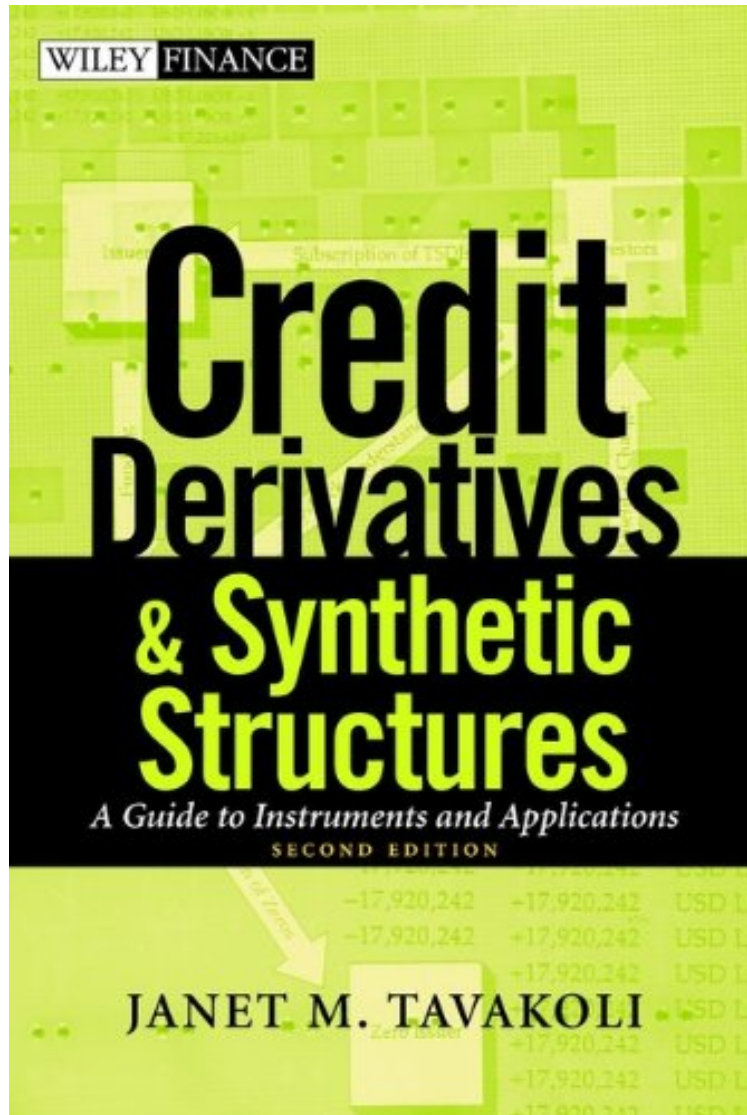


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# Credit Derivatives and Synthetic Structures: A Guide to Instruments and Applications

Janet M. Tavakoli

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consultancy firm are medium size companies there initially was a misfit. However this book is a very good antidote for people putting too much faith in mathematical models. I can not help being one of them. I liked the down to earth approach very much. In the end I learned a lot more than I thought I would. 4 of 4 people found the following review helpful. A Case of Mistaken Identity By Janet M. Tavakoli Thank you to everyone who took the time to review this book. A review posted June 26, 1999 incorrectly claimed I'm the Queen of RAVs, but it's not me. This is a case of mistaken identity. Frank Partnoy wrote an unflattering portrait of an Iranian woman with whom he worked at Morgan Stanley in his book F.I.A.S.C.O., and called her the Queen of RAVs. Personally, I believe that Partnoy painted an inaccurate picture of her, but to be clear she and I are not the same person. My last name is my ex-husband's Iranian name; I'm USA born and bred and of northern European heritage, and I never worked at Morgan Stanley. Frank Partnoy will be happy to confirm that I am not the woman in his book. I know two other women that have Iranian last names, worked at major Wall Street firms, and have expertise in derivatives. Coincidence is not the same thing as correlation. 36 of 37 people found the following review helpful. An Essential Addition for the Credit Derivatives Trader By A Customer Credit derivatives traders and traders of related asset classes such as bonds or asset swaps who want to move into credit derivatives should get this book. Tavakoli starts with an overview of the markets and then examines specific instruments such as total return swaps, credit default swaps, and options, exotic structures and credit linked notes. Synthetic CDOs are also introduced as is are all-important comments on synthetic equity. Credit arbitrage funds also have a section. Documentation, booking and legal issues are explained in an entire chapter devoted to this topic. Tavakoli covers documentation asymmetry, which occurs when two counterparties agree on price, but not on particular points of language in the documentation which leads to basis risk. Anyone trading these products is aware of the potential pitfalls, and these sections alone would make this book an essential read. The book provides only an overview of the various pricing approaches, but discusses the key issues, which revolve around data quality. Particularly irksome are correlation data, default probability data, and data on recovery rates. Traders, marketers, investors, and risk managers who are very quantitative will find this text useful, since it provides a practical guide to pricing in this market. As the author says: "The spread is where the spread is because that's where the market says it is." In this fast growing and evolving market, this is a pragmatic and theoretically sound approach to the market. This book is an essential addition to the finance library of anyone trading or wanting to learn more about credit derivatives.

Fully revised and updated Here is the only comprehensive source that explains the various instruments in the market, their economic value, how to document trades, and more. This new edition includes enhanced treatment of U.S. and worldwide regulatory issues, and new product structures. "If you want to know more about credit derivatives--and these days an increasing number of people do--then you should read this book." --Merton H. Miller, winner, Nobel Prize in Economics, 1990 "Tavakoli brings extraordinary insight and clarity to this fascinating financial evolution . . ." --Carl V. Schuman, Manager, Credit Derivatives, West LB New York Janet M. Tavakoli (Chicago, IL) is Vice President of the Chicago branch of Bank of America, where she directs the company's overall marketing of global derivatives and manages its CreditMetrics initiative.

"If you want to know more about credit derivatives--and these days an increasing number of people do--then you should read this book." --Merton H. Miller, winner, Nobel Prize in Economics, 1990; Robert R. McCormick Distinguished Service Professor Emeritus, University of Chicago Graduate School of Business "Tavakoli brings extraordinary insight and clarity to this fascinating financial evolution. She combines her extensive experience and deep understanding of the derivatives markets with a lucid writing style that makes this an eminently readable volume. This book should set the standard for credit derivatives texts for years to come." --Carl V. Schuman, Manager, Credit Derivatives, WestLB New York "Tavakoli does a remarkable job compiling a highly readable and much needed guide to instruments and applications of credit derivatives. Using charts, examples, basic investment theory, and elementary mathematics, Tavakoli explains the real-world practice and applications of credit derivative products. Credit Derivatives clarifies often misunderstood concepts and offers a framework with which to analyze derivatives and how to make them work." --Stephen Wade Managing Director, UBS Securities LLC Hei Wai Chan, PhD, Director, UBS Securities LLC "Tavakoli has written a book that finally demystifies credit derivatives. It is an easy to understand analysis of the many aspects of the basic products used in this new and innovative derivative structure. Anyone in the banking community as well as the sophisticated derivatives professional will find it both useful and insightful." --Randy Allison Kaufman, Managing Director, Bank Boston, Structured Derivatives From the Publisher Description of the Book: Tavakoli demystifies credit derivatives using real-world examples. She explains the full range of instruments and applications and offers detailed guidelines on how credit derivatives can be used as a mechanism for managing global risk. From the Inside Flap One of today's fastest growing investment and risk management mechanisms, credit derivatives are revolutionizing the financial industry and changing the way banks, institutional investors, and securities traders do business both domestically and globally. While potentially beneficial, these important instruments are complex structures that are often misunderstood and frequently mishandled. Written by credit derivatives specialist Janet Tavakoli, this groundbreaking book--the only comprehensive resource of its kind--demystifies and clarifies all the fine points of credit

derivatives, offering complete details on what they are, how they work, and how best to capitalize on them. Though not new, credit derivatives have just recently grabbed the spotlight as vehicles that can diversify portfolio credit risk by dampening the volatility of possible returns. While many investors and end users are beginning to realize the potential of these products, most have only scratched the surface of understanding how they can be applied to credit line and portfolio management, arbitrage opportunities, and the creation of synthetic assets. Covering these and other current applications, Credit Derivatives provides the foundation necessary to fully grasp and effectively implement these powerful tools. Along with descriptions of the full range of products available in today's marketplace, it explains the economic value of credit derivatives, examines valuation techniques, and, perhaps, most importantly, provides specific guidelines on using them to manage and control risk. Tavakoli demonstrates how credit derivatives have become instruments that enable investors to question, theorize, and create a new framework for evaluating market credit risk. Filled with helpful charts, tables, and graphs, as well as numerous real-world examples, Credit Derivatives offers a complete overview that includes essential information on:

- \* Total Rate of Return Swaps (TRORS)-receiver and payer motivation, mismatched maturities, balance sheet management, loan TRORS mechanics
- \* Credit default swaps and options-basis risk, materiality, price adjustments, termination payments, normalized price method, pricing and applications
- \* Exotic structures-asset swap switches, synthetic lending facilities, basket default options, prorata default structures
- \* Credit Linked Notes (CLNs)-reasons for CLNs, black box structures, collateralized loan obligations, hybrid securitizations
- \* Sovereign risk and emerging markets-tax arbitrage, cross border issues, special event risks, pricing convertibility protection

This accessible and exhaustive guide is must reading for anyone involved in the rapidly growing area of credit derivatives.