

International Valuation Standard Council  
1 King Street  
London  
EC2V 8AU

By email: [CommentLetter@ivsc.org](mailto:CommentLetter@ivsc.org)

30 November 2014

Dear Sir,

**Ref.: Exposure Draft – The Valuation of Equity Derivatives**

We are writing to you to comment on the International Valuation Standard Council ('IVSC') above referenced Exposure Draft (ED). ISDA<sup>1</sup> welcomes the opportunity to comment on the second draft on this topic. Generally, we are supportive of the IVSC's initiative to provide information and guidance around current and complex valuation topics. For example, we believe that the IVSC drafted an excellent Exposure Draft on 'Credit and Debit Valuation Adjustments'.

We believe that the IVSC's time and resource is best spent working on specific financial instruments related valuation topics that are contentious and / or complex, such that additional valuation guidance is helpful to the industry. These issues are those where there is actual or potential diversity in valuation practice. The IVSC's recent work on CVA / DVA and the now expected paper on FVA are good examples of such issues.

However, the above referenced ED is different because it is not centred on an individual valuation issue but tackles a whole section of the derivatives market, which is too large to cover in an individual paper. In other words, we believe that the scope of the paper needs to be redefined to address only the most contentious valuation issues associated with equity derivatives (to the extent there are any) or the project should be withdrawn.

We believe that, due to the complexity of the subject, some sections of the ED such as paragraphs 8 – 10, may be somewhat simplistic and others, such as paragraphs 20 – 21, not sufficiently detailed. In particular, the section describing the different equity derivative products lacks considerable depth and does not add particular value. We believe that rather than provide a list of the main types of equity

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<sup>1</sup> Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 62 countries. These members include a broad range of OTC derivatives market participants including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure including exchanges, clearinghouses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: [www.isda.org](http://www.isda.org)

derivatives, the ED could give greater emphasis to identifying the principles expected to be applied by the valuation practice on this area.

The objective of the ED should be to assist valuation and risk professionals by identifying principles of best practice and also to provide useful insight on complex valuation issues to contribute to enhanced transparency regarding valuations practice. For example, the section discussing strategies in paragraphs 24 – 25 may be too narrow and very difficult to link with the valuation principles included later on in the paper.

The audience of the document is unclear, i.e. who is the document addressing? While paragraph 34 is addressed to ‘investors in the real world’, the general drafting of the paper seems to be geared towards large entities in the financial services industry and individuals with little or no understanding of equity derivatives.

The topic considered in the ED is highly technical and some of the models and applications which are used in practice for valuations are very complex. We believe that the general descriptions used in the central chapters on Valuations may not provide principles that are useful for practitioners.

We hope you find ISDA’s comments informative and useful. Should you have any questions or desire further clarification on any of the matters discussed in this letter please do not hesitate to contact the undersigned.

Yours faithfully,

David Bradbery  
Barclays plc  
Chair, European Accounting Committee

Antonio Corbi  
ISDA, Inc.  
Risk and Capital