1023-60-1045 **Tomasz R Bielecki*** (bielecki@iit.edu), 10 W. 32nd Street, E1 Bldg., Room 208, Chicago, IL 60616, and **Monique Jeanblanc** and **Marek Rutkowski**. *Pricing and Trading Credit Default Swaps.*

The topic of this work is a detailed study of stylized credit default swaps within the framework of a generic reduced-form credit risk model. The set-up presented in this work covers various alternative approaches, which are usually classified as, for instance, value-of-the-firm approach, intensity-based approach, copula-based approach, etc. The main goal is to develop general results dealing with the relative valuation of defaultable claims (credit derivatives) with respect to market values of traded credit-risk sensitive securities. As expected, we have chosen stylized credit default swaps (CDSs) as liquidly traded assets,so that other credit derivatives are valued with respect to CDS spreads as a benchmark. We show that a generic defaultable claim (or a generic basket claim, in the case of several underlying credit names) can be replicated by a dynamical trading in single-name CDSs. The most important case is hedging of first-to-default contracts using the underlying single-name CDSs. We examine this issue under the assumptions of deterministic and stochastic pre-default intensities. (Received September 24, 2006)