

São Paulo, September 30, 2013

**MR. CHRIS THORNE
ON BEHALF OF INTERNATIONAL VALUATION STANDARDS COUNCIL**

68 Lombard Street
London
UNITED KINGDOM
EC3V 9LJ

Email: CommentLetters@ivsc.org

Re: The Valuation of Equity Derivatives Exposure Draft

Dear Mr. Thorne,

The Brazilian Committee of Business Valuers from ANEFAC (ANEFAC - CBAN) is pleased to provide the attached comments on the above referenced topic.

This Valuers' Committee is an effort to organize the profession in Brazil and to align our practices with the international ones, in order to strengthen our international market relationship.

As agreed on September-2012, we appreciate the opportunity to provide you with some information about financial instruments matters in our country.

If you have any questions concerning our comments, please contact us at +55 (11) 3522-4022.

Sincerely,



Rodrigo Martins Amato – Director



ANA CRISTINA FRANÇA DE SOUZA
Managing Partner

The Valuation of Equity Derivatives

Comments and Answers for the Questions for Respondents

1 Under the heading of “Equity Derivative Products” (PARA 11-22) the main types of equity derivative are listed. Do you believe there are any material omissions? If so, please indicate what they are.

ANEFAC-CBAN: No, in our opinion and based on the Brazilian market sophistication, all the Equity Derivatives products are covered by the Exposure Draft.

2 Do you believe the descriptions provided for each of the listed products are sufficiently detailed?

ANEFAC-CBAN: No, there could be some more objective formulas and cases, such as IASB does. The cases would be very helpful to give a better idea of the application of the methods for the outsiders.

3 Do you think more complicated derivatives and strategies should be included? For example where products are combined, such as in straddles and strangles?

ANEFAC-CBAN: We believe that there is no need to treat in a different way these strategies, since they are formed by the combination of products already in place. There could be a mention regarding the coherence among the valuation methods of the instruments, so no difference between them would be recommended.

4 The discussion on forwards (para 23 to-27) includes a number of formulae. Do you find the inclusion of formulae to be helpful in understanding the principles or would you prefer a purely descriptive narrative?

ANEFAC-CBAN: Yes we do, mostly to elucidate the appraisals’ job for the hiring part. In this way, an outsider can reproduce the valuation with different assumptions and even discuss the effect of that into the job’s purposes, without having to get too much technical.

5 Would you prefer to see greater use being made of formulae to illustrate principals in other parts of the TIP?

ANEFAC-CBAN - Yes, we consider that a very instructive manner to describe the use of the formulas.

6 The discussion of various models types includes the key assumptions and other inputs required. The objective is not provide detailed instruction on the use of the model, but do you think the information on these inputs is sufficiently detailed to provide an understanding of the principles involved by someone relying on the valuation?

ANEFAC-CBAN : No, the model section is technically very dense. Anyone outside of the decision making on the chosen of the best model would be unable to recreate the valuation process, unless further disclaimers are given.

7 Do you believe the model section of this paper should discuss each model's relative applications and when it is appropriate to use one rather than another, for example, by mapping each model to a list of products?

ANEFAC-CBAN: Yes, to relate the applications of each model to its most common situations / products would be helpful for auditors and appraisal's clients as well.

8 The Greeks are summarized with brief descriptions in this paper. Do you believe it would be helpful if there were a more detailed discussion of sensitivities?

ANEFAC-CBAN: Yes, mostly because this TIP will be a reference to the next documents regarding interest rates, currency, commodities, credit and others. Such analysis of sensitivity must have a very clear orientation for governance purposes of non-financial companies and undeveloped markets, so they can rely upon these directions for measuring potential risk and eventually regulation on this matter.

9 Please list the departments within your organization that you believe would find this document useful, e.g. Executive Management, Treasury Risk, Financial Reporting, Product Control, etc.

ANEFAC-CBAN: Auditors, Controllers, Accountants, Traders, Risk Analysts, Investor Relationship Managers, Board Members and the ones mentioned above.

10 Do you consider that the overall level scope and level of detail in this proposed TIP is sufficient to meet its objective of reducing diversity of practice and raising awareness of the principle methods used for valuing equity instruments among the wider financial community, and in particular investors?

ANEFAC-CBAN: For those who have market knowledge, it is a common place, with no news. The absence of cases and practical examples makes it harder for a non-financial professional to understand and recreate, if necessary, the valuing process. In our opinion, it should be driven for those who are supervising the financial market and trying to establish a real standard, and the majority of this kind of audience is not a financial expert or has a solid financial knowledge.

Overall comments:

- Forwards and Futures: there should be more explanations on how to build up market curves for non-liquid expiration dates. Here in Brazil, we have lots of OTC Forwards using different methodologies to get to the assumptions in order to fulfill the classic model represented on the TIP.
- Equity Swap: we missed the corporate events treatment, such as dividend, inplit, split, shares' bonus, etc. For swaps, it is a common solution in Brazil to adjust the series and the swap settlement would be only the price difference of the shares between dates. In Brazil there is a fiscal impact on giving the effect of the dividend, e.g., onto the swap settlement. It would be very handful to address this point in the way to clarify how to measure and treat this matter. It might be other countries' demand also.
- Options:
 - We found a lack of a more specific treatment for stock options owned by executives and board members. These kinds of instruments are held by the proprietary book most of the time and it can be a relevant portion of the companies' risk. When talking about non-financial companies, who do not have the same technical knowledge and tools as a financial company, we must take into account that the stock options' valuation process will be followed by close from the executives and shareholders, since they are the main affected by its measurement. The price taken can be a reference for further transactions and it is important that the understanding is no-doubtful for any part.
 - As on equity swaps, the treatment of corporate events is not present also. Just as mentioned, for fiscal purposes here in Brazil, it is necessary to split the financial result and simulate the settlement without considering any effects, such as dividends, shares' inplit, shares' split and etc.