



## Finance and Economics Discussion Series: Credit Derivatives and Risk Management (Paperback)

By Michael S Gibson

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book \*\*\*\*\* Print on Demand \*\*\*\*\*.The striking growth of credit derivatives suggests that market participants find them to be useful tools for risk management. I illustrate the value of credit derivatives with three examples. A commercial bank can use credit derivatives to manage the risk of its loan portfolio. An investment bank can use credit derivatives to manage the risks it incurs when underwriting securities. An investor, such as an insurance company, asset manager, or hedge fund, can use credit derivatives to align its credit risk exposure with its desired credit risk profile. However, credit derivatives pose risk management challenges of their own. I discuss five of these challenges. Credit derivatives can transform credit risk in intricate ways that may not be easy to understand. They can create counterparty credit risk that itself must be managed. Complex credit derivatives rely on complex models, leading to model risk. Credit rating agencies interpret this complexity for investors, but their ratings can be misunderstood, creating rating agency risk. The settlement of a credit derivative contract following a default can have its own complications, creating settlement risk....



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