FactEntry Cash Synthetic Credit Basis Data

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Purpose

CDS Bond basis dataset tracks the relationship between the two credit driven instruments. Connecting benchmarked CDS spreads against the underlying cash bullet bond's Asset Swap Spread.

Our dataset:

- ✓ Ensures the daily monitoring of the appropriate new issuance on the basis of defined criteria

- ✓ Ensures that the entities that have undergone Credit Corporate Actions (CATS) are updated to justify the relationship between parent and subsidiary debt

- ✓ Relates the Total Outstanding Debt (TED) of an entity to the CDS open trades reported on DTCC

Product Application

Highlights

- Eliminates the theoretical valuation and drives the comparison based on market prices.
- Converges CDS spread to a single maturity point on the curve for the underlying selected bond based on IMM dates.
- Measures volatility between credit and debt instruments on a daily basis
- Tracks CDS for the underlying bond based on a synthetic relationship which can be either positive or negative basis.
- Daily benchmarking measurement and comparison for credit markets.
- Discover relative value between CDS, Cash Bond and Credit Derivative correlation
- Reduced bond inventory with sell side leading to more comparative analysis for credit risk measurement needed
- Cash market relative strategies for buy side

Features

The instruments compare collated credit risk in various forms but relative comparison should not change dramatically.

Total influences on credit instruments are different. The price difference between the corporate bond and CDS contract defines the difference between outperforming and underperforming in terms of tight credit spreads and low yields.

- Compare the Bond spread (ASW) vs Credit Index for a defined Credit Index or a specific entity.

- Measure the relative movement for total debt outstanding and Gross CDS positions for an entity

- Connect the DTCC trade repository data for Credit Index for the underlying CDS entities and cash bonds

- Examine comparison between CDS vs ASW for a sector

- Cash bonds are tracked and monitored for liquidity and activity in the secondary market

- Underlying bond is replaced if "on the run" comes into play for a more relevant updated basis spread

- Various anomalies which aim for theoretical spread are filtered out, hence the use of bullet bonds

- Use three step selection for cash bullet bond versus CDS:
  - ➢ Cash bond maturity defines the CDS point picked

    - ✓ 1st priority Bond closest to 5 year maturity with largest issue size
    - ✓ 2nd priority Bond between 1 to 5 year maturity
    - ✓ 3rd priority Bond between 5 to 10 year maturity

- Two types of Basis relations exist:

  - ➢ negative basis between cash and synthetic

    In cases of negative basis, the cash bond is considered to be cheaper than CDS. This would mean that the investor is buying a bond with a higher yield for the entity with tighter CDS spread. This relationship is tracked over a period of time for changes and for stressed conditions.

  - ➢ positive basis between cash and synthetic

    In cases of positive basis, the price differential is in the same direction with the possible scenario of arbitrage. Hence the investor is unable to take advantage owing to the inconsistency.

Support Team

For feedback, suggestions and any further assistance, please contact us at support@factentry.com

Appendix

Definitions:

Field	Definition
TED	Total Debt issued by an entity in form of bonds
Bond Tenor	Tenor of the bond to maturity
CDS_PV	Interpolated CDS value based on maturity of the underlying bond as of current day
ASW	Asset Swap Spread of the underlying bond
Gross open Notional Amount	"Gross Open Notional Values" are the sum of CDS contracts bought (or equivalently sold) for all contracts in aggregate for single reference entities displayed
Ratio	The ratio between the Gross Open Notional Amount and the total debt of an entity
Credit Index	Indicates if the Entity is a part of iTraxx Europe / iTraxx SovX index (on the run and off the run)

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