

1. Record Nr.	UNINA9910969850403321
Autore	Spackman Carolyn
Titolo	The Use (and Abuse) of CDS Spreads During Distress // Carolyn Spackman, Manmohan Singh
Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2009
ISBN	9786612842832 9781462388066 146238806X 9781452778327 1452778329 9781451872095 1451872097 9781282842830 1282842838
Edizione	[1st ed.]
Descrizione fisica	1 online resource (13 p.)
Collana	IMF Working Papers
Altri autori (Persone)	SinghManmohan
Disciplina	338.267
Soggetti	Credit derivatives Derivative securities Asset prices Bankruptcy Banks Bonds Credit default swap Credit Currencies Deflation Depository Institutions Event Studies Financial Institutions and Services: Government Policy and Regulation Financial institutions General Financial Markets: General (includes Measurement and Data) Government and the Monetary System Inflation Information and Market Efficiency International Lending and Debt Problems Investment & securities Investments: Bonds Liquidation

Macroeconomics
Micro Finance Institutions
Monetary economics
Monetary Policy, Central Banking, and the Supply of Money and Credit:
General
Monetary Systems
Money and Monetary Policy
Money
Mortgages
Payment Systems
Price Level
Prices
Regimes
Standards
Ecuador

Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	Description based upon print version of record.
Nota di bibliografia	Includes bibliographical references.
Nota di contenuto	Contents; I. Introduction; II. Recent Distress in Financial Institutions; Figures; 1. Landsbanki; 2. Washington Mutual; 3. Lehman Brothers; III. Policy Implications of Using Stochastic Recovery; Table 1. CDS Settlements Determined Under the ISDA Cash Opt-in Protocol; Box 1. Ecuador ISDA Auction; Appendix I. Recovery Swaps, or Where the Ctd Bonds End Up; References
Sommario/riassunto	Credit Default Swap spreads have been used as a leading indicator of distress. Default probabilities can be extracted from CDS spreads, but during distress it is important to take account of the stochastic nature of recovery value. The recent episodes of Landbanski, WAMU and Lehman illustrate that using the industry-standard fixed recovery rate assumption gives default probabilities that are low relative to those extracted from stochastic recovery value as proxied by the cheapest-to-deliver bonds. Financial institutions using fixed rate recovery assumptions could have a false sense of security, and could be faced with outsized losses with potential knock-on effects for other institutions. To ensure effective oversight of financial institutions, and to monitor the stability of the global financial system especially during distress, the stochastic nature of recovery rates needs to be incorporated.