



Press Release

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New EDHEC-Risk Institute study addresses Volatility ETNs following the Credit Suisse TVIX controversy of early 2012

Gaining exposure to volatility has become easier for investors after the introduction of volatility ETNs (exchange-traded notes) and volatility ETFs (exchange-traded funds) and some of these products have enjoyed a surge in popularity.

In the wake of the incidents of spring 2012 involving the TVIX ETN issued by Credit Suisse, EDHEC-Risk Institute has published a new study entitled “**The Risks of Volatility ETNs: a Recent Incident and Underlying Issues**,” which sheds light on the nature of volatility ETNs and the issues involved in the TVIX crisis.

EDHEC-Risk’s analysis of the incident indicates that the distortion was created by factors specific to ETNs, **with no relation to the particular exposure to a volatility index**. The main factors suggested by the academic literature are the **inefficient share creation process and the speculative motive of uninformed, return-chasing investors**. Under normal market conditions, short-selling can suppress the accumulation of positive premiums. However, if share creation is suspended during a significant surge in demand the security may become unavailable for borrowing, which limits short-selling activities.

The EDHEC-Risk study notes that **the volatility exposure through volatility exchange-traded products is typically to a constant-maturity VIX futures index that can differ substantially from the spot VIX index**. Short maturities are characterised by higher sensitivity to VIX but also higher roll-over costs.

Overall, investors in volatility ETNs need to be aware that

- (i) **the underlying that the product is tracking does not correspond to the actual volatility index but to a systematic strategy of investing into volatility index futures, and**
- (ii) **an ETN risks having its returns decoupled from the underlying.**

Product providers, on the other hand, need to ensure that sufficient education is provided to investors on the limits of such products in order for the significant growth in these products to be sustainable.

A copy of the EDHEC-Risk study can be downloaded here:

[EDHEC-Risk Publication Risks of Volatility ETNs: a Recent Incident and Underlying Issues](#)



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About EDHEC Risk Institute

Since 2001, EDHEC has been pursuing an ambitious policy in terms of international research. This policy, known as “Research for Business”, aims to make EDHEC an academic institution of reference for the industry in a small number of areas in which the school has reached critical mass in terms of expertise and research results. Among these areas, asset and risk management have occupied privileged positions, leading to the creation in 2001 of a major research facility: EDHEC-Risk Institute. This institute now boasts a team of 85 permanent professors, engineers and support staff, as well as 45 research associates from the financial industry and affiliate professors.

EDHEC-Risk Institute is located at campuses in Singapore, which was established at the invitation of the Monetary Authority of Singapore (MAS), the City of London in the United Kingdom, and Nice, France. In addition, it has a research team located in the United States. The philosophy of the institute is to validate its work by publication in prestigious academic journals, but also to make it available to professionals and to participate in industry debate through its Position Papers, published studies and conferences. Each year, EDHEC-Risk organises two conferences for professionals in order to present the results of its research, one in London (EDHEC-Risk Days Europe) and one in Singapore (EDHEC-Risk Days Asia), attracting more than 2,000 professional delegates.

To ensure the distribution of its research to the industry, EDHEC-Risk also provides professionals with access to its website, www.edhec-risk.com, which is entirely devoted to international risk and asset management research. The website, which has more than 55,000 regular visitors, is aimed at professionals who wish to benefit from EDHEC-Risk’s analysis and expertise in the area of applied portfolio management research. Its monthly newsletter is distributed to more than 1,400,000 readers.

EDHEC-Risk Institute also has highly significant executive education activities for professionals. In partnership with CFA Institute, it has developed advanced seminars based on its research which are available to CFA charterholders and have been taking place since 2008 in New York, Singapore and London. EDHEC-Risk Institute has an original PhD in Finance programme which, in addition to its highly selective residential track for young talents worldwide, has an executive track for high level professionals who already have master’s degrees from prestigious universities and significant industry experience. Complementing the core faculty, this unique PhD in Finance programme has highly prestigious affiliate faculty from universities such as Princeton, Wharton, Oxford, Chicago and CalTech.

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