Book review

Equity Derivatives: Documenting and Understanding Equity Derivative Products

Consulting Editor: Edmund Parker

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Equity derivatives (including stock derivatives and index derivatives) represent one of the very first groups of derivatives introduced in the financial markets. Today they play an important role as investment and hedging tools. It has been estimated that, at the end of December 2008, the notional amount outstanding of over-the-counter (OTC) equity derivatives was approximately US$6.5trn, with those on derivative exchanges accounting for about US$4.8trn. While interest rate and currency products might account for a greater value, equity derivatives are nevertheless very important for many participants in the financial market. One should also note the dynamic growth in structured equity products offered by banks and traded on organised exchanges.

The chapters of this book were written by 20 authors, all of them practitioners from the financial industry. The main editor and the author of several chapters, Edmund Parker, is head of the derivatives practice at Mayer Brown's London office.

The book is divided into five general parts:

- an overview of equity derivatives;
- equity derivative financial instruments;
- International Swaps and Derivatives Association (ISDA) equity derivatives documentation;
- corporate and regulatory aspects of equity derivatives in key jurisdictions;
- tax aspects of equity derivatives in the UK and the USA.

The book is mainly aimed at practitioners willing to practise in the equity derivatives market. The book does not require deep knowledge in the area of derivatives as the different chapters all start out with very basic material.

Some parts of the book can be used in teaching courses on financial instruments. This refers particularly to the first and the second parts, which provide an overview of underlying assets, a discussion regarding motivations for participating in the equity derivatives market, and an overview of three large groups of equity derivatives: exchange traded, OTC and structured equity derivatives.

The third part contains two chapters about ISDA documentation and is a very comprehensive resource for practitioners willing to enter equity derivatives transactions. There is a full description and explanation of the ISDA documentation related to equity derivatives, including definitions.

The fourth part is devoted to regulation in the area of equity derivatives. There is a short chapter on general trends in regulations and then six chapters describing the state of the art in six countries: France, Germany, Italy, Spain, the UK and USA. Although these markets represent a substantial part of the equity derivatives market, one might expect some information on other markets, such as the Asian market, particularly Japan. As the chapters relating to the individual countries are written by different authors, some heterogeneity in presentation is unavoidable. Nevertheless, the description is very detailed.

The same could be said of the fifth part, in which tax regulations are given for the UK and the USA. Some synthetic overview of tax problems in other countries could have added value to the book.

The chapters are written in very clear language. As such, the text can be approached by newcomers looking for a broad understanding of the equity derivatives market, as well as those with market experience, who will find a lot of very specific information related to different products.

In this reviewer's opinion, future editions of the book would benefit from the addition of two things:

- an introduction to the analysis of equity derivatives, particularly valuation and risk analysis (not necessarily at a very sophisticated level);
- some comparison of equity derivatives with the other basic groups of derivatives (ie interest rate, currency, commodity and credit).

The general impression of the book is undoubtedly positive. It represents good reference material and could be recommended for practitioners in the area of equity derivatives.

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