Abstract

Credit risk area is one of the most rapidly developing areas of finance. Constantly appearing new credit instruments as well as increasing volume of transactions produce great demand for models that could help to value and manage the risk. The existent credit migration models, however, have a number shortcomings, which make them not very useful in practice. We propose a model, which mitigate many of those problems. Examples of the model use are dynamic pricing of some credit derivatives as well as different risk management applications. This is the second presentation on this topic. The first part was presented at our seminar in April 2005. There the main properties of the new model were presented. At this second presentation the main focus is going to be on the study of introduced correlation between rating migrations in the model.