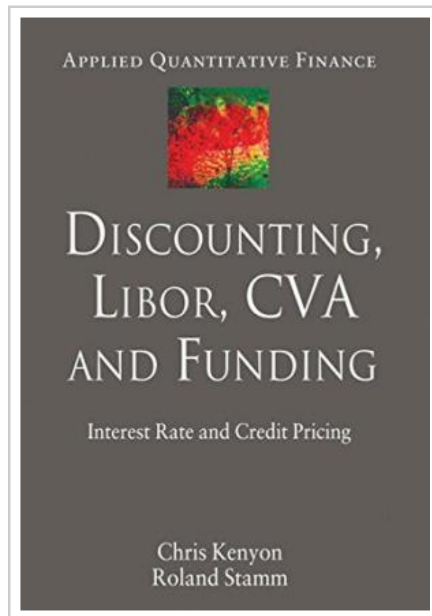

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Discounting, LIBOR, CVA and Funding: Interest Rate and Credit Pricing

By Chris Kenyon

Palgrave. Book Condition: Neu. Neu - The credit and sovereign debt crises have fundamentally changed the way participants in the global financial markets perceive credit risk. In market practice this is most directly visible from significant bases throughout the interest rate world, especially tenor bases, cross-currency bases, and bond-CDS bases. This means that the curve used for discounting is no longer the curve used for LIBOR (aka Fixing Curve or Forwarding Curve). In the last two years a consensus has emerged that this multi-curve pricing is now standard. The crises have also altered the perception of banks and governments - they are no longer regarded as zero-risk counterparties. Now both sides of an uncollateralized trade need to consider, and price in, the risk that the other defaults: my CVA is your DVA. Even collateralization does not remove pricing problems: when you post collateral how much do you have to pay for it This FVA is not symmetric in many ways: whatever it costs you to source it, your counterparty will only pay you OIS. Even worse is that your funding costs are unlikely to be the same as those of all your counterparties. Discounting, LIBOR, CVA and Funding: Interest Rate...

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