DELTA-HEDGING IN SYNTHETIC CDO STRUCTURES

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ABSTRACT
The complexity of standard market practice and the new types of credit derivatives which have risen in the last decade have inspired this paper. A theoretical and a numerical construct of the Delta-Hedging of a Multi-Name Synthetic Collateralized Debt Obligation (SCDO) is presented, as the risk-management of such products plays a key role in determining their Profits and Losses. Delta is numerically calculated in order to define the amount of protection for each tranche due to a shift in the Credit Default Swap (CDS) spreads. A One-Factor-Copula Model is implemented in a finite and homogeneous portfolio framework.

Classification JEL

Keywords
Synthetic Collateralized Debt Obligation, Delta-Hedging, Credit Default Swaps, One-Factor-Copula, Correlation.

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