EXHIBIT 10

(Part 3 of 3)

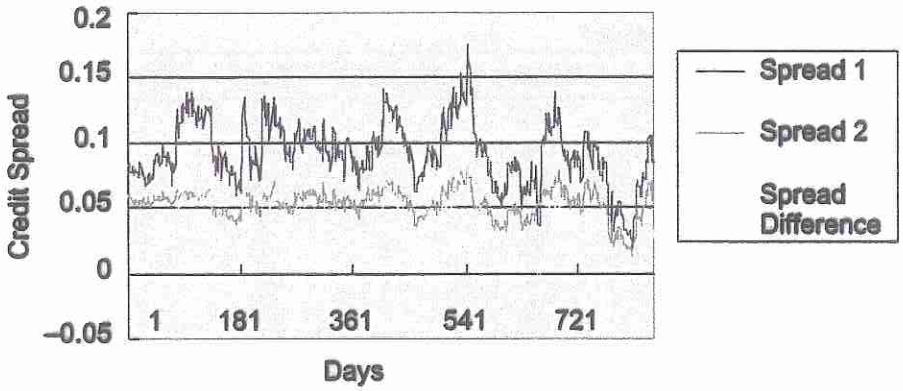
EXHIBIT 15

Average Portfolio Returns of Implied Volatility Convergence Hedge

Days	Returns	t-value	Positive	Negative	Total	Significance
1	0.58%	1.09	12	8	20	0
2	0.03%	0.14	8	12	20	0
3	0.57%	3.49	15	5	20	3
4	0.75%	1.92	13	7	20	1
5	0.69%	1.70	14	6	20	0
6	0.66%	2.11	14	6	20	2
7	0.78%	1.25	12	7	19	0
8	0.73%	1.37	12	6	18	0
9	1.06%	1.42	14	4	18	0
10	0.88%	1.06	11	6	17	0
11	0.88%	1.40	11	6	17	0
12	0.55%	1.28	10	7	17	0
13	0.98%	1.94	12	5	17	1
14	1.32%	1.70	11	6	17	0
15	1.06%	2.13	11	5	16	2
16	1.53%	2.42	12	3	15	2
17	1.24%	1.51	10	4	14	0
18	1.44%	2.04	10	4	14	1
19	1.49%	2.03	9	4	13	1
20	1.71%	2.35	9	4	13	2
21	1.21%	1.61	7	5	12	0
22	1.50%	2.40	8	4	12	2
23	1.81%	2.64	9	3	12	2
24	2.31%	2.80	9	3	12	2
25	2.24%	2.66	10	2	12	2
26	1.79%	2.33	10	2	12	2
27	1.64%	1.90	8	4	12	1
28	1.65%	2.46	10	2	12	2
29	1.96%	2.48	9	3	12	2
30	2.23%	2.99	9	3	12	2
31	1.84%	2.23	9	3	12	2
32	2.44%	2.55	9	3	12	2
33	2.21%	2.26	8	4	12	2
34	2.59%	2.27	9	3	12	2
35	2.88%	2.51	9	3	12	2
36	2.57%	2.25	8	4	12	2
37	2.80%	2.41	9	3	12	2
38	2.72%	2.30	9	3	12	2
39	2.55%	1.73	8	4	12	0
40	2.69%	2.30	8	4	12	2
41	2.22%	1.80	7	5	12	1
42	1.26%	0.86	6	6	12	0
43	1.69%	1.36	7	5	12	0
44	1.52%	1.19	8	4	12	0
45	1.60%	1.34	7	5	12	0
46	1.54%	1.24	6	6	12	0
47	2.02%	1.60	7	5	12	0
48	1.95%	1.51	6	6	12	0
49	2.57%	2.15	8	4	12	1
50	2.51%	1.93	7	5	12	1
51	2.81%	2.05	7	5	12	1
52	3.23%	2.54	8	4	12	2
53	3.56%	2.56	8	4	12	2
54	4.07%	2.67	7	4	11	2
55	3.11%	2.06	7	4	11	1
56	2.73%	1.76	6	5	11	0
57	3.10%	2.35	7	4	11	2
58	2.89%	1.84	6	5	11	1
59	2.77%	1.81	5	6	11	1
60	1.95%	1.07	5	6	11	0
61	2.45%	1.38	5	6	11	0
62	2.09%	1.24	6	5	11	0
63	1.48%	0.89	6	5	11	0
64	2.45%	1.63	7	4	11	0
65	2.57%	1.85	7	4	11	1
66	0.82%	0.48	6	5	11	0

Note: The portfolio is set up by buying low implied volatility and shorting large implied volatility CBs of the same issuer. It is a zero initial self-investment capital hedging strategy. The returns are listed as days from the first set-up day of the portfolio when the implied volatility difference exceeds its threshold. In the last column, 1, 2, and 3 denote statistical significance at the 10%, 5%, and 1% levels of a two-tail test, respectively.

EXHIBIT 16
Credit Spread Relationship



To identify a credit spread trading opportunity, a portfolio is set up when the credit spread difference of CBs is large relative to their historical means. We buy the CBs with lower credit spread and short the CBs with higher credit spread of the same issuer. Another requirement of this hedge is that the portfolio should generate non-negative cash flows with the two CBs. In every consecutive five trading days (one week), one portfolio will be set up at the first time an abnormal credit spread difference shows up. No initial self-capital investment is required for the hedging strategy, and the returns are calculated as the returns of total long assets. The portfolio is set up by buying low credit spread and shorting large credit spread CBs of the same issuer.

Because the credit spread between CBs of the same issuer could be normal, if all other factors stay the same in each reset, the portfolio returns could grow larger as time goes on as a result of the normal difference. In Exhibit 17, we show the first difference of average portfolio returns of credit hedging. The first difference is calculated as the up-to-date returns subtracted from the returns in the first set-up day. In order to get a clear picture, the returns are listed as both months and days from the first set-up day of the portfolio when the credit spread difference is large enough. From Panel A of Exhibit 17, we find that the month-end portfolio returns are positive and economically significant as a whole. The returns are mostly significant during the first five months. The number of positive observations is larger than that of negative ones. If we analyze total returns rather than first differences, we find that they are positive and significant at a level of at least 5%.

Panel B of Exhibit 17 reports the first difference day-end returns for the first one month from the first set-up day when the credit spread difference is large enough. The return of the first day is the total returns of the portfolio at the end of the first day; the other returns are listed as the first difference of this first day's return. We find that the total return of the first day is positive and significant at a level of 1% at the first set-up date of the portfolio. From the second to the fifth day, the first difference return is negative, and it becomes positive thereafter. The number of positive observations becomes larger than that of negative ones from the sixth day. From this, we may say that the market corrects the credit spread difference quite quickly, and the market is efficient here. The bond part of the market efficiency is different from the option counterpart, which might result from the different liquidity of the option market and the corporate bond market.[16]

CALL OPTION HEDGE

To explore the effects of volatility on CB hedging strategies, this section examines the relationship between options and CBs of the same issuer to find possible arbitrage opportunities. Here we tried to locate the CBs whose exercise price is much higher than the current stock price. We sell deep out-of-the-money call options of the same issuing firms and buy CBs to get higher possible hedged returns compared

EXHIBIT 17

Returns of Credit Spread Convergence Hedge

Panel A. Month-end Returns from the First Set-up Day when Credit Spread Difference Exceeds its Threshold

Months	Returns	*t*-value	Positive	Negative	Total	Significance
1	3.13%	1.87	16	6	22	1
2	2.39%	1.62	9	5	14	0
3	4.18%	2.59	8	1	9	2
4	5.97%	3.73	7	0	7	3
5	4.89%	2.27	6	1	7	1
6	3.51%	1.39	3	1	4	0
7	4.90%	1.30	2	1	3	0
8	2.24%	0.46	2	1	3	0
9	0.74%	0.14	2	1	3	0
10	4.25%	2.21	3	0	3	0
11	6.14%	3.29	2	0	2	1
12	9.36%	2.90	2	0	2	0
13	13.54%	11.05	2	0	2	3
14	13.97%	3.89	2	0	2	1
15	17.23%	2.34	2	0	2	0
16	19.07%	1.82	2	0	2	0
17	18.41%	1.71	2	0	2	0
18	25.83%	1.63	2	0	2	0
19	23.90%	1.70	2	0	2	0

Panel B. Day-end Returns from the First Set-up Day when Credit Spread Difference Exceeds its Threshold

Days	Returns	*t*-value	Positive	Negative	Total	Significance
1	2.88%	2.75	21	12	33	3
2	–0.12%	–0.14	21	12	33	0
3	–0.12%	–0.18	16	17	33	0
4	–1.36%	–1.46	16	17	33	0
5	–0.23%	–0.40	15	18	33	0
6	0.28%	0.34	20	13	33	0
7	1.31%	0.98	21	12	33	0
8	0.65%	0.53	21	12	33	0
9	0.90%	0.71	21	12	33	0
10	1.88%	1.77	21	9	30	1
11	1.58%	1.51	19	10	29	0
12	1.92%	1.96	21	8	29	1
13	2.05%	2.16	20	9	29	2
14	2.01%	1.75	15	13	28	1
15	1.28%	1.09	12	15	27	0
16	1.92%	1.52	13	13	26	0
17	1.96%	1.55	16	10	26	0
18	2.26%	1.60	18	8	26	0
19	2.48%	1.69	17	9	26	0
20	2.99%	1.73	16	7	23	1
21	3.13%	1.87	16	6	22	1

Note: In the last column, 1, 2, and 3 denote statistical significance at the 10%, 5%, and 1% levels of a two-tail test, respectively.

with a naked position in CBs. These options are chosen with the most similar exercise prices and much less maturity. The price of these call options is generally a few cents only.

The trading strategy for this hedge is to have buy-and-hold returns over the overlapped life of the CBs and call options. The intention of the strategy is to sell the hedged call option while hoping it will not get exercised until the maturity date of the option, by taking advantage of deep out-of-moneyness. If the option does not end in-the-money, the portfolio can generate returns from the price gains or losses of the CBs, the coupon rate of the CBs, and the original price to write the call option. On the other hand, if the option ends in-the-money, the portfolio will realize the returns from the coupon rate of the CBs and the original price to write the call option if the number of long and short positions matches.

In this study, we identify the opportunity by locating CBs whose exercise price is at least as high as 250% of the current stock price and check moneyness at the end to calculate the buy-and-hold returns of the hedged portfolio. The number of call options being shorted is set to be equal to the conversion shares of the long CBs position. This hedging strategy requires an initial self-capital investment, and the returns are calculated as the returns of the initial capital. We only calculate the buy-and-hold returns of the portfolio and annualize the returns to make it comparable among different opportunities. Only 3 out of the 17 CBs finally end in-the-money in the studied period. The annualized median of the returns is 32.39%. However, because the liquidity of the deep out-of-money options and CBs is very low, normally it is difficult to set up large positions and make big profits from this trading strategy.

CAPITAL STRUCTURE HEDGE

Besides using CBs, we can also use other corporate bonds issued by the same firm to set up a hedging portfolio. Some of the bonds have low ratings but can generate potentially high returns. For others, it is the reverse. We can use the combination of CBs and other non-convertible corporate bonds to pursue possible arbitrage opportunities. For each issuer, we refer to the highest yield (lowest yield) bond as the high- (low-) yield bond. We conjecture that price inefficiency is more likely to exist in low-rated debentures, so the capital structure hedge studied here is mainly focused on low-rated CB issuers.

The hedging portfolio is set up using two types of trading strategies. The first one is to buy CBs with a rating of B or lower and short-sell the low-yield bond of the same issuer. There is no initial self-capital investment, and the returns are calculated as the returns of total long assets. Exhibit 18 reports the returns of such hedging strategies from the issuance date of the CBs.

We find that the returns are positive in the first 26 months from the issuance of CBs, most of which become significant after the third month. From the second month, the number of positive return observations becomes larger than that of negative ones. If we focus only on CBs that are rated Caa or below, the returns of the portfolio are higher; if we use all the issuing firms instead, the returns are smaller.

The second trading strategy of the capital structure hedging is to short-sell CBs with a rating of B and under, and buy high-yield bonds of the same issuer. Exhibit 19 reports the returns of such hedging strategies from the issuance date of the CBs. The price of pure bonds cannot go up very high, while the CB price does not have an upper price limit, so we add a 25%-up stop-loss strategy when setting up the portfolio in order to close out the position when the CB's price goes up 25%.

From Exhibit 19, we find that the returns during the earlier period are positive on the whole but become negative from the twelfth month. This pattern is consistent with the findings that during the earlier period, investing in the low-rated CBs will generate negative returns over the first few months from the issuance only. If we analyze the daily returns of the first month from the issuance date of CBs, which is shown in Part B of Exhibit 19, we find that during earlier days, the returns are volatile and not significant. From the beginning of the fourth week, the returns are positive and significant at a level of 10%.

CREDIT DEFAULT SWAP HEDGE

A credit default swap is the most popular form of credit derivative, allowing a party to buy or sell credit protection against a given reference entity. To obtain credit protection, the buyer of a CDS makes periodic payments to the credit protection seller. In the event of default (i.e., a credit event) of the reference entity, the

EXHIBIT 18

Capital Structure Hedge: Long CBs and Short Bonds

Months	Returns	*t*-value	Positive	Negative	Total	Significance
1	0.87%	0.44	4	5	9	0
2	5.37%	1.20	6	3	9	0
3	4.43%	1.26	7	4	11	0
4	3.41%	2.37	7	2	9	2
5	4.37%	1.23	3	3	6	0
6	5.93%	2.27	5	3	8	1
7	5.52%	2.63	7	2	9	2
8	5.20%	2.19	6	2	8	1
9	7.62%	2.21	3	2	5	1
10	14.82%	3.77	7	0	7	3
11	15.80%	2.97	6	0	6	2
12	16.72%	2.04	6	0	6	1
13	14.70%	1.71	4	2	6	0
14	18.07%	1.62	4	1	5	0
15	29.50%	1.33	1	1	2	0
16	8.37%	3.21	2	0	2	1
17	2.06%	0.51	3	1	4	0
18	9.53%	2.54	3	0	3	1
19	11.07%	1.08	2	1	3	0
20	8.47%	1.44	4	1	5	0
21	6.27%	1.19	3	1	4	0
22	15.37%	4.02	4	0	4	2
23	16.21%	2.87	3	0	3	1
24	16.58%	2.52	3	0	3	1
25	20.43%	4.25	4	0	4	2
26	19.12%	3.44	4	0	4	2

credit protection seller either will take delivery of the defaulted bond paying par value (physical settlement) or will pay the buyer the difference between the par value and the recovery amount of the bond (cash settlement). Thus, if an investor buys a CB while simultaneously buying a CDS where the reference entity is the issuer of that CB, the investor is in fact transferring the credit risk associated with the CB.[17] This is appealing because a large portion of CBs issued in the U.S. are noninvestment grade and therefore have significant credit risk.

The trading strategy studied here is based on the previous finding that issuers perform better than average after the issuance of CBs. The portfolio is set up by simultaneously buying CBs and buying CDS to transfer the credit risk. In the event of a default, the holder of the portfolio has the right to sell the protected CB to the CDS seller for par value or received a cash payment for the impaired CB values, depending on the settlement method (physical or cash). This trading strategy provides investors with more comfort when buying low-rated CBs, while pursuing potentially high returns.

Exhibit 20 reports the month-end returns for this strategy for the subsample of the firms in our study where CDS prices were available at the time of issuance, 16 firms. The CDS price data used in computing the returns were for CDS contracts with a term of three years, using the average bid and ask price at the issuance date of the CB. The returns reported in Exhibit 20 are calculated as the returns of a simulated portfolio with zero initial self-capital investment from the issue date.

On the whole, we find that portfolios of long bonds with CDS protection to hedge credit risk do not exhibit stalwart performance over the first year subsequent to their issuance. Average returns are negative and insignificant over the first eight months following the issuance.

EXHIBIT 19

Capital Structure Hedge: Long Bonds and Short CBs

Panel A. Month-end Portfolio Performance

Months	Returns	*t*-value	Positive	Negative	Total	Significance
1	5.29%	2.14	7	2	9	1
2	5.65%	1.38	5	1	6	0
3	8.12%	1.59	6	2	8	0
4	11.46%	2.04	4	1	5	1
5	14.93%	1.22	2	1	3	0
6	3.62%	0.59	2	5	7	0
7	12.52%	1.36	3	1	4	0
8	26.36%	2.13	2	0	2	0
9	28.20%	1.95	2	0	2	0
10	14.21%	1.16	2	1	3	0
11	25.80%	1.59	2	0	2	0
12	–0.34%	–0.08	1	1	2	0

Panel B. Day-end Portfolio Performance

Days	Returns	*t*-value	Positive	Negative	Total	Significance
1	1.61%	0.87	5	2	7	0
2	1.26%	0.88	4	4	8	0
3	–0.43%	–0.25	3	5	8	0
4	1.18%	0.73	5	5	10	0
5	0.48%	0.16	3	3	6	0
6	0.29%	0.17	5	4	9	0
7	–0.85%	–0.43	3	5	8	0
8	2.52%	1.35	5	3	8	0
9	2.34%	1.04	6	3	9	0
10	3.72%	1.79	7	1	8	0
11	2.03%	0.85	5	4	9	0
12	3.28%	1.50	7	2	9	0
13	3.55%	1.43	7	2	9	0
14	3.37%	1.45	7	4	11	0
15	5.07%	1.99	6	3	9	1
16	6.02%	2.07	6	2	8	1
17	5.88%	2.01	5	2	7	1
18	6.65%	2.29	6	2	8	1
19	6.26%	2.20	5	4	9	1
20	4.38%	2.00	6	5	11	1
21	5.29%	2.14	7	2	9	1

Note: In the last column, 1, 2, and 3 denote statistical significance at the 10%, 5%. and 1% levels of a two-tail test, respectively.

For the limited sample with data extending beyond one year, average returns do improve, however, after 14 months subsequent to the CB issuance.

The limited sample size for testing this strategy makes it difficult to make any statement about the viability of this trading strategy. No doubt that with the increase in the number of reference entities for which credit protection can be bought, future studies will be provide more insight into this strategy.

CONCLUSION

This article examines the returns of several hedged portfolios involving CBs. In particular, we test for

EXHIBIT 20

Returns CDS Hedge from Issue Date

Months	Returns	t-value	Positive	Negative	Total	Significance
1	-0.65%	-0.58	8	8	16	0
2	-1.25%	-0.67	6	10	16	0
3	-2.62%	-0.84	6	9	15	0
4	-2.70%	-0.85	5	10	15	0
5	-6.38%	-1.10	6	9	15	0
6	-4.32%	-1.05	4	9	13	0
7	-2.48%	-0.50	5	8	13	0
8	-0.65%	-0.12	6	6	12	0
9	4.59%	0.81	6	6	12	0
10	3.78%	0.57	5	6	11	0
11	1.34%	0.21	5	6	11	0
12	2.29%	0.30	5	5	10	0
13	-0.61%	-0.07	5	4	9	0
14	9.23%	0.81	4	3	7	0
15	9.57%	0.82	4	3	7	0
16	12.36%	1.18	4	3	7	0
17	14.49%	1.61	5	2	7	0
18	12.01%	1.56	5	2	7	0
19	5.96%	0.87	4	2	6	0
20	3.20%	0.53	4	2	6	0
21	2.99%	0.64	3	2	5	0
22	9.36%	1.99	4	1	5	0
23	10.82%	2.27	4	1	5	1
24	19.17%	2.49	4	1	5	1
25	17.56%	1.92	4	1	5	0
26	19.27%	2.09	3	1	4	0
27	21.76%	1.83	3	1	4	0
28	23.23%	2.12	3	1	4	0
29	20.12%	2.01	3	1	4	0
30	19.20%	2.35	3	1	4	1
31	21.11%	2.34	4	0	4	1
32	22.96%	2.58	3	1	4	1
33	39.57%	2.62	3	0	3	1
34	42.53%	2.61	3	0	3	1
35	29.16%	2.28	2	0	2	0
36	28.64%	2.34	2	0	2	0

Note: The portfolio is set up by going long CBs and buying CDS to transfer the credit risk in the portfolio. In the last column, 1, 2, and 3 denote statistical significance at the 10%, 5%, and 1% levels of a two-tail test, respectively.

deviations from the law of one price by studying the relative returns of different combinations of long CBs with short positions in the underlying stocks, which include equal money positions, delta-neutral positions, and bearish/bullish gamma positions.

These trading strategies are found to be robust to alternative specifications of transaction costs, leverage effects, and alternative parameter inputs. We also examine trading profits of buying CBs deemed to be relatively "cheap" and short-selling those deemed to be expensive, employing as our criteria for cheap and rich the abnormal implied volatility difference as well as the abnormal credit spread difference for CBs issued by identical firms.

We also test strategies that involve portfolios that comprise returns of CBs versus call options or other corporate bonds of the same issuer. Finally, since a large portion of CBs issued in the United States are rated noninvestment grade, we also look at the performance of

portfolios of CBs that are combined with credit default swaps in order to remove credit risk.

The returns are calculated based on portfolios simulated under trading strategies that are employed in several distinct scenarios. We find that investors can benefit from acquiring CBs at issuance and holding certain hedged positions. Hedged positions that are based on the characteristics of the bonds are shown to provide superior absolute and relative returns. The bullish gamma hedging strategy taken at the time of the issuance of the convertibles and the delta-neutral strategy with larger delta change tolerance are found to be particularly advantageous. Meaningful hedging opportunities between convertibles and other financial instruments are also observed. In summary, we find support for trading opportunities with CB-related strategies, suggesting that market commentators that predict the demise of such opportunities in the CB market may be wrong.

ENDNOTES

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[1]Knutson [1971] looks at the accounting implications of convertible bond costs and their impact on the financial statements of firms. He suggests that managers should be aware of how costly convertible securities are likely to be. Further, caution should be taken by both managers and investors when analyzing the effect convertible securities could have on firms' statements. Knutson found that, on average, convertibles securities are more costly than indicated in the firm's financial statements. The understatement of the real cost of convertibles is, on average, 55% for debt convertibles. This explains the undervaluation of costs in financial statements. These misrepresentations caused by convertible securities tend to overstate earnings per share. Further, he found that in many cases the "fully-diluted earnings per share more closely approximates real earnings per share than does primary." This means the real cost of convertibles is clearly higher than the nominal interest on face value of the securities, and managers and investors should give special attention to the real costs of these securities. The strong analogy for some issues with executive stock options suggests that our results may be of interest to the latter literature as well.

[2]For example, in *Business Week* (November 16, 1998), it is suggested that a company's convertible bond tends to rise at two-thirds the rate of its common stock price.

[3]See Fama [1991].

[4]Stefanini [2007] discusses the mechanics of several strategies of this sort. The proportion of the market that hedge funds occupy has more than doubled since 1994. Hedge funds provide liquidity in the market by frequent trading and by taking offsetting positions to other institutions by taking over their convertible bond positions when the underlying stock price begins to rise. In such cases, the convertible bond starts to track the stock's performance, making the security less appealing to institutions preferring to own the stock outright rather than the bond.

[5]For example, Duarte, Longstaff, and Yu [2006] test the risk and return of a number of fixed income arbitrage strategies over the period and excess returns on the order of 1% to 6% each year. They find positive arbitrage returns, but the returns that are more significant for trading strategies involve more "intellectual capital."

[6]We also performed the tests using the yield of the Moody's Baa corporate bond index as a proxy for the borrowing rate. The results are robust to the use of this variable and are available from the authors on request.

[7]We would like to thank the referee for this suggestion.

[8]Since S&P return volatility is closely correlated with the interest rate risk and credit risk, to use this measure as a proxy for equity risk would give rise to a collinearity problem in the regression analyses.

[9]This proxy for interest rate risk assumes mean reversion of interest rates and term spreads. The results are robust to other spread proxies and return differentials based on other maturities, as well as on spreads based on interest rate differentials for different maturities.

[10]When the CBs trade above par, CB arbitrage is a convergence strategy, as mentioned above—as underlying stock prices tend to converge—hence declining equity prices are more likely to be matched by similar declines in the CBs (as in the well-publicized case of GM in 2005, when both its equity and bond prices collapsed in tandem). This does not rule out the effects of increased competition caused by a profusion of CB arbitrageurs in the marketplace, which would reduce the potential benefits of such trading strategies. It should be noted that our trading strategy compares favorably with the returns from a convertible hedge fund portfolio based on the HFR Convertible Index. Specifically, for the entire sample period, the average one-month holding period of the HFR Convertible Index is 0.823% (t-value =0.833) versus our strategy return of 1.12% (t-value = 1.70). For the sample covering through 2001, our strategy's one-month average return of 2.63% (t-value = 2.47) dominates the HFR Convertible Index return of 0.96% (t-value = 0.998). For the post-2001 sample, neither portfolio provides significant returns (average return for our strategy –0.54%

(t-value = −0.79) vs. HFR Convertible Index average return of 0.49% (t-value = 0.50)).

[11]Leverage ratio is calculated as value of debt in a long position in a hedge/self capital requirement.

[12]According to the net capital requirements for brokers and dealers, the capital requirement for a hedge position of convertible debt securities should be no less than the 15% of the market value of the long position in the hedge. From this rule, it can be said that the upper limit for the leverage ratio is 85%/15% = 5.67.

[13]These results are omitted to conserve space and are available on request.

[14]We also performed a risk-component analysis for gamma hedging; we find that all three risk components (equity, interest rate, and credit risk) are significantly negative at a level of 1%.

[15]We also perform a risk-component analysis for the portfolio returns after each reset with a strategy of resetting when implied volatility changes floating values. We find that the equity risk and credit risk influence play the key role for this strategy: they are significantly negative at the 1% level. As a contrast, the interest rate risk has positive influence, but it is not significant.

[16]For the risk components for the portfolio returns after each reset with a strategy of resetting when credit spread change floating values, we find all three risk factors have significant negative influences at a level of 1%. Compared with that of the implied volatility convergence strategy, the credit spread convergence can generate returns in a longer period because interest rate differences could persist between different CBs of the same issuer.

[17]The investor in such a strategy is still subject to CDS counterparty risk.

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