 \subseteq (E_1 \cap E_2) \cup (E_2 \cap E_3) \cup \cdots \cup (E_{j_0 - 1} \cap E_{j_0}) \cup F,$$

where $F = E_1 \cap E_2 \cap \cdots \cap E_{j_0}$. Then for any unit vector $v$ we have

$$\mathbb{P}\left( \int_{T_1}^{T_2} |v^* K_s \sigma|^2 ds < \varepsilon^{\theta/4} |N_t = k \right) = \mathbb{P}(E_1 | N_t = k) \leq \mathbb{P}(F | N_t = k) + \sum_{j=1}^{j_0 - 1} \mathbb{P}(E_j \cap E_{j+1}^c | N_t = k). \quad (4.8)$$

We are going to estimate each term in the above sum. This will be done in two steps.

**Step 1:** First we claim that when $\varepsilon$ is sufficiently small, the intersection of $F$ and $\{N_t = k\}$ is empty. In fact, taking into account (4.6), on $N_t = k$, we have

$$F \subseteq \left\{ \sum_{j=1}^{j_0} \int_{T_1}^{T_2} |v^* K_s B_j(X_s, \alpha_s)|^2 ds \leq j_0 \varepsilon^{\frac{m(j)}{4 \beta}} \right\} = \left\{ \sum_{j=1}^{j_0} \int_{T_1}^{T_2} \left( \frac{|v^* K_s B_j(X_s, \alpha_s)|}{|v^* K_s|} \right)^2 |v^* K_s|^2 ds \leq j_0 \varepsilon^{\frac{m(j)}{4 \beta}} \right\} \subseteq \left\{ \frac{\kappa_1 t}{(k+1)e^{2\|v^* b\|_\infty}} \leq j_0 \varepsilon^{\frac{m(j)}{4 \beta}} \right\},$$

because that $|v^* K_s| \geq \frac{i}{\|J_{0,s}\|} \geq \frac{1}{\varepsilon \sqrt{m(j)} e^{1/\alpha \sqrt{m(j)}}}$. Thus $F \cap \{N_t = k\} = \emptyset$, provided $\varepsilon < \varepsilon_1 := \left(\frac{4}{j_0 e^{2\|v^* b\|_\infty}} (k+1)\right)^{\frac{1}{m(j_0)\beta}}$.

**Step 2:** We shall bound the second terms in (4.8). For any $j = 1, 2, \ldots, j_0 - 1$, we have

$$\mathbb{P}(E_j \cap E_{j+1}^c | N_t = k) = \mathbb{P}\left\{ \int_{T_1}^{T_2} |v^* K_s B_j(X_s, \alpha_s)|^2 ds < \varepsilon^{\frac{m(j)}{4 \beta}} \right\},$$

$$\int_{T_1}^{T_2} |v^* K_s B_{j+1}(X_s, \alpha_s)|^2 ds \geq \varepsilon^{\frac{m+1}{4 \beta}} |N_t = k \right\} = \mathbb{P}\left\{ \int_{T_1}^{T_2} |v^* K_s^{(\alpha_{T_1})} B_j(X_s^{(\alpha_{T_1})}, \alpha_{T_1})|^2 ds \leq \left( \frac{\varepsilon^{m+1}}{4} \right)^{\frac{1-\beta}{18-3 \beta}}, \right\} \mathbb{P}\left\{ \int_{T_1}^{T_2} |v^* K_s^{(\alpha_{T_1})} B_{j+1}(X_s^{(\alpha_{T_1})}, \alpha_{T_1})|^2 ds \geq \varepsilon^{\frac{m+1}{4 \beta}} |N_t = k \right\}.$$
Hence, by (1.7)-(1.9), we have
\[
\mathbb{P}\{v^*Q_tv \leq \varepsilon | N_t = k\} \leq \mathbb{P}\left\{\int_{T^k_1} \left|v^*K_s\sigma\right|^2dS_s \leq \varepsilon | N_t = k\right\} \leq \varepsilon^p
\]
for \(\varepsilon < \min\{\varepsilon_0, \varepsilon_1, \varepsilon_2\}\). Then, following the steps of Lemma 2.3.1 in [8], we can obtain that
\[
\mathbb{P}\left\{\inf_{|v|=1} v^*Q_tv \leq \varepsilon | N_t = k\right\} \leq \varepsilon^p
\]
for all \(0 < \varepsilon \leq C_1\left(\frac{1}{k+1}\right)^{C_2}\) and for all \(p \geq 2\), where \(C_1, C_2\) are two positive constants depending on \(p\) and \(n\). By the fact that \(\det(Q_t) \geq (\inf_{|v|=1} v^*Q_tv)^n\), we have
\[
\mathbb{E}|\det(Q_t)|^{-p} \leq \mathbb{E}\left(\inf_{|v|=1} v^*Q_tv\right)^{-np} \leq \sum_{k=0}^{\infty} \mathbb{P}(N_t = k)\mathbb{E}\left(\inf_{|v|=1} v^*Q_tv\right)^{-np|N_t = k|}
\]
\[
\leq \sum_{k=0}^{\infty} \frac{\lambda^k}{k!}e^\lambda \left[ C_1\left(\frac{t}{k+1}\right)^{C_2} + \frac{1}{C_1}\left(\frac{k+1}{t}\right)^{C_2}\right] < \infty. \quad (4.10)
\]
The proof is now complete.

Now we can prove the following gradient estimate.

**Theorem 4.2** For any \(k, m \in \mathbb{N}\) with \(k + m \geq 1\), there are \(\gamma_{k,m} > 0\) and \(C = C_{k,m} > 0\) such that for all \(f \in C^\infty_{b}(\mathbb{R}^n \times S)\) and \(t \in (0, 1)\),
\[
|\nabla^k\mathbb{E}(\nabla^m f)(X_t, \alpha_t)| \leq C\|f\|_\infty t^{-\gamma_{k,m}}. \quad (4.11)
\]

**Proof** By the chain rule, we have
\[
\nabla^k\mathbb{E}(\nabla^m f)(X_t, \alpha_t) = \sum_{j=1}^{k} \mathbb{E}\left(((\nabla^{m+j} f)(X_t, \alpha_t)G_j(\nabla X_t, \ldots, \nabla^k X_t)\right)
\]
where \(\{G_j, j = 1, \ldots, k\}\) are real polynomial functions. By duality relationship, chain rule, Lemma 4.2 and Hölder’s inequality, through cumbersome calculation (the details follow the argument of Proposition 2.1.4 in [8]), one finds that there exist integer \(p = p_{k,m}, C = C_{k,m} > 0\) and \(\gamma_{k,m} > 0\) such that for all \(t \in (0, 1)\),
\[
|\nabla^k\mathbb{E}(\nabla^m f)(X_t, \alpha_t)| \leq C\|f\|_\infty \mathbb{E}(|\det M_t|^{-1}|p \leq C\|f\|_\infty t^{-\gamma_{k,m}},
\]
where the last inequality follows by (1.10). The proof is complete.

### 4.2 Without the assumption of \(S_t\) has finite moments of all orders.

Let \(S_t\) be a subordinator with Lévy measure \(1_{(0,1)}\nu_S(du)\) and independent of \((W_t)_{t \geq 0}\) and \(N(dt, dy)\). Let \((X_t, \alpha_t)\) solves the following equations:
\[
dX_t = b(X_t, \alpha_t)dt + \sigma dW_t, \quad (X_0, \alpha_0) = (x, \alpha) \in \mathbb{R}^n \times S, \quad (4.12)
\]
and
\[
\mathbb{P}\{\alpha_{t+\Delta} = j|\alpha_t = i, X_t, \alpha_s, s \leq t\} = \begin{cases} q_{ij}(X_t)\Delta + o(\Delta), & i \neq j \\ 1 + q_{ii}(X_t)\Delta + o(\Delta), & i = j. \end{cases} \quad (4.13)
\]
Let us write
\[ P'_t f(x, \alpha) := \mathbb{E} f(X'_t(x), \alpha'_t(\alpha)). \]

Notice that \( S'_t \) has finite moments of all order, the results above also hold for the process \((X'_t, \alpha'_t)\). Hence, we intend to find the relation between the semigroups \( P_t \) and \( P'_t \), so that we can estimate the semigroup \( P'_t \), through by estimating \( P_t \). Following the steps of subsection 3.3 in [13], we first give out two lemmas whose proofs are almost the same with Lemmas 3.9 and 3.10 in [13], so we omit the proof.

**Lemma 4.3** Let \( f \in C^\infty_b(\mathbb{R}^n \times S) \). For any \( m \in \mathbb{N} \), there exists a constant \( C_m \geq 1 \) such that for all \( (x, \alpha) \in \mathbb{R}^n \times S \),

\[ |\nabla^m P'_t f(x, \alpha)| \leq C_m \sum_{k=1}^{m} P'_t |\nabla^k f|(x, \alpha). \quad (4.14) \]

**Lemma 4.4** Let \( J'_t := \nabla X'_t(x) \) and \( K'_t \) be the inverse of matrix \( J'_t \). Let \( f \in C^\infty_b(\mathbb{R}^n \times S) \). Then for any \( j = 1, \ldots, n \), we have the following formula:

\[ P'(\partial_j f)(x, \alpha) = \text{div} Q^{ij}(t, x, \alpha; f) - G^{ij}(t, x, \alpha; f), \quad (4.15) \]

where

\[ Q^{ij}(t, x, \alpha; f) := \mathbb{E} f(X'_t(x), \alpha'_t(\alpha))(K'_t)^{ij} \quad (4.16) \]

and

\[ G^{ij}(t, x, \alpha; f) := \mathbb{E} f(X'_t(x), \alpha'_t(\alpha)) \text{div}(K'_t)^{ij}. \quad (4.17) \]

Now, let \( \{\tau'_1, \tau'_2, \ldots, \tau'_n, \ldots\} \) and \( \{\xi_1, \xi_2, \ldots, \xi_n, \ldots\} \) be two independent families of i.i.d. random variables in \( \mathbb{R}^+ \) and \( \mathbb{R}^d \) respectively, which are also independent of \( (W_t, S'_t)_{t \geq 0} \) and \( N(dt, du) \). We assume that \( \tau'_1 \) has the exponential distribution of parameter \( \lambda_1 := \nu_S([1, \infty)) \) and \( \xi_1 \) has the distributional density

\[ \frac{1}{\nu_S([1, \infty))} \int_1^\infty (2\pi s)^{-d/2} e^{-\frac{|y|^2}{2}} \nu_S(ds). \]

Set \( \tau'_0 := 0 \) and \( \xi_0 := 0 \), define

\[ N'_t := \max \{ k : \tau'_0 + \tau'_1 + \cdots + \tau'_k \leq t \} = \sum_{k=0}^{\infty} 1_{\{\tau'_0 + \tau'_1 + \cdots + \tau'_k \leq t\}} \]

and

\[ H_t := \xi_0 + \xi_1 + \cdots + \xi_{N'_t} = \sum_{j=0}^{N'_t} \xi_j. \]

Then \( H_t \) is a compound Poisson process with Lévy measure

\[ \nu_H(\Gamma) = \int_1^\infty (2\pi s)^{-d/2} \left( \int_{\Gamma} e^{-\frac{|y|^2}{2}} dy \right) \nu_S(ds). \]

Moreover, it is easy to see that \( H_t \) is independent of \( W_{S'_t} \) and

\[ (\sigma W_{S'_t})_{t \geq 0} \overset{(d)}{=} (\sigma W_{S'_t} + \sigma H_t)_{t \geq 0}. \quad (4.18) \]
Let \( h_t \) be a càdlàg purely discontinuous \( \mathbb{R}^n \)-valued function with finite many jumps and \( h_0 = 0 \). Let \( (X^h_t(x), \alpha^h_t(\alpha)) \) solve the following equations:

\[
dX^h_t = b(X^h_t, \alpha^h_t)dt + \sigma dW^h_t + dh_t, \quad (X^h_0, \alpha^h_0) = (x, \alpha) \in \mathbb{R}^n \times S,
\]

and

\[
\mathbb{P}\{\alpha^h_{t+\delta} = j|\alpha^h_s = i, X^h_s, \alpha^h_s, s \leq t\} = \begin{cases} 
q_{ij}(X^h_s) \Delta + o(\Delta), & i \neq j \\
1 + q_{ii}(X^h_s) \Delta + o(\Delta), & i = j.
\end{cases}
\]

Let \( k \) be the jump number of \( h \) before time \( t \). Let \( 0 = t_0 < t_1 < t_2 < \cdots < t_k \leq t \) be the jump times of \( h \). By the Markovian property of \( (X^h_t(x), \alpha^h_t(\alpha)) \), we have the following formula:

\[
\mathbb{E} f(X^h_t(x), \alpha^h_t(\alpha)) = P_{t_1} \cdots \theta_{\Delta h_{t_{k-1}}} P_{t_{k-1} - t_{k-1}} \theta_{\Delta h_k} P_{t_{k-1} - t_{k-1}} f(x, \alpha),
\]

where

\[
\theta_y f(x, \alpha) := f(x + y, \alpha).
\]

Now, by (4.13) we have

\[
(X_t(x), \alpha_t(\alpha)) \overset{(d)}{=} (X^h_t(x), \alpha^h_t(\alpha))|_{h=\sigma H}.
\]

Hence,

\[
P_t f(x, \alpha) = \mathbb{E} f(X_t(x), \alpha_t(\alpha)) = \mathbb{E} f(X^h_t(x), \alpha^h_t(\alpha)|_{h=\sigma H})
\]

\[
= \sum_{k=0}^{\infty} \mathbb{E} \left( P_{t_1} \cdots \theta_{\sigma \xi_{k-1}} P_{t_{k-1} - t_{k-1}} \theta_{\sigma \xi_k} P_{t_{k-1} - t_{k-1}} f(x, \alpha), N'_t = k \right).
\]

In view of

\[
\{N'_t = k\} = \{\tau'_1 + \cdots + \tau'_k \leq t < \tau'_1 + \cdots + \tau'_k + \tau'_k+1\},
\]

we further have

\[
P_t f(x, \alpha) = \sum_{k=0}^{\infty} \left\{ \int_{\sum_{i=1}^{k} t_i \leq \sum_{i=1}^{k+1} t_i} \mathbb{E} (P_{t_1} \cdots \theta_{\sigma \xi_{k-1}} P_{t_{k-1} - t_{k-1}} \theta_{\sigma \xi_k} P_{t_{k-1} - t_{k-1}} f(x, \alpha))
\]

\[
\times \lambda_1^{k+1} e^{-\lambda_1 \sum_{i=1}^{k+1} t_i} dt_1 \cdots dt_{k+1} \right\} + P_t f(x, \alpha) \mathbb{P}(N'_t = 0)
\]

\[
= \sum_{k=1}^{\infty} \left\{ \lambda_1^k e^{-\lambda_1 t} \int_{t_1}^{t_k} \mathbb{E} I^\xi_{t_1, \ldots, t_k, t, x} dt_1 \cdots dt_k \right\}
\]

\[
+ P_t f(x, \alpha) e^{-\lambda_1 t},
\]

where \( \xi := (\xi_1, \ldots, \xi_k) \) and

\[
I^\xi_{t_1, \ldots, t_k, t, x} := P_{t_1} \cdots \theta_{\sigma \xi_{k-1}} P_{t_{k-1} - t_{k-1}} \theta_{\sigma \xi_k} P_{t_{k-1} - t_{k-1}} f(x, \alpha)
\]

with \( y := (y_1, \ldots, y_k) \).

With preparations above, we can give the main result.

**Theorem 4.3** Let \( b \in C^\infty(\mathbb{R}^n \times S; \mathbb{R}^n) \) with bounded partial derivatives of all orders. Suppose conditions (H3) and (H4) hold. Then \( X_t \) has a smooth density with respect to the Lebesgue measure on \( \mathbb{R}^n \).
Proof. In order to prove the smoothness of density for \( X_t \), by [7,8], it suffices to show that for any \( f \in C_b^\infty(\mathbb{R}^n) \), we have

\[
|\mathbb{E} \nabla_{i_1,\ldots,i_m}^m f(X_t)| \leq C\|f\|_{\infty}, \quad \forall m \geq 1, (i_1,\ldots,i_m) \in \{1,\ldots,n\}^m,
\]

where \( \nabla_{i_1,\ldots,i_m}^m = \frac{\partial^m}{\partial x_{i_1}\cdots \partial x_{i_m}} \) and \( C \) depends on \( t, x, (i_1,\ldots,i_m) \). However, this can be easily obtained if we can establish the same gradient estimate as in (4.11).

If we let \( t_{k+1} := t - (t_1 + \cdots + t_k) \), then there exists at least one \( j \in \{1,2,\ldots,k+1\} \) such that \( t_j \geq \frac{t}{k+1} \). Thus, by (4.14) and (4.11), we have

\[
|\nabla P_t f(x, \alpha)| \leq C\|f\|_{\infty} t^{-\gamma_0} e^{-\lambda_1 t} \left[ 1 + \sum_{k=1}^{\infty} \lambda_1^k C_1^k (k+1)^{\gamma_0} \int_{\sum_{i=1}^{k} t_i \leq t} dt_1 \cdots dt_k \right]
\]

\[
= C\|f\|_{\infty} t^{-\gamma_0} e^{-\lambda_1 t} \left( \sum_{k=0}^{\infty} \lambda_1^k C_1^k (k+1)^{\gamma_0} \frac{t^k}{k!} \right)
\]

\[
\leq C\|f\|_{\infty} t^{-\gamma_0}. \tag{4.22}
\]

Thus, we obtain (4.11) with \( k = 1 \) and \( m = 0 \).

For \( l, i = 1,\ldots,n \), set \( F_{li}^0(x, \alpha) := 1_{\{l=i\}} f(x, \alpha) \). Let us recursively define for \( m = 0,1,\ldots,k \),

\[
F_{li}^{(m+1)}(x, \alpha) := \sum_{j=1}^{n} Q^{ij}(t_{k+1-m}, x + y_k + \cdots + y_{k-m}, \alpha; F_{lj}^{(m)})
\]

and

\[
R_{li}^{(m+1)}(x, \alpha) := \sum_{j=1}^{n} G^j(t_{k+1-m}, x + y_k + \cdots + y_{k-m}, \alpha; F_{lj}^{(m)}),
\]

where \( Q^{ij} \) and \( G^j \) are defined by (4.16) and (4.17). From these definitions, it easy to see that

\[
\|F_{li}^{(m+1)}\|_{\infty} \leq \sum_{j=1}^{n} \|F_{lj}^{(m)}\|_{\infty} \mathbb{E}(\langle K_i^l \rangle_{ij}) \leq C \sum_{j=1}^{n} \|F_{lj}^{(m)}\|_{\infty} \leq Cn^m \|f\|_{\infty}
\]

and

\[
\|R_{li}^{(m+1)}\|_{\infty} \leq \sum_{j=1}^{n} \|F_{lj}^{(m)}\|_{\infty} \mathbb{E}(\langle K_i^l \rangle_{ij}) \mathbb{E}(\text{div}(K_i^l)_j) \leq Cn^{m+1} \|f\|_{\infty}.
\]

By repeatedly using Lemma 4.3, we obtain

\[
|P_{t_1}^y P_{t_2}^y \cdots P_{t_k}^y f(X_t)| = \left| P_{t_1}^y \cdots \theta_{y_{j-1}} P_{t_j}^y \text{div} F_{t}^{(k+1-j)}(x, \alpha) - \sum_{m=1}^{k-j} P_{t_1}^y \cdots \theta_{y_{k-m}} P_{t_{k+1-m}}^y R_{t_1}^{(m)}(x, \alpha) \right|
\]

\[
\leq C t_j^{-\gamma_0} \sum_{j=1}^{n} \|F_{li}^{(k+1-j)}\|_{\infty} + \sum_{m=1}^{k-j} \|R_{t_1}^{(m)}\|_{\infty}
\]

\[
\leq C \left( \frac{t}{k+1} \right)^{-\gamma_0} \|f\|_{\infty} + C \|f\|_{\infty}.
\]
As estimating in (4.22), we can obtain (4.11) with $k = 0$ and $m = 1$. For the general $m$ and $k$, the gradient estimate (4.11) follows by similar calculations and induction method. The proof is complete.

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