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6.5 Numerical Results; 6.6 CDS with Counterparty Risk; 6.7 Counterparty Risk Mitigation; 6.8 Conclusions; PART III MULTINAME CORPORATE CREDIT DERIVATIVES; 7 Collateralized Debt Obligations 7.1 Introduction 7.2 A Brief Overview of CDOs; 7.3 Cash versus Synthetic CDOs; 7.4 Synthetic CDOs and Leverage; 7.5 Concentration, Correlation and Diversification; 8 Standardized Credit Indices; 8.1 Introduction; 8.2 Credit Default Swap Indices; 8.3 Standardization; 8.4 iTraxx, CDX and their Tranches; 8.5 Theoretical Fair Spread of Indices; 9 Pricing Synthetic CDO Tranches; 9.1 Introduction; 9.2 Generic 1-Factor Model; 9.3 Implied Compound and Base Correlation; 10 Historical Study of Levy Base Correlation; 10.1 Introduction; 10.2 Historical Study; 10.3 Base Correlation; 10.4 Hedge Parameters 10.5 Conclusions 11 Base Expected Loss and Base Correlation Smile; 11.1 Introduction; 11.2 Base Correlation and Expected Loss: Intuition; 11.3 Base Correlation and Interpolation; 11.4 Base Expected Loss; 11.5 Interpolation; 11.6 Numerical Results; 11.7 Conclusions; 12 Base Correlation Mapping; 12.1 Introduction; 12.2 Correlation Mapping for Bespoke Portfolios; 12.3 Numerical Results; 12.4 Final Comments; 13 Correlation from Collateral to Tranches; 13.1 Introduction; 13.2 Generic 1-Factor Model; 13.3 Monte Carlo Simulation and Importance Sampling; 13.4 Gaussian Copula Tranche Loss Correlations 13.5 Levy Copula Tranche Loss Correlations 13.6 Marshall-Olkin Copula Tranche Loss Correlations; 13.7 Conclusions; 14 Cash Flow CDOs; 14.1 Introduction; 14.2 The Waterfall of a Cash Flow CDO; 14.3 BET Methodology; 14.4 Results; 14.5 AIG and BET; 14.6 Conclusions; 15 Structured Credit Products: CPPI and CPDO; 15.1 Introduction; 15.2 Multivariate VG Modeling; 15.3 Swaptions on Credit Indices; 15.4 Model Calibration; 15.5 CPPI; 15.6 CPDO; 15.7 Conclusion; PART IV ASSET BACKED SECURITIES; 16 ABCDS and PAUG; 16.1 Introduction; 16.2 ABCDSs versus Corporate CDSs; 16.3 ABCDS Pay As You Go: PAUG 16.4 Conclusion

Sommario/riassunto

Credit derivatives have been instrumental in the recent increase in securitization activity. The complex nature and the size of the market have given rise to very complex counterparty credit risks. The Lehman failure has shown that these issues can paralyse the financial markets, and the need for detailed understanding has never been greater. The Art of Credit Derivatives shows practitioners how to put a framework in place which will support the securitization activity. By showing the models that support this activity and linking them with very practical examples, the aut