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2nd Emerging Scholars in Banking & Finance Conference: Further contemporary issues in financial institutions and markets

# Are there benefits to being naked? The returns and diversification impact of capital structure arbitrage

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## **Abstract**

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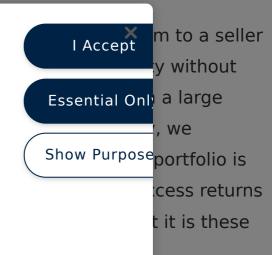
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## Notes

1 Generally, practitioners refer to capital structure arbitrage as holding, for example, a short naked CDS position and an equivalent sized position in the equity of the same firm. However, we extend this definition to simply holding a large cross section of CDS and alternative instruments. A better description for this paper could be macrostructure arbitrage as we include a very wide variety of money market and other investm

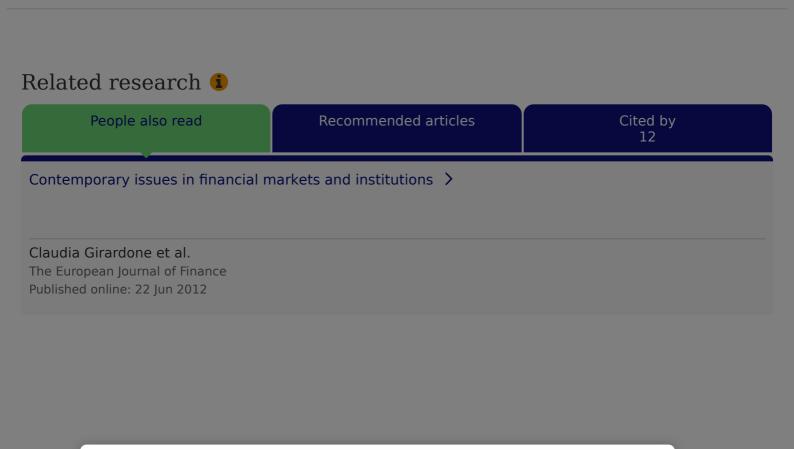
X 2 Source in Europe US House of Rings Ho ial No. 111-Represe 62, 5-17 Gregory assets and Zucken ed. hence th

constituent assets.

4 Source

5 Capita

- 6 Depository Trust & Clearing Corporation, August 2009 CDS Market Report.
- 7 For the fictional perpetual protection case it is . Recall that the value of a perpetuity with a coupon of at 2.5% is \$40 million.
- 8 We gratefully acknowledge the assistance of Thomson Reuters and CMA in assisting in building the instrument baskets. Thomson Reuters DataStream CMA currently provides sector-level basket data using the cross section of assets available in the CMA database and we use this list to build our CDS sector funds.





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