

Synthetic CDO

Synthetic CDOs, such as Goldman Sachs’s Abacus 2004-1 deal, were complex paper transactions involving credit default swaps.

1. Short investors

Short investors enter into credit default swaps with the CDO, referencing assets such as mortgage-backed securities. The CDO receives swap premiums. If the reference securities do not perform, the CDO pays out to the short investors.

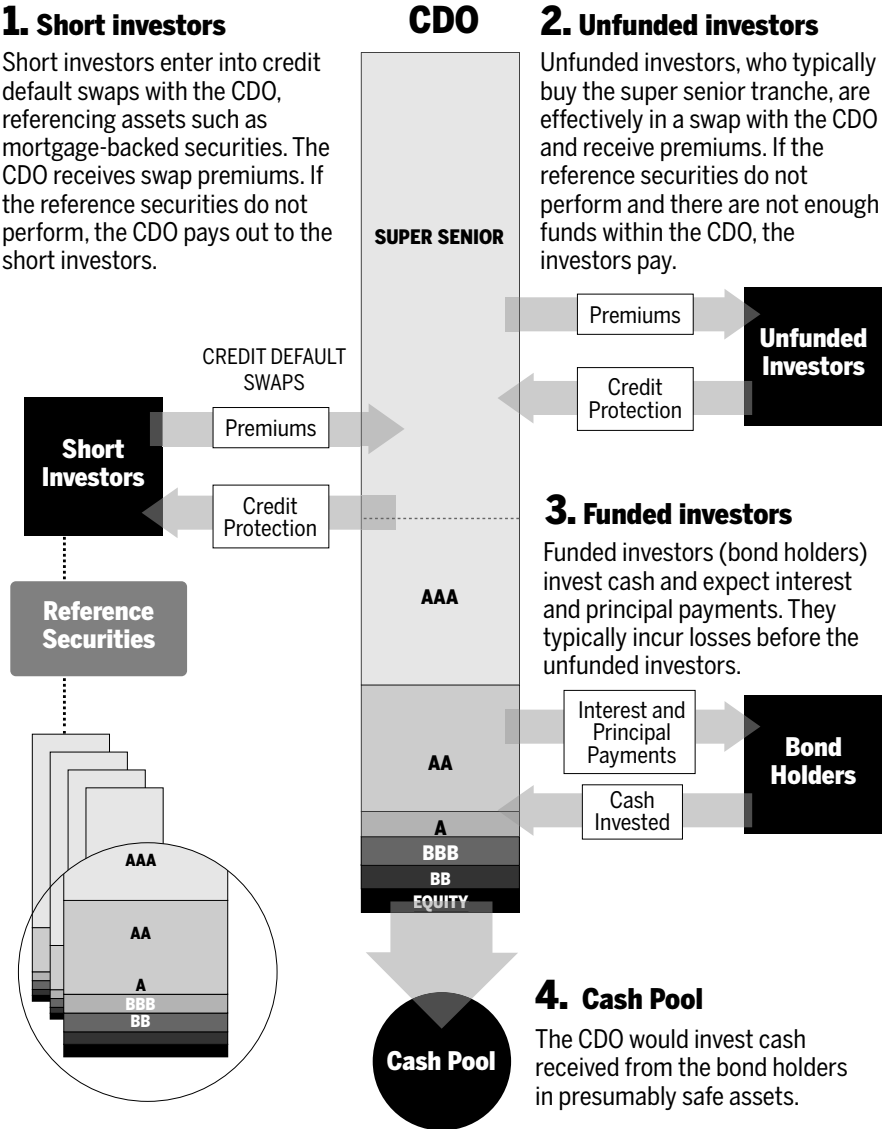


Figure 8.2