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Dear Sir/Madam,

Subject: Equity Derivatives

On behalf of the Valuation and Advisory Team of CBRE Greater China, I would like to congratulate IVSC on the exposure draft for the valuation of equity derivatives. As the Senior Director of Business and Financial Instruments Valuations in Hong Kong, my team has encountered a number of derivatives valuation projects in the past and would have certainly found this paper useful if it was available then. My team specializes in providing our clients with an independent valuation service for their financial instruments, which includes derivatives like convertible bonds and share options, typically for financial reporting and auditing purposes. It is with great pleasure that I present my comments to select questions in regards to your exposure draft below.

In respect to questions 1 – 3, I believe the paper has covered all of the broad areas of equity derivatives. However, it may be beneficial to mention and explain commonly used option products such as rights issues and employee share options (perhaps explain vesting schedules and how it impacts valuations). Apart from that, there are no other material omissions in my opinion and the descriptions provided for each of the listed products are sufficiently detailed. One area where I think that can be expanded on, are the extensions of the Black-Scholes model (paragraph 46). It would be helpful to know how the extended models actually differ from the typical Black-Scholes formula, as this would allow the reader to understand how it may be applied in a practical context. For the sake of completeness, I also think that more complicated derivatives and strategies should be included in the paper, but only for the popular strategies i.e. bull call/put spreads, bear call/put spreads, butterfly, straddles, strangles and collars.

In respect to questions 4 – 7, I personally think that the inclusion of formulae plays an important role in the understanding of principles, but only if all the variables are properly labeled and explained. The addition of formulae, graphs and charts should also benefit other areas of the paper, such as the Black Scholes model (formula), jump diffusion models (an example graph to

illustrate price jumps) and options (payoff diagrams). Given the objective of the paper, I believe that the information on the inputs to the valuation models is largely sufficient. Lastly, to enhance the practicality of the paper, it would be exceedingly useful to map out each model to a preferred list of products and detail why the chosen model is the most appropriate for the valuation.

In addition to the above comments, I noticed that there were a few sentences missing the words "the" or "of" in them (e.g. Paragraph 18, first and second sentences). Since this is a draft, I trust that this would be fixed prior to publication. Let me know if you have any additional queries to the above comments.

Best Regards,

Alex Leung
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CBRE Limited