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## Estimating Hedge Fund Leverage

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Patrick McGuire (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=341450)  
Bank for International Settlements (BIS)

Kostas Tsatsaronis (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=101412)  
Bank for International Settlements (BIS) - Monetary and Economic Department

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### Abstract


Hedge funds are major players in the international financial system and nimble investment strategies including the use of leverage allow them to build up large positions. Yet the monitoring of systemic risks posed by the build-up of leverage is hampered by incomplete information on hedge funds' balance sheet positions. This paper describes how an extension of "regression-based style analysis" and publicly available data on fund returns yield an indicator of the average amount of funding leverage used by hedge funds. The approach can take into account non-linear exposures through the use of synthetic option returns as possible risk factors. The resulting estimates of leverage are generally plausible for several hedge fund families, in particular those whose returns are well captured by the risk factors used in the estimation. In the absence of more detailed information on hedge fund investments, these estimates can serve as a tool for macro-prudential surveillance of financial system stability.

**Keywords:** hedge funds, systemic risk, leverage, style analysis

**JEL Classification:** G20, G23

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