

Measuring Default Risk Premia from Default Swap Rates and EDFs

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Abstract

This paper estimates recent default risk premia for U.S. corporate debt, based on a close relationship between default probabilities, as estimated by the Moody's KMV EDF measure, and market default swap (CDS) rates. The default-swap data, obtained by CIBC from a large number of dealers and bank counterparties, allow us to establish a strong link between actual and risk-neutral default probabilities for 69 firms in the three sectors that we analyzed: broadcasting and entertainment, healthcare, and oil and gas.

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