

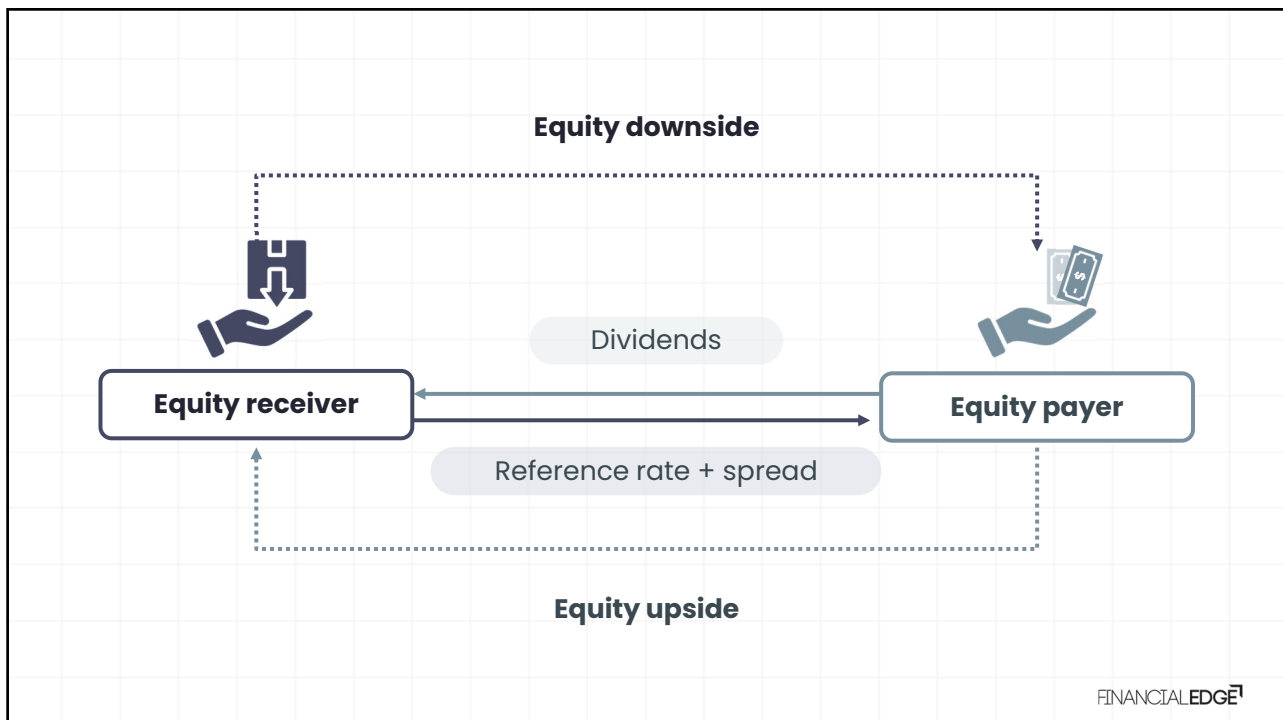
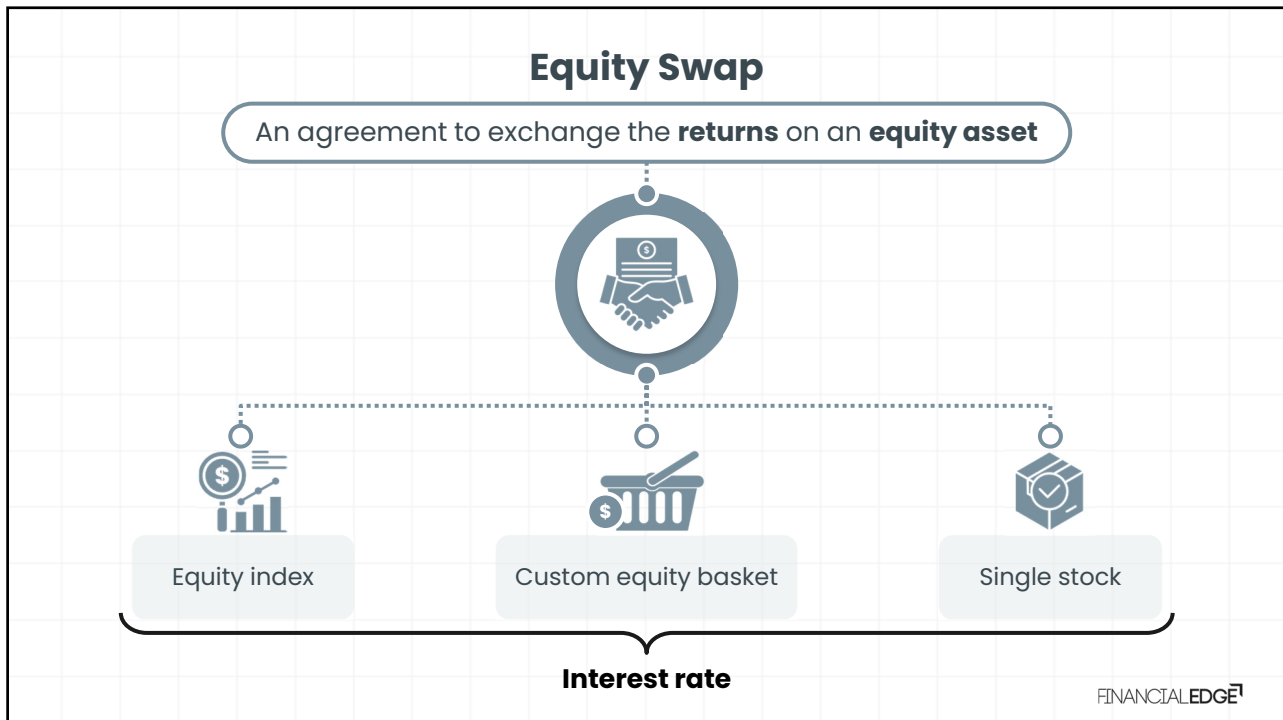


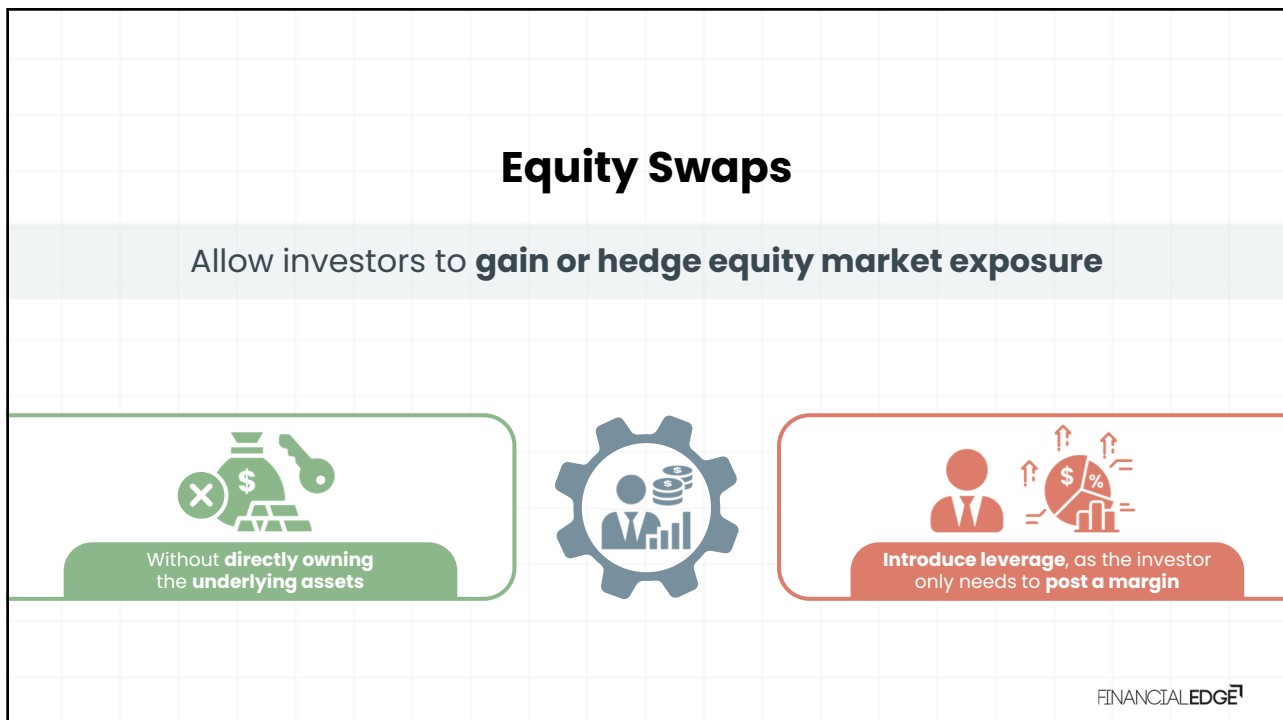
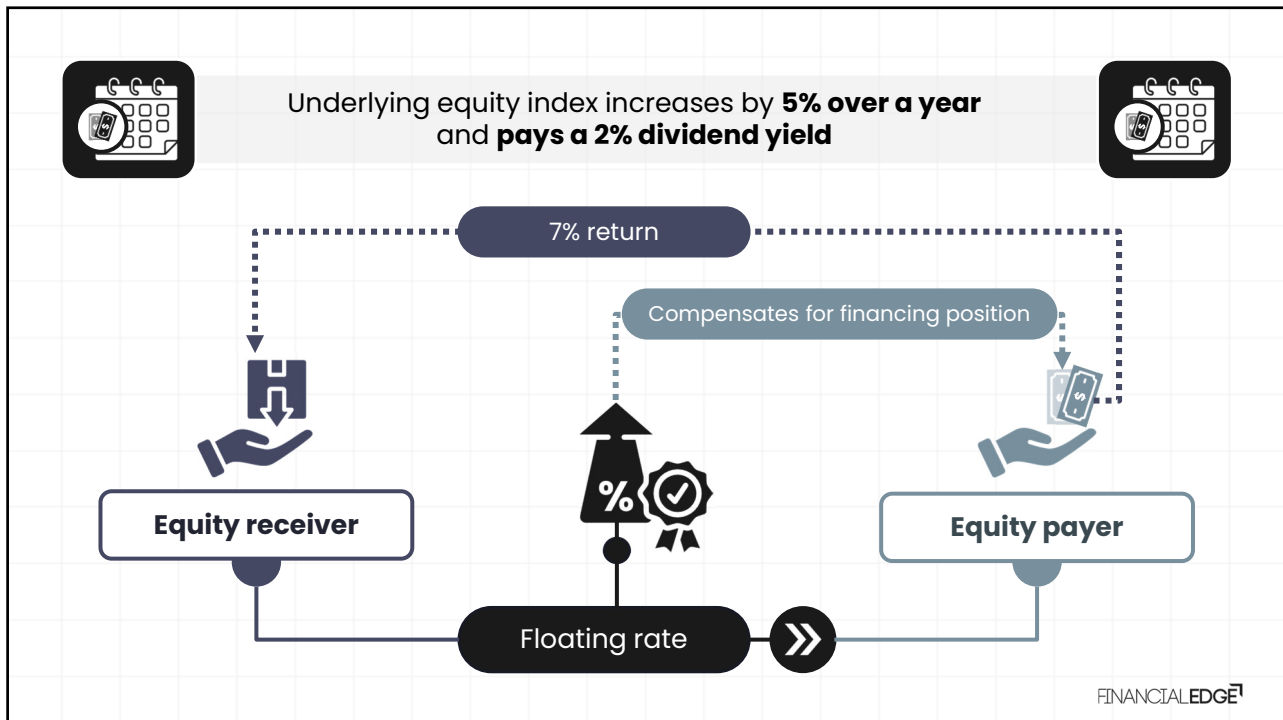
# Equity Delta One Instruments

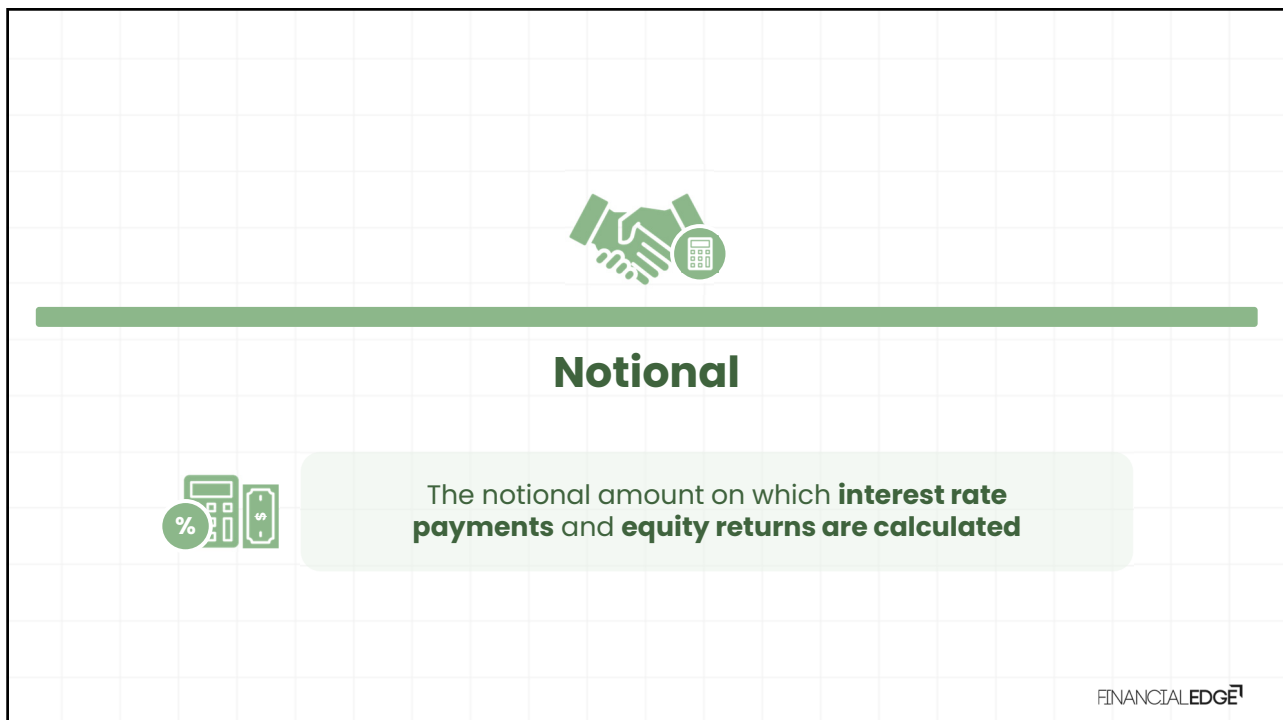
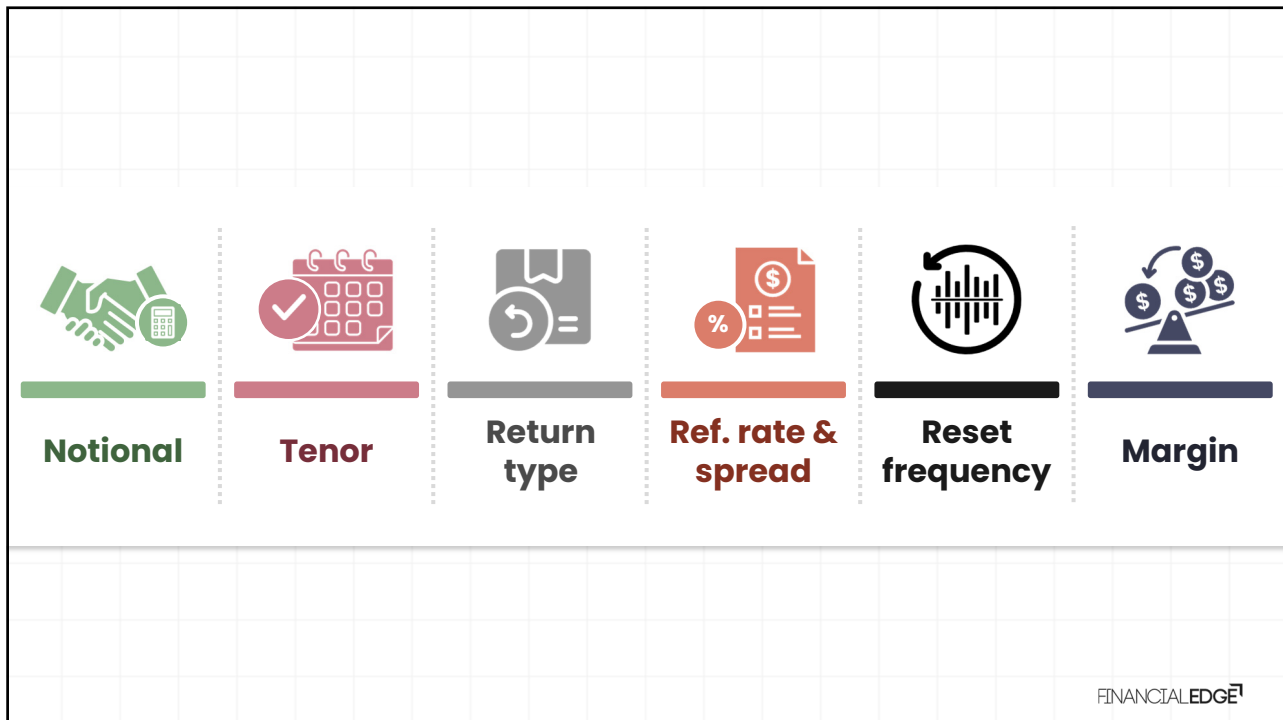
FINANCIALEDGE<sup>1</sup>

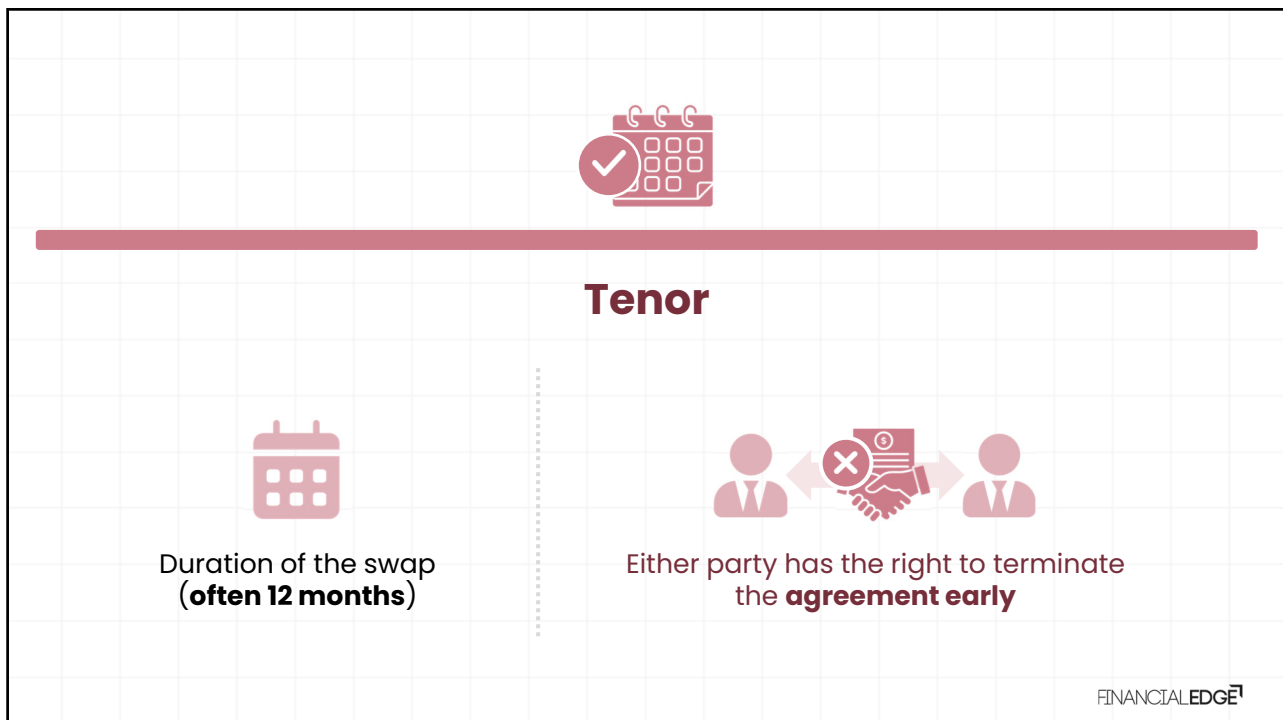
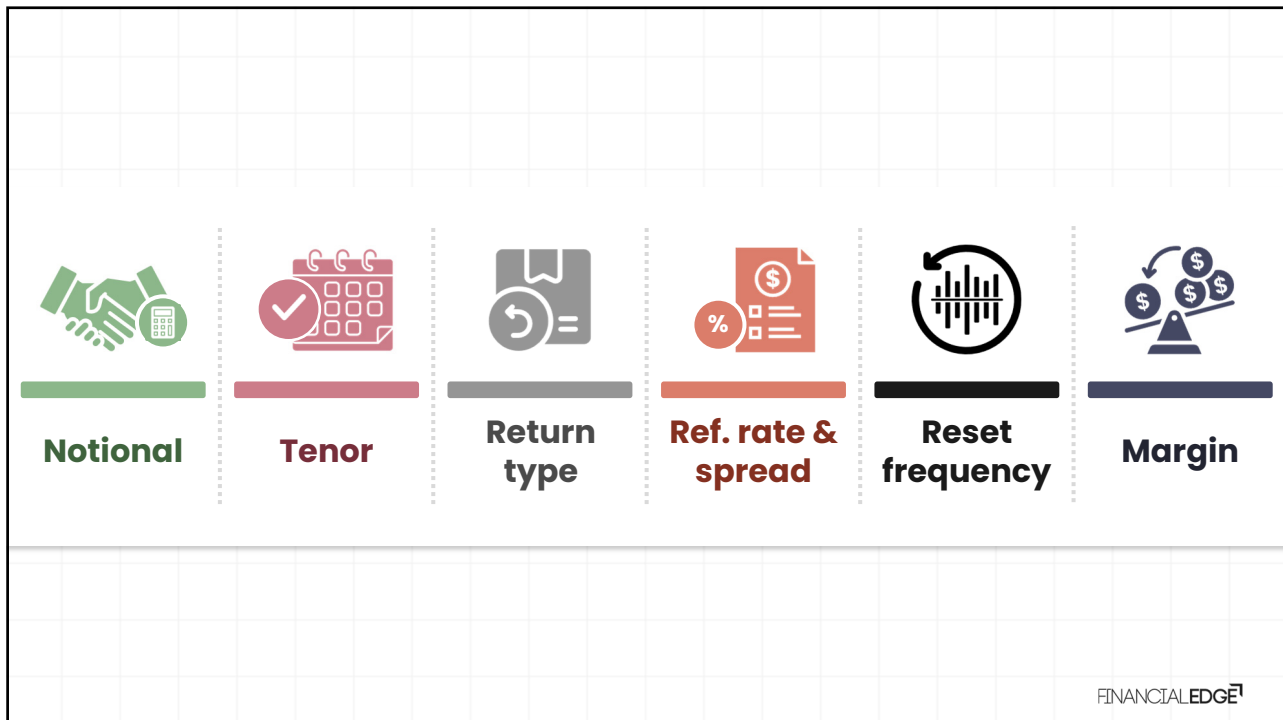
## Introduction to Equity Swaps

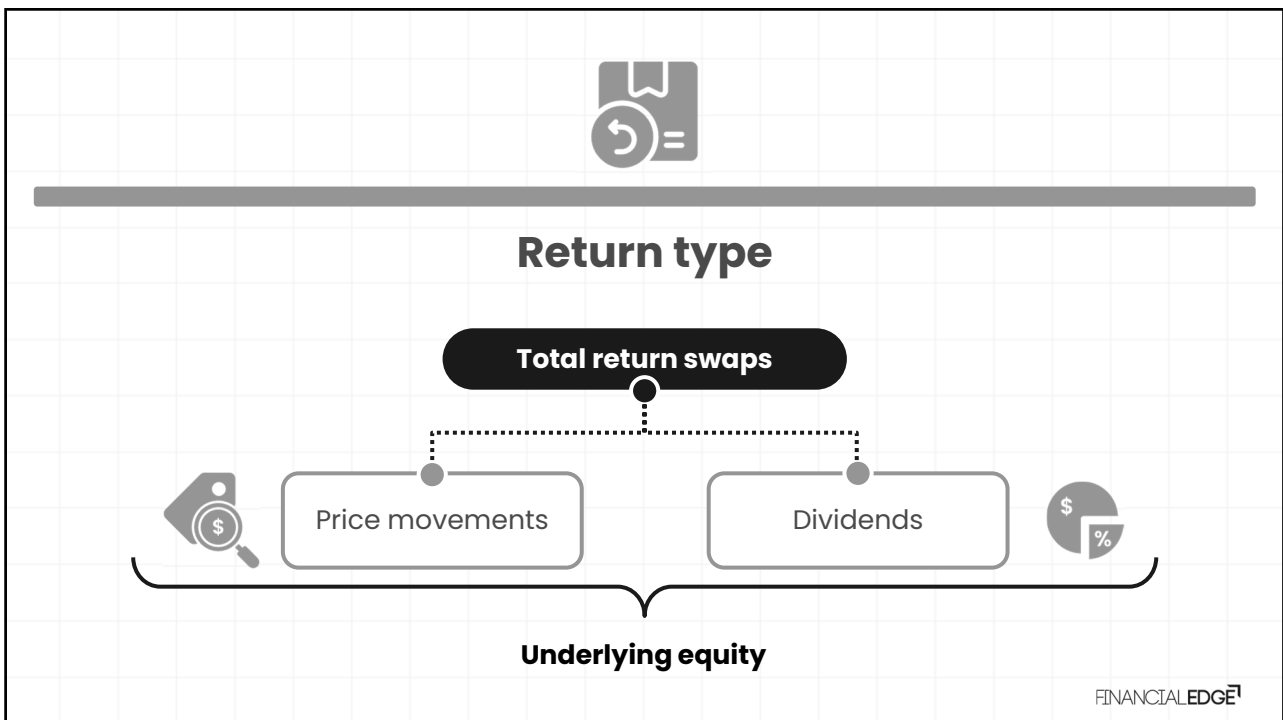
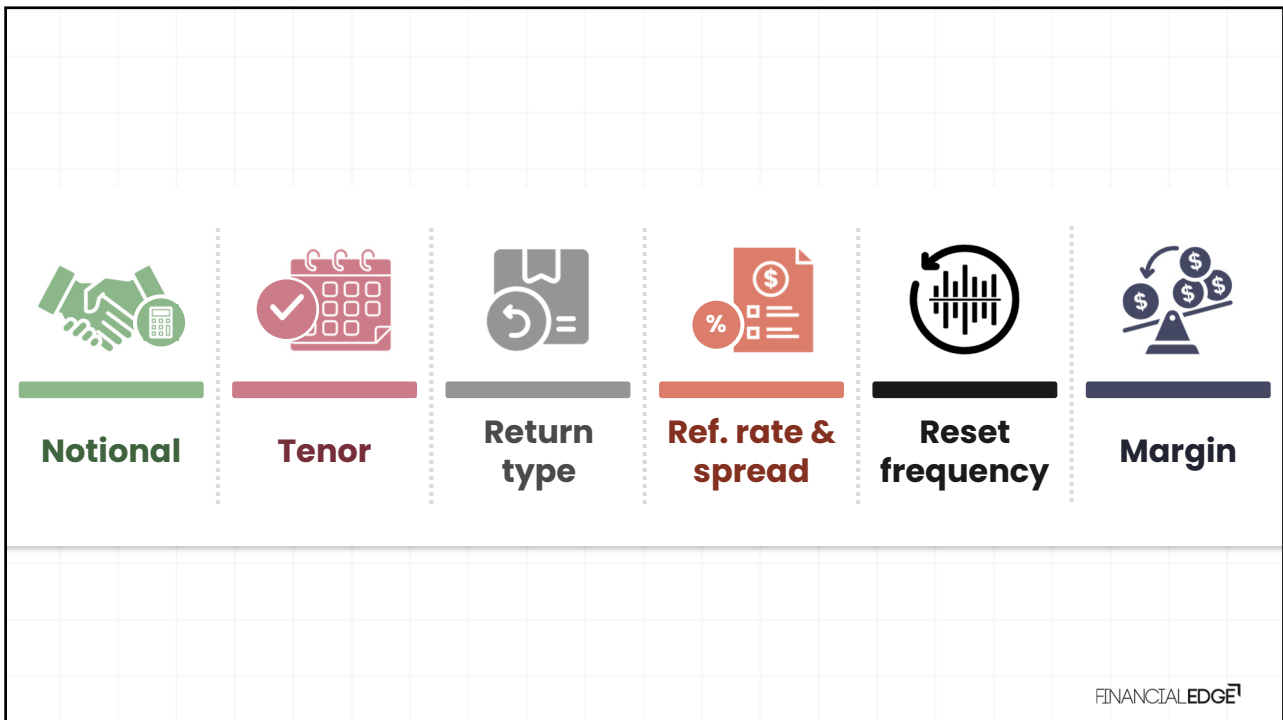
FINANCIALEDGE<sup>1</sup>

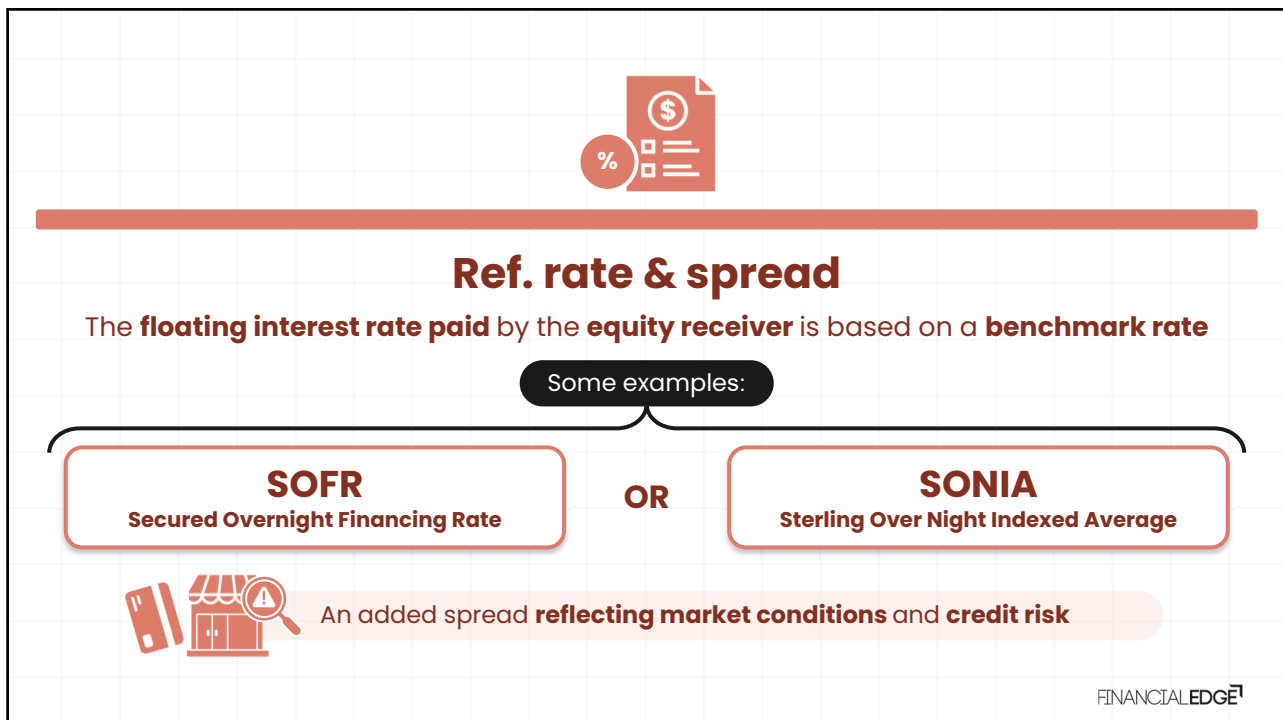
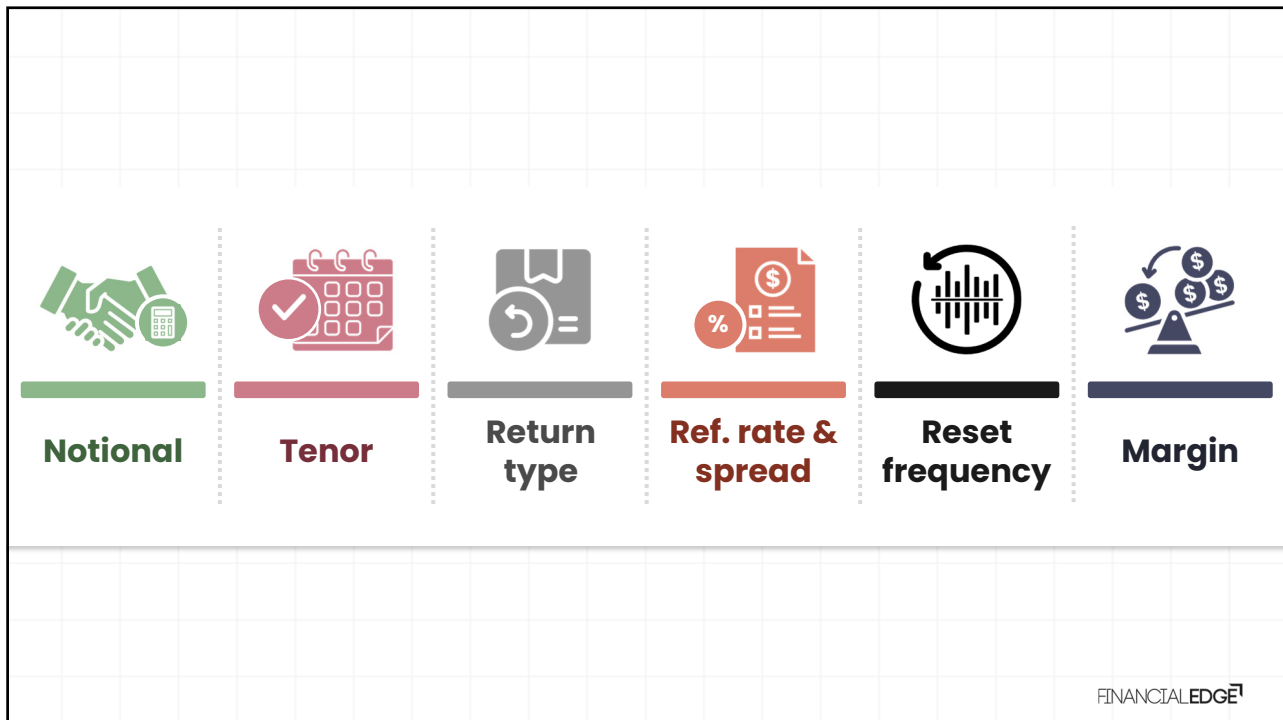


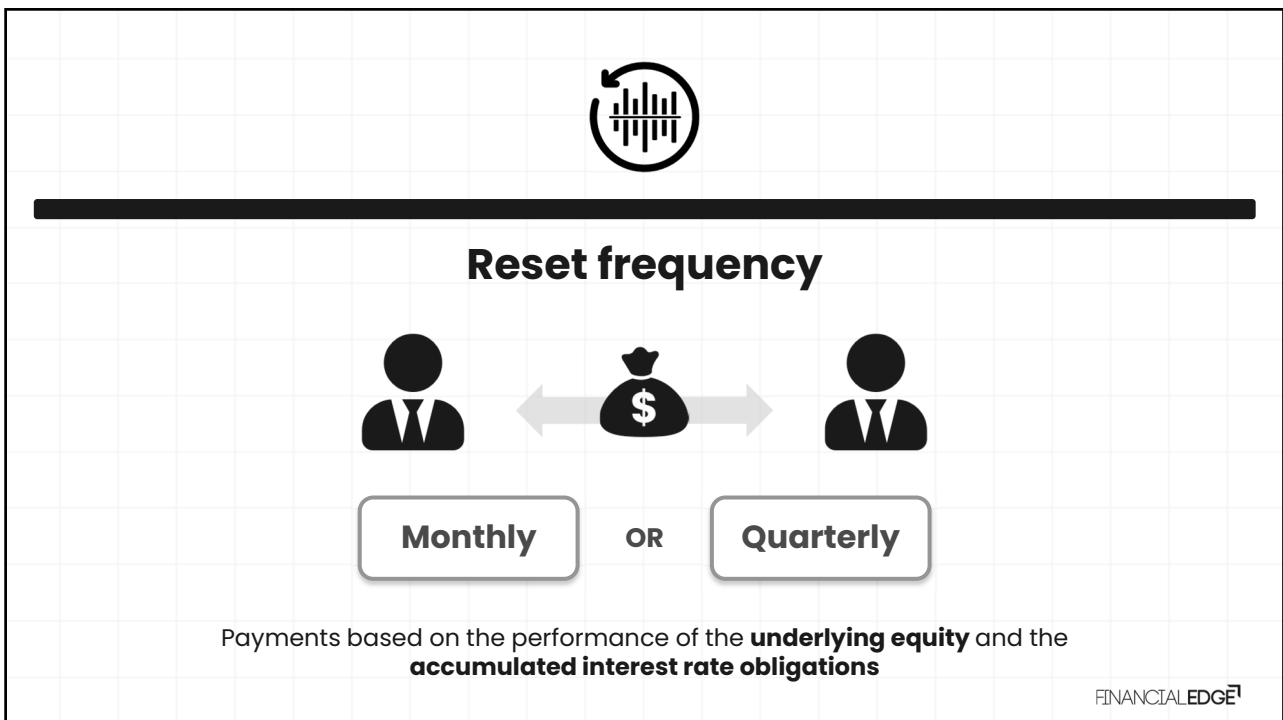
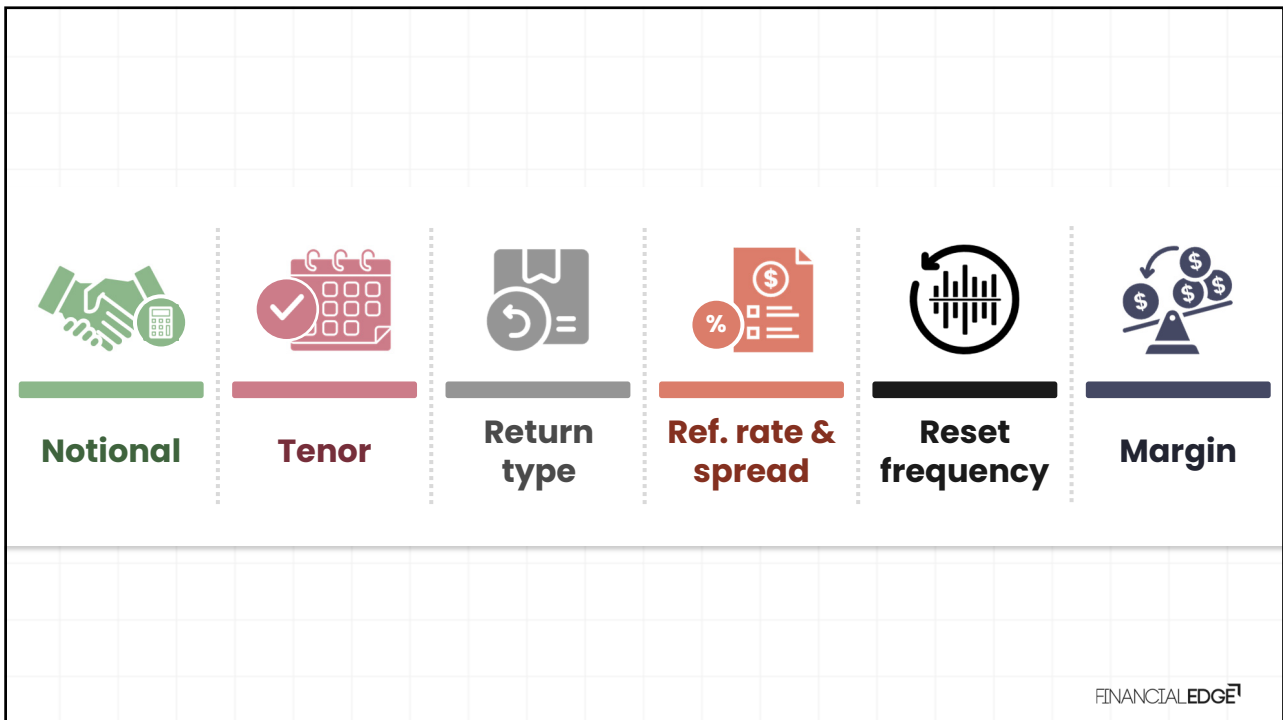


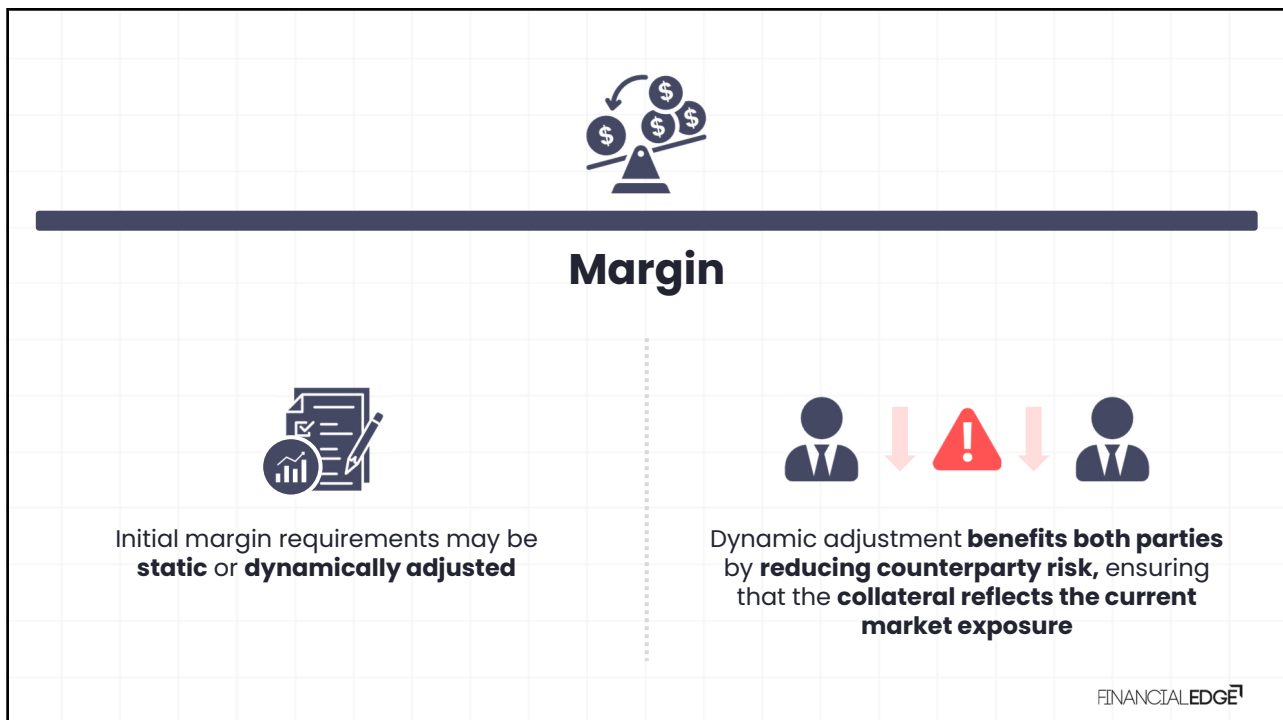
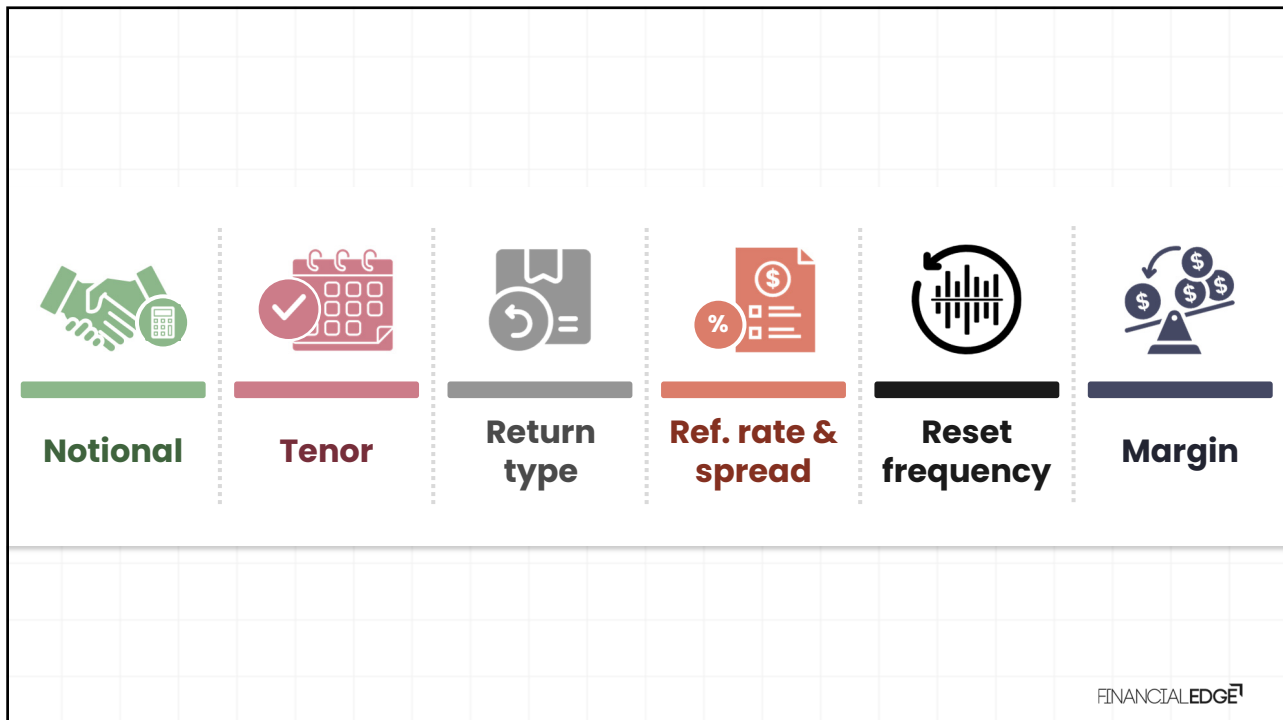












# Variable vs. Fixed Notional

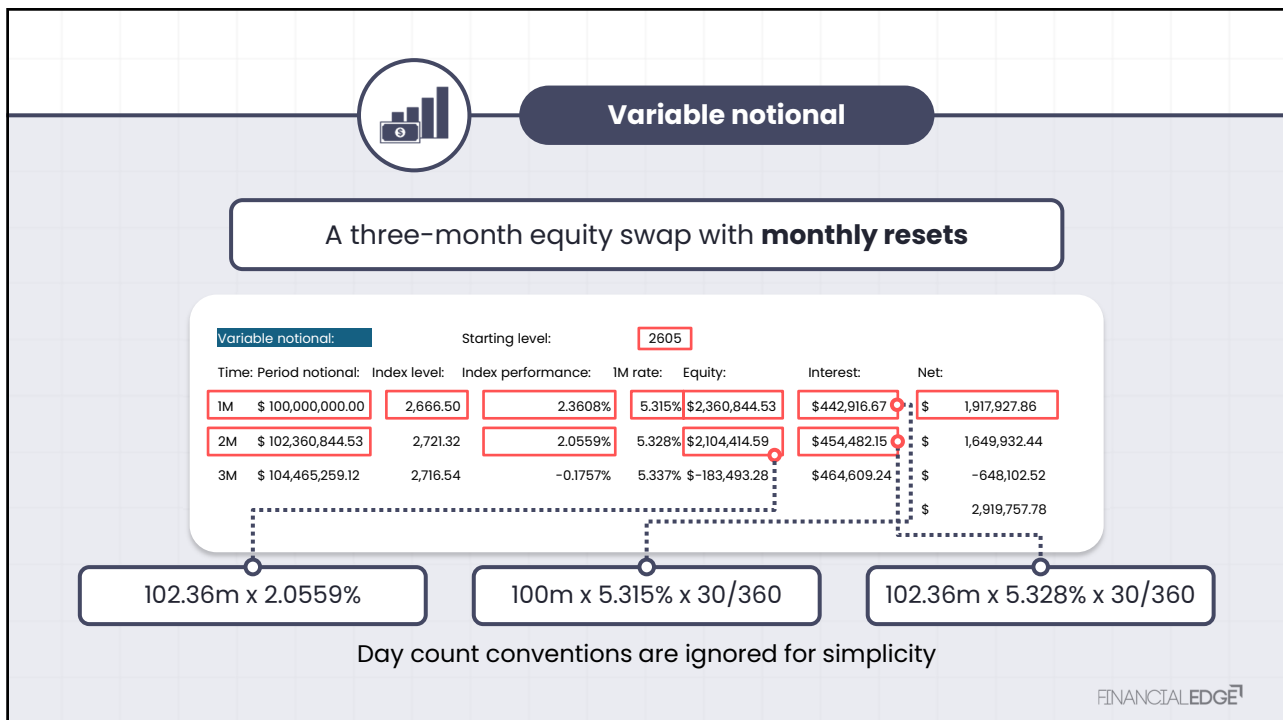
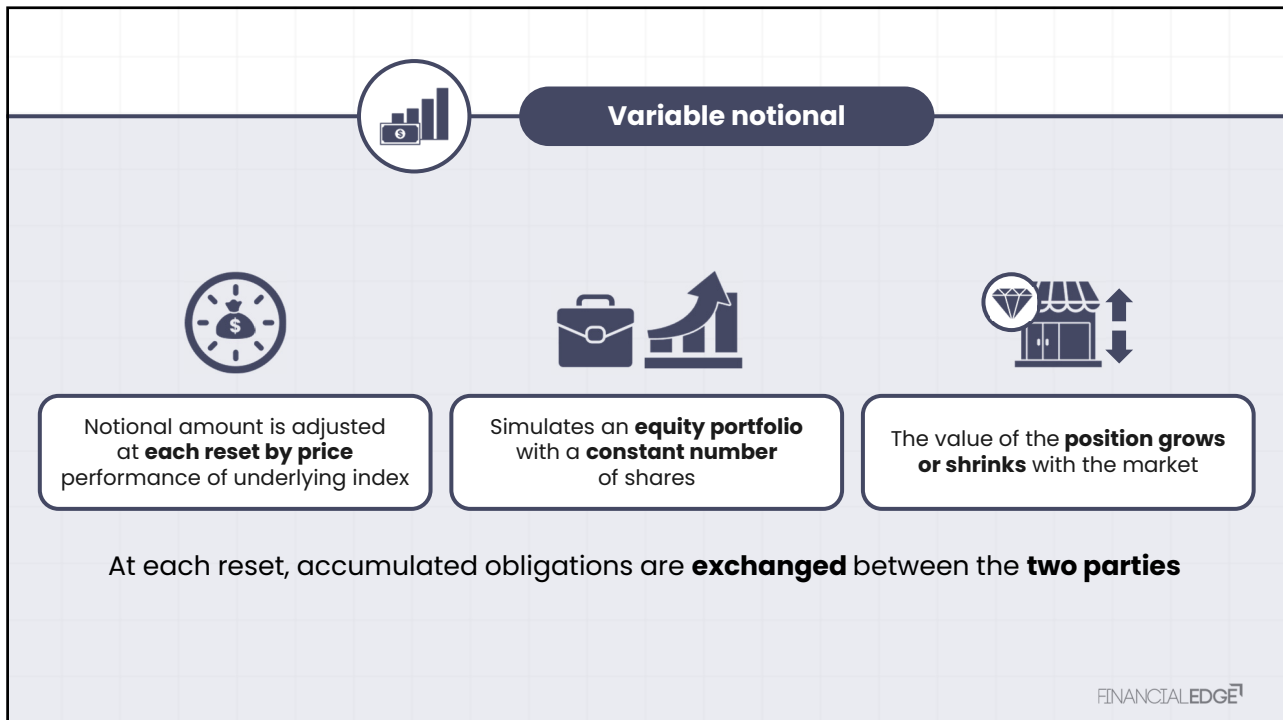
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**Variable notional**



**Fixed notional**

FINANCIALEDGE<sup>1</sup>



Why is the interest in a **variable notional swap** paid on the **increased notional after each reset**?

### Regular share position

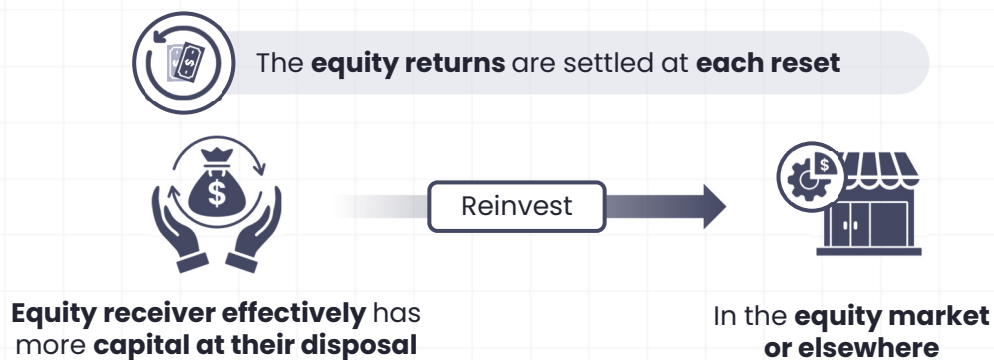


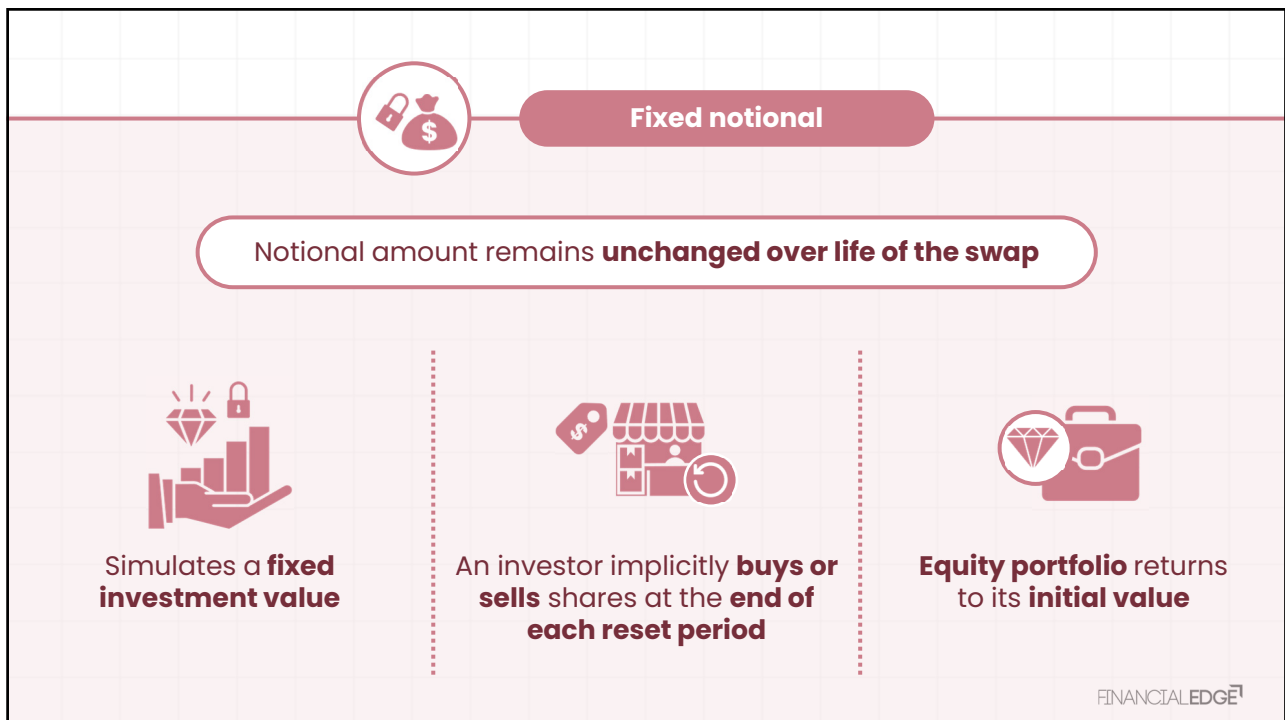
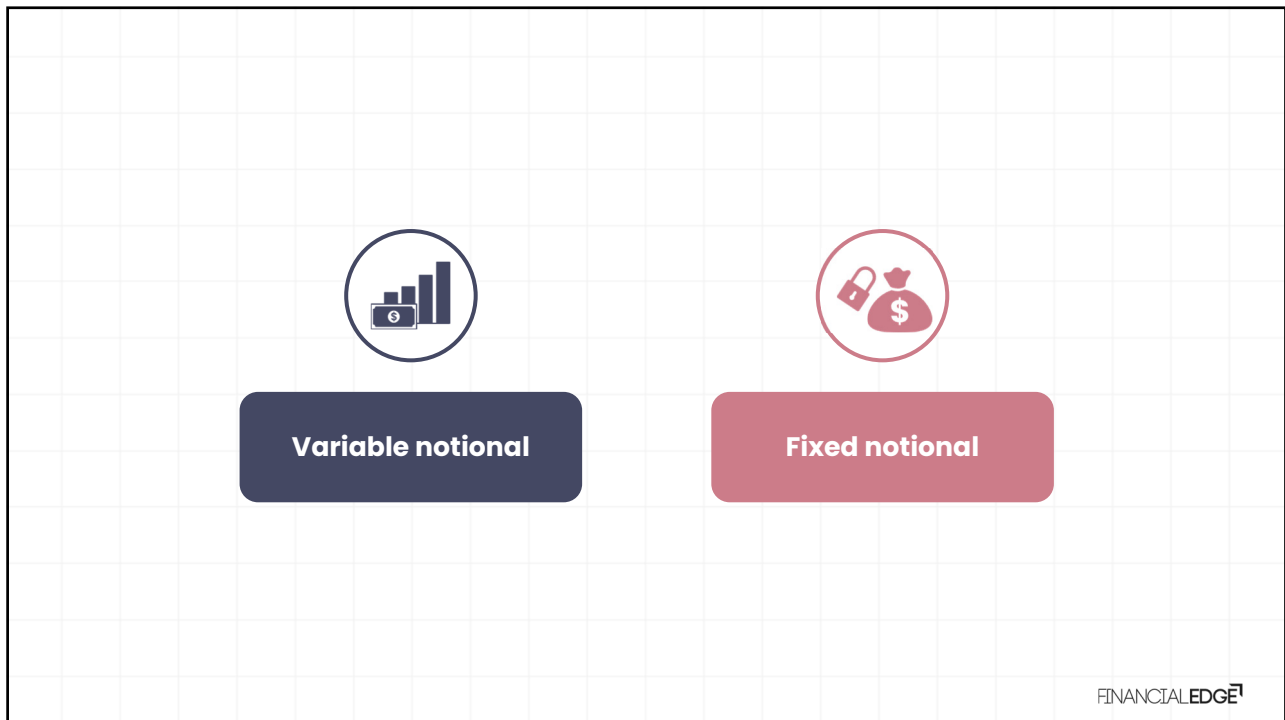
Any **capital appreciation** would remain unrealized until you **sold the shares**

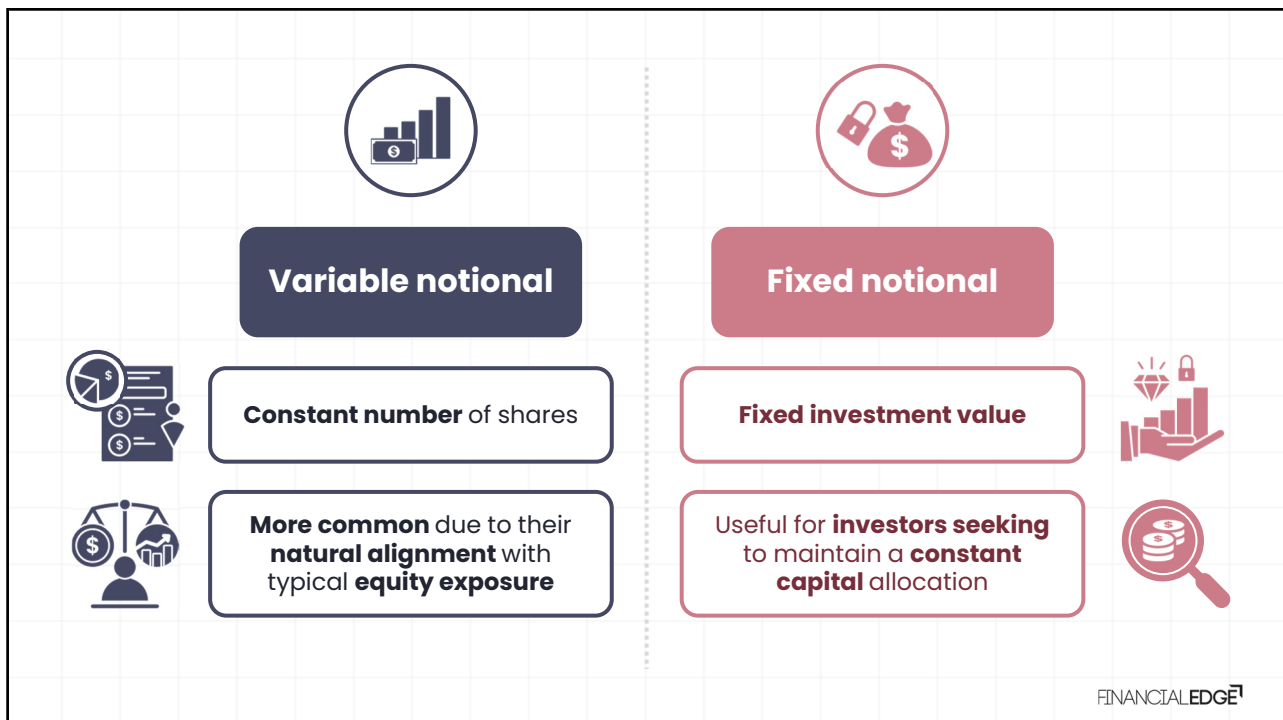
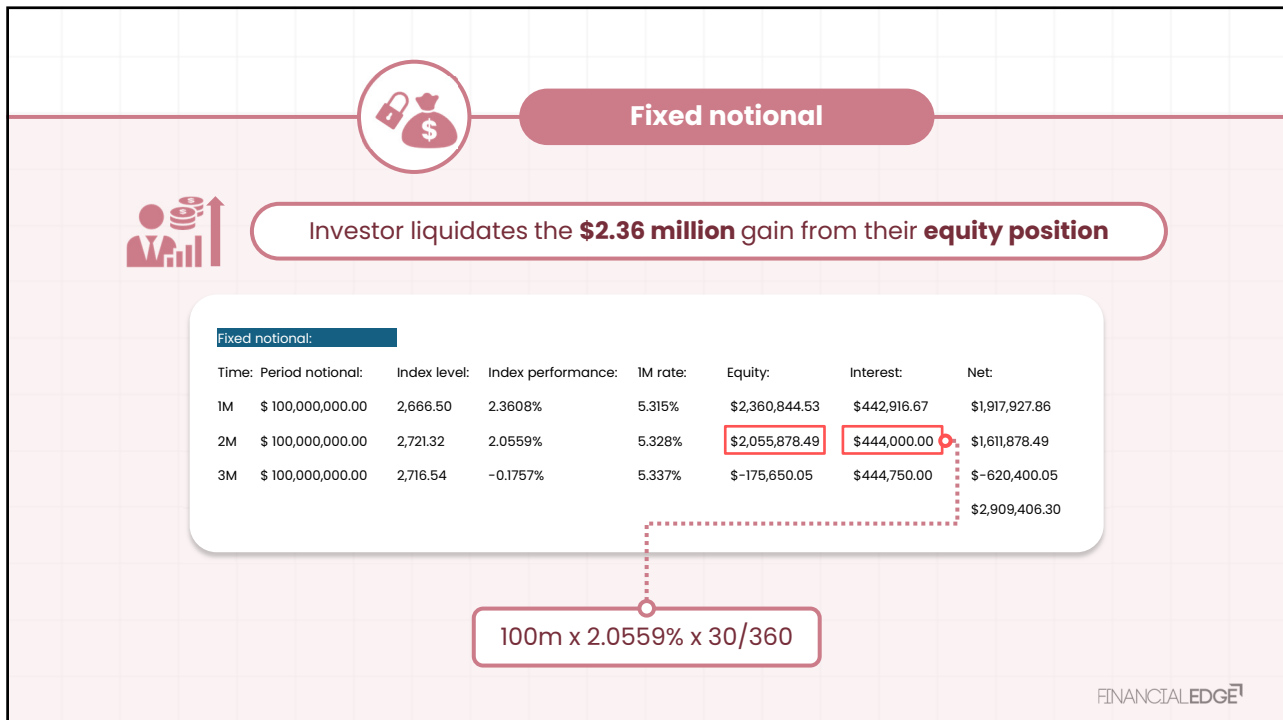
FINANCIALEDGE<sup>1</sup>

Why is the interest in a **variable notional swap** paid on the **increased notional after each reset**?

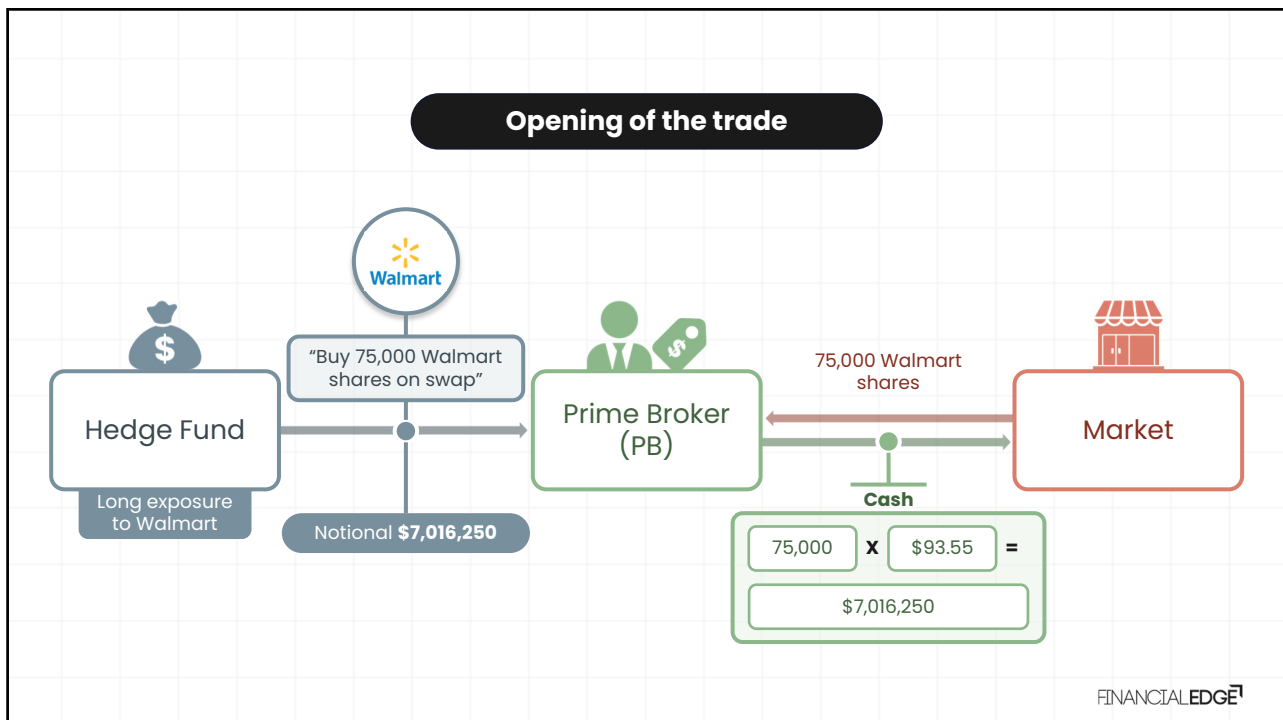
### Variable notional equity swap

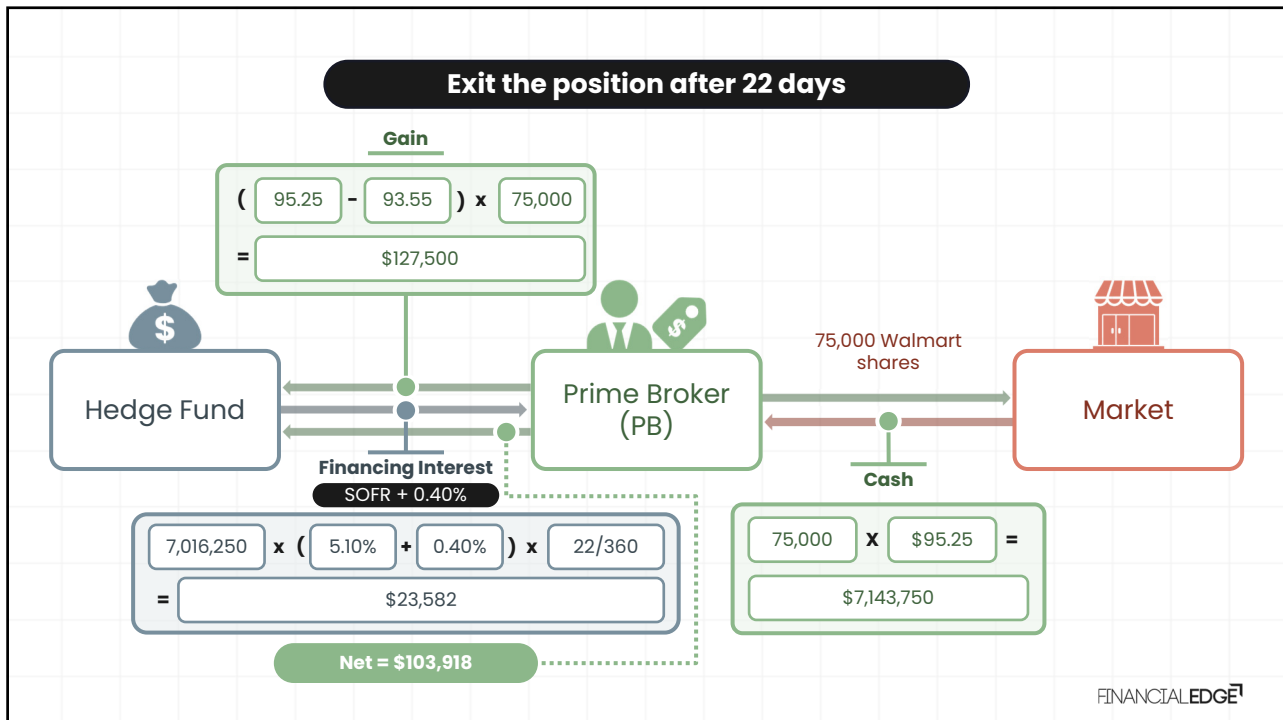
FINANCIALEDGE<sup>1</sup>



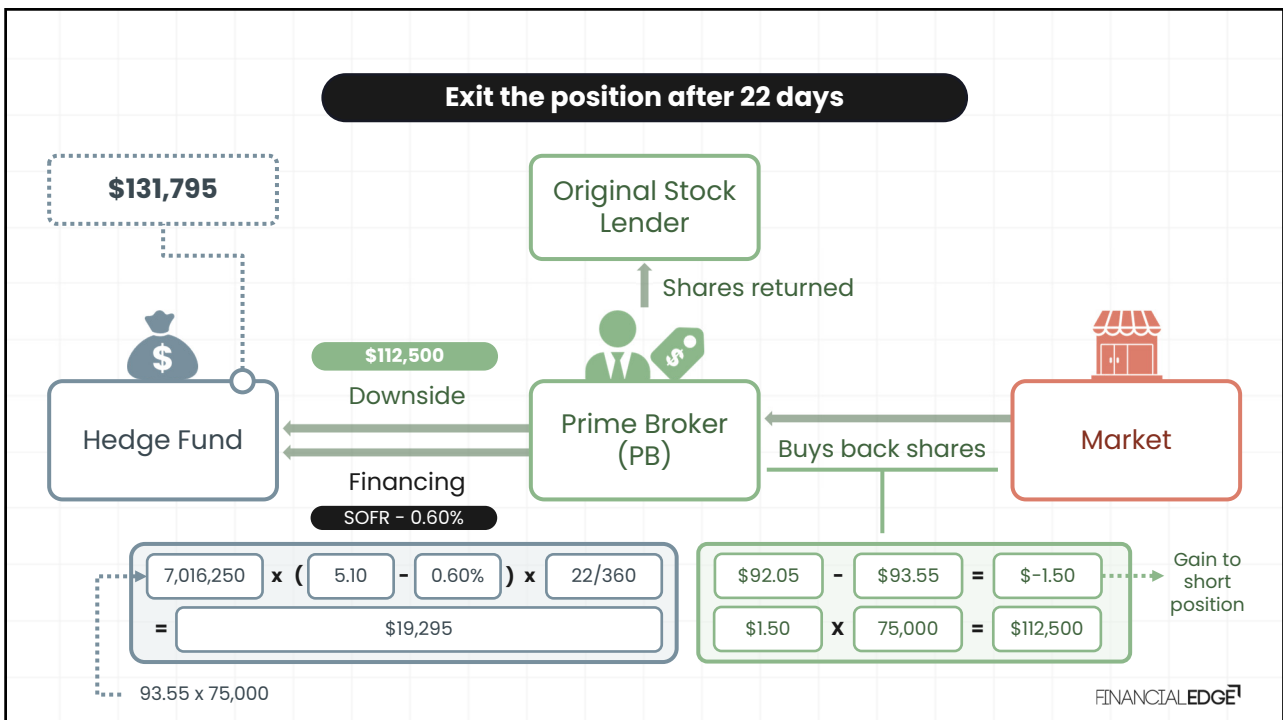
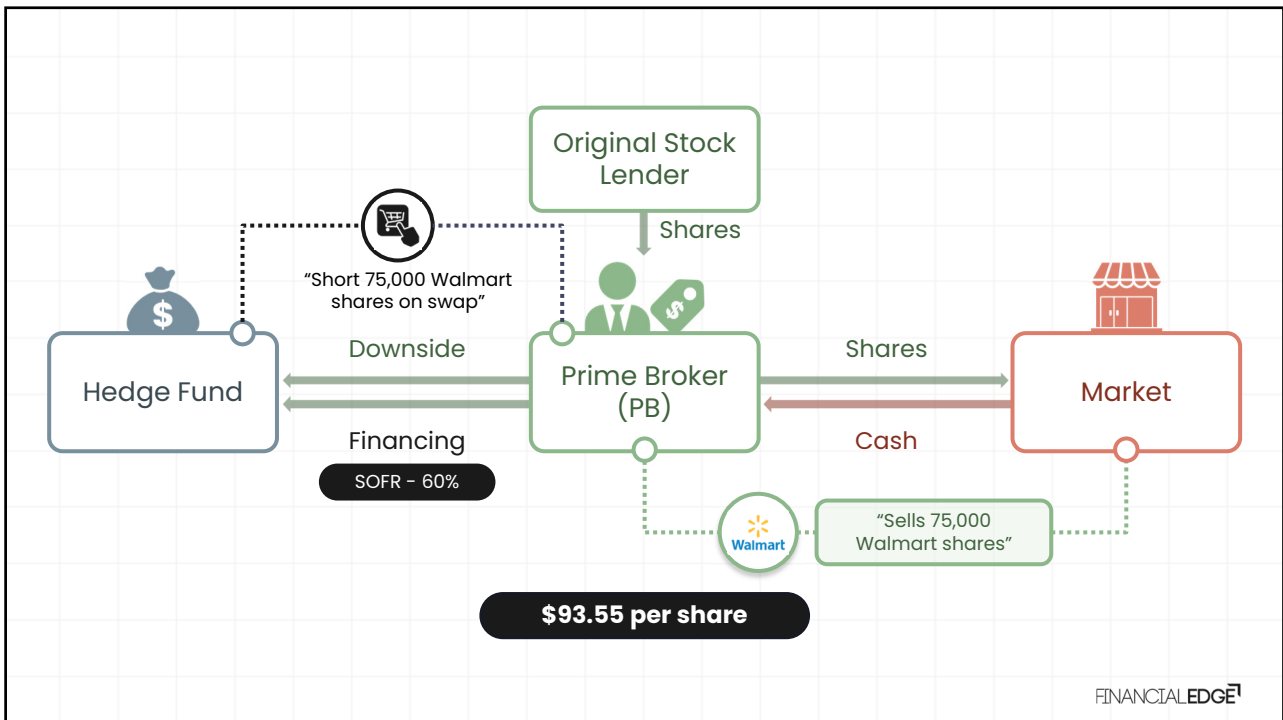


# Long Equity Swap – Cash Flows

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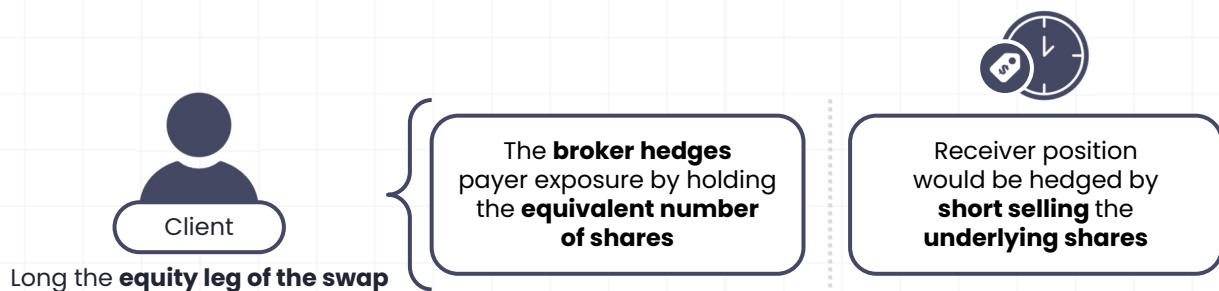
## Short Equity Swap – Cash Flows

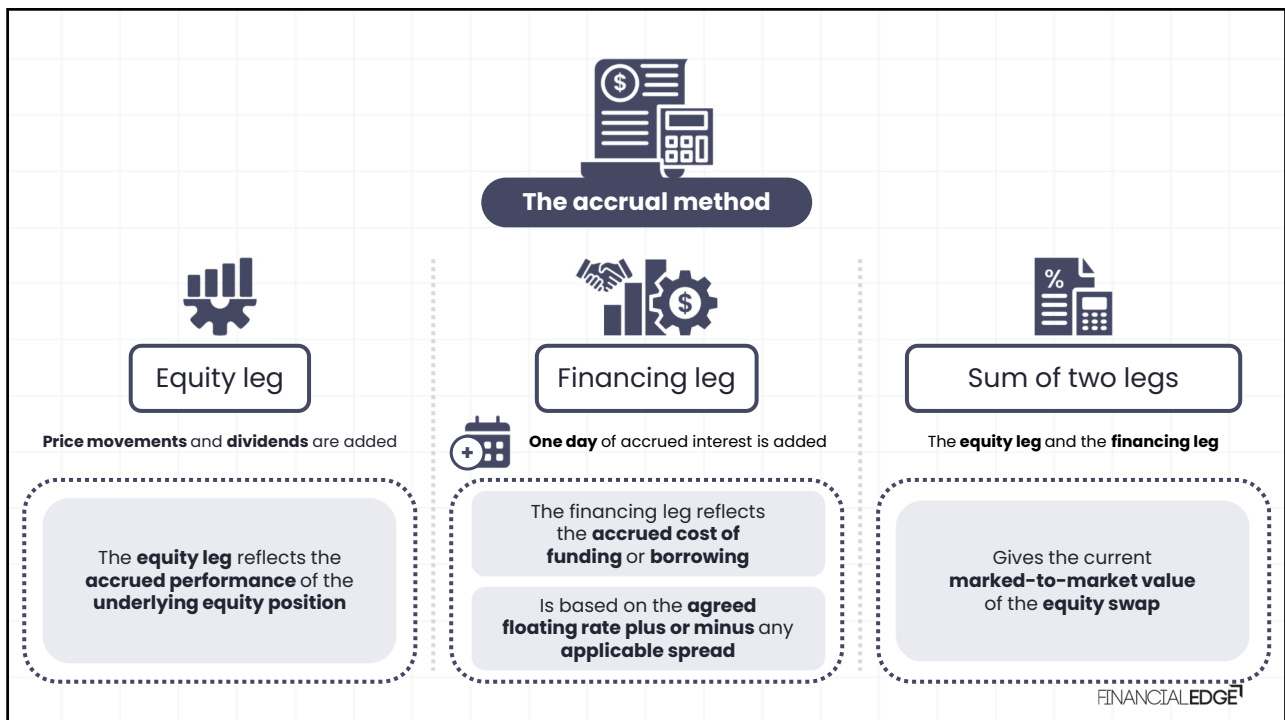
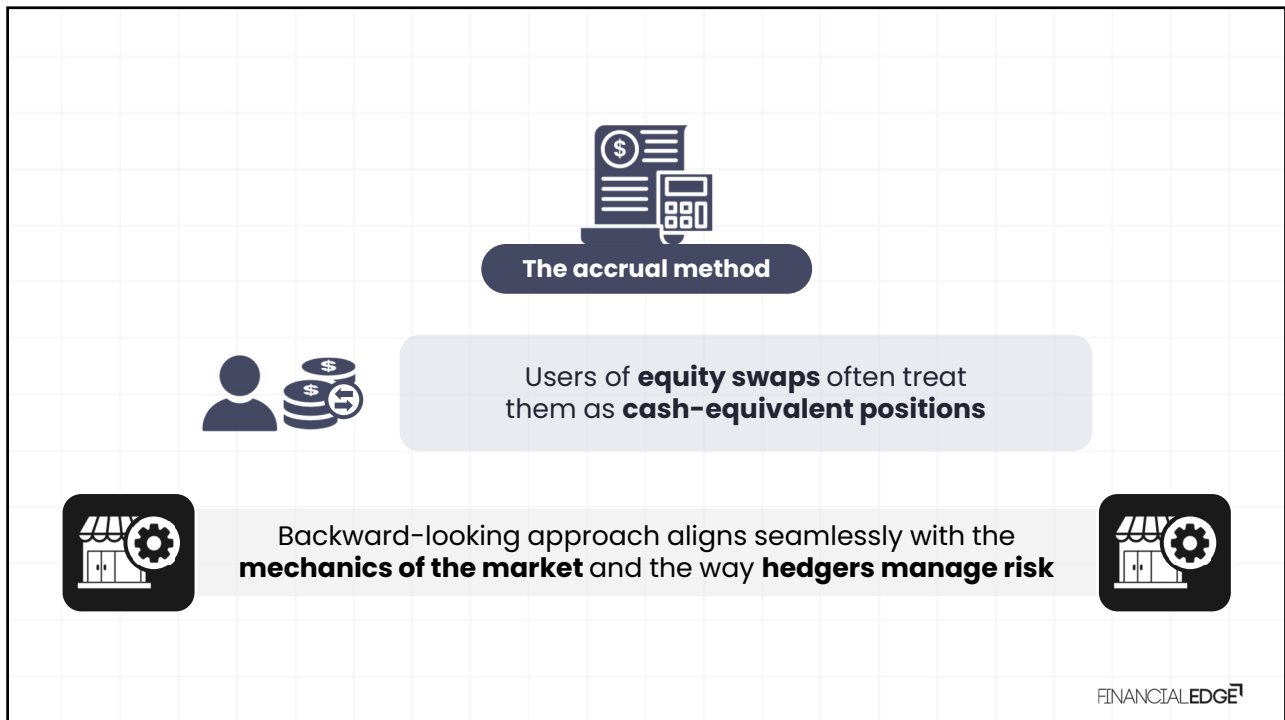


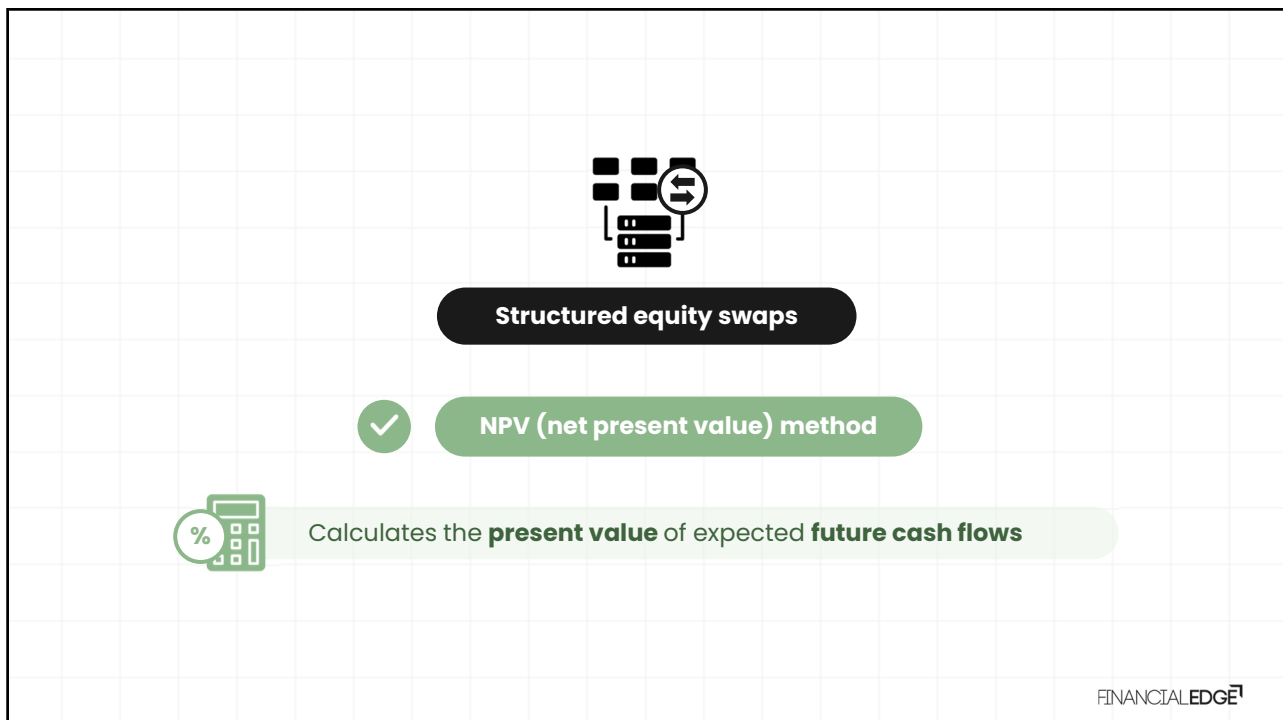
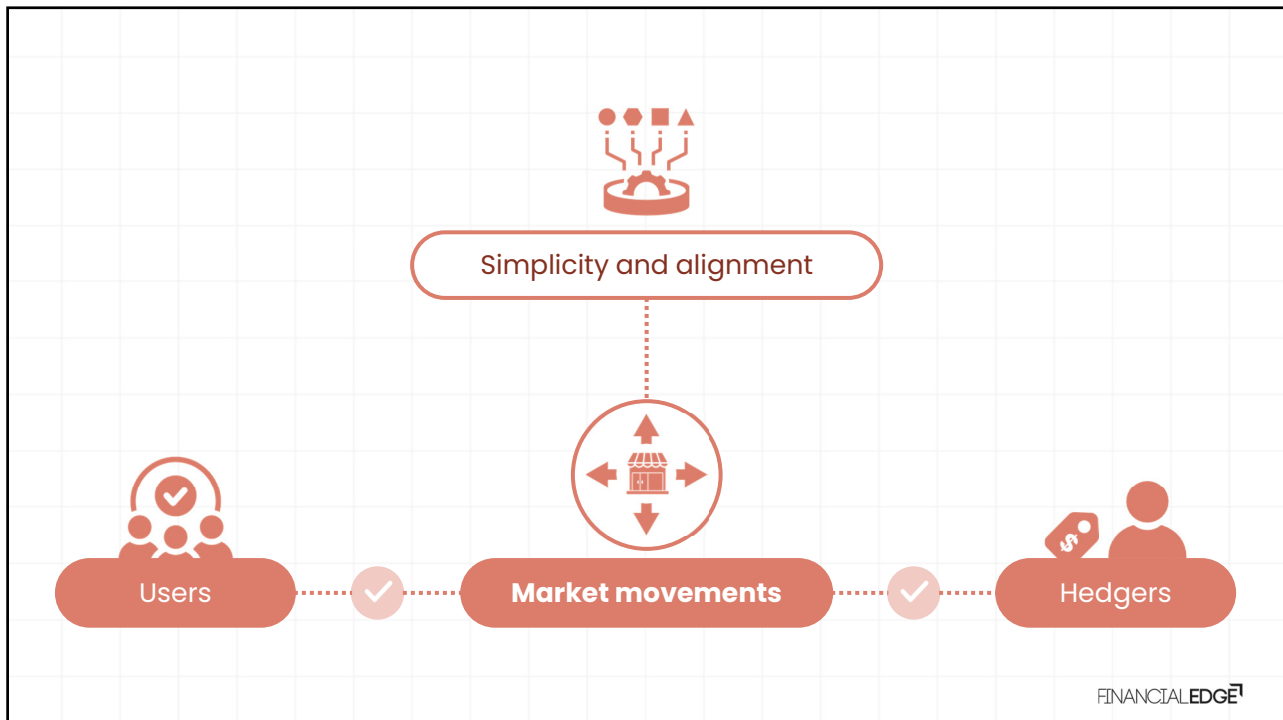
# Equity Swap Valuation

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Equity swaps are often hedged with a position in the **underlying equity**

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# Equity Swaps - Advantages and Disadvantages

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**Advantages**



**Considerations**

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## Advantages

### Leverage



Equity swaps are a simple and **cost-effective** way to achieve **leverage**



The **initial margin** required is significantly less than the **notional size** of the **position**

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## Advantages

### Cost efficiency



The **economic benefits** of owning shares without incurring the **operational costs** associated with **direct ownership**

Custodian fees

Maintaining records

Monitoring corporate actions

Managing regular reconciliations

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## Advantages

### Cost efficiency



Investors can streamline **operational processes** and **optimize strategy execution**



Especially in strategies involving **high transaction volumes**

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## Advantages

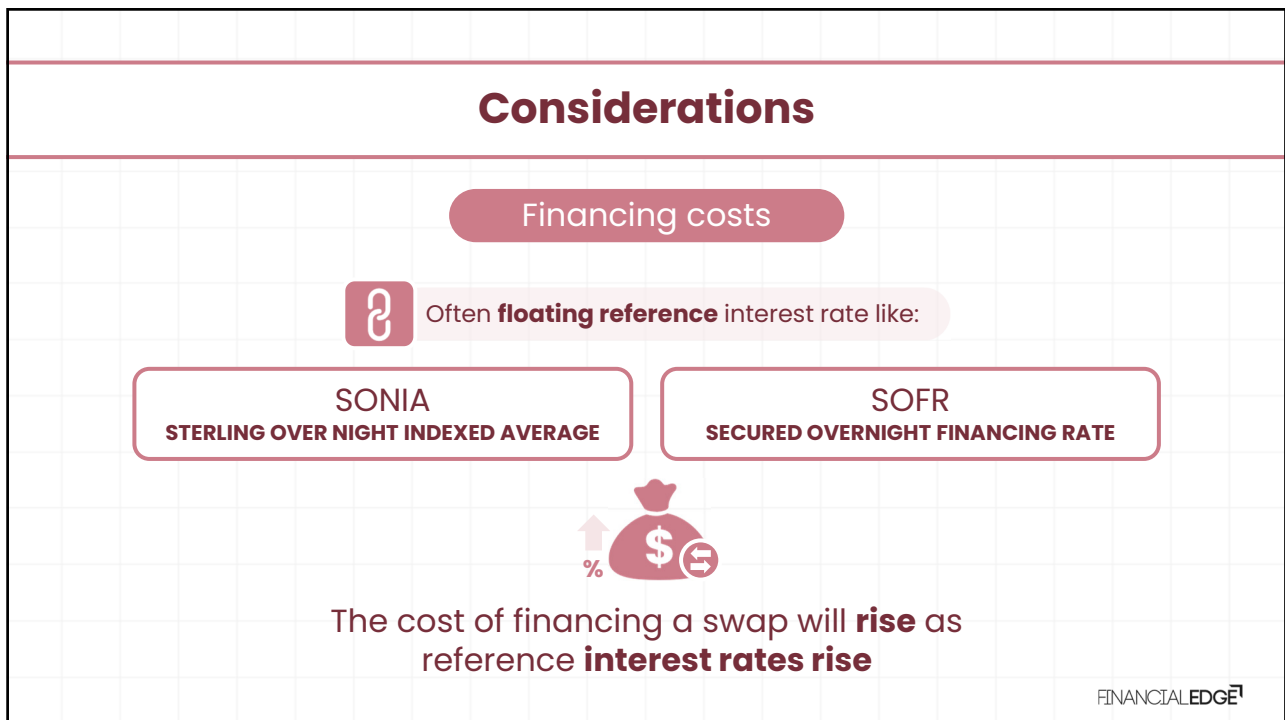
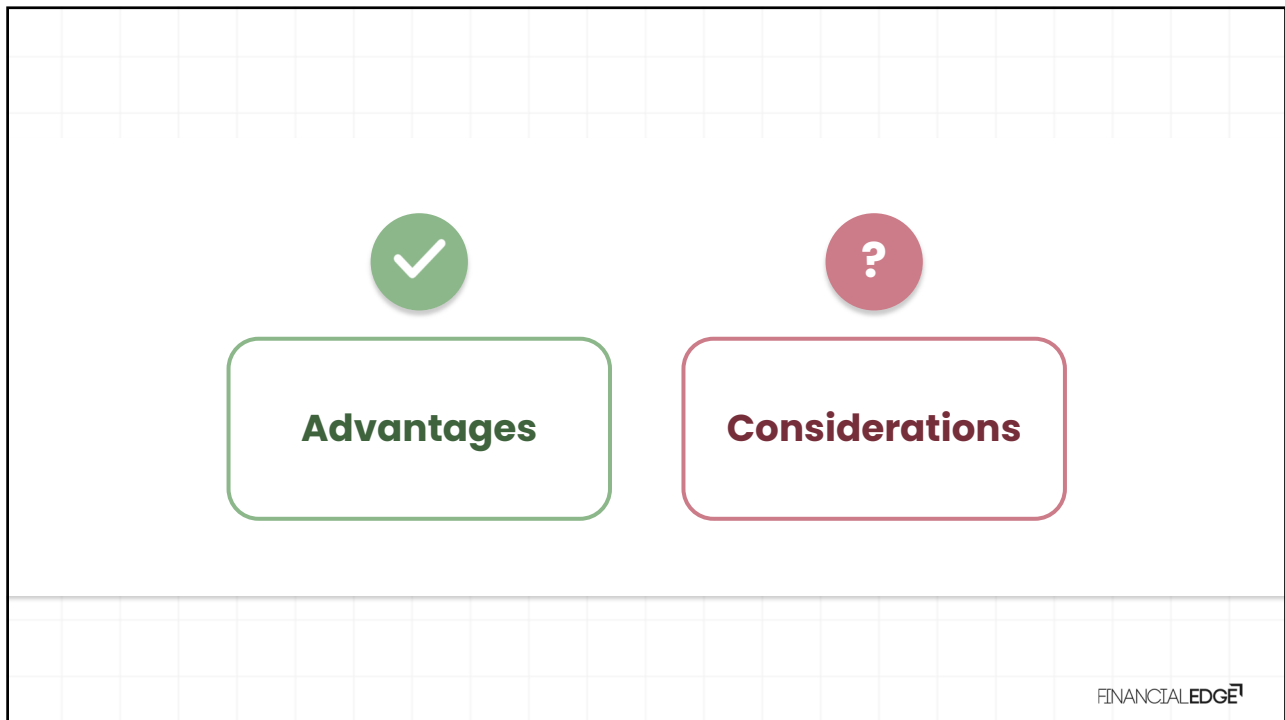


Potentially favorable tax treatment

FOR EXAMPLE

**Stamp duty** is generally **applicable** to the purchase of **ordinary shares** but **not to equity swaps**

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## Considerations

### Lack of ownership rights

The counterparty holding the long equity swap does **not own the underlying shares**



Annual General Meetings (AGMs)

Extraordinary General Meetings (EGMs)



Exchanged for physical

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## Considerations

### Counterparty credit risk



Share price rises

**Equity payer** must make a **payment** based on the **increase**



Equity receiver

Credit risk



Share price falls



Equity payer benefits



Equity receiver

Credit risk

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