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**MATHIEU BOUDREAU**, Université du Québec à Montréal

*Estimation of Asset Correlations with Transient Shocks in a Multi-name Credit Risk Model*

It is well documented (Aït-Sahalia (2004), Duan and Fulop (2009), Johannes et al. (2009)) that asset prices are contaminated by trading noise which make it difficult to distinguish permanent from transient shocks. In this presentation, we will show how transient shocks impact the estimation of asset correlations in a general multi-name credit risk model. An estimation technique is presented and the statistical properties of this estimator are compared with other approaches. We conclude with an empirical example where we find that ignoring trading noise can seriously underestimate asset correlations and consequently, credit risk measures used for risk management.