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DAVID CHUI

Hang Seng Management College, Hong Kong

USING MONETISATION STRATEGY FOR SHARE COLLATERAL MANAGEMENT

Abstract:

Monetisation is for investors holding a substantial equity position in a listed public company who may either be unable or unwilling to sell the equity position for tax, regulatory or other restrictive reasons such as lock up agreement. As a result of the phenomenal growth in the use and sophistication of derivatives in recent decades, however, such investors now have a highly attractive alternative to a conventional sale: a “synthetic sale” or an “equity monetization.” This is akin to a collateralised equity financing.

This paper presents a way to model share financing through the modelling of collateral management to reduce the inherent risk exposed to the lender and, by doing so, increase the lending quality at the same time. Through the use of derivatives modelling, the collateralised loan can be structured to embed an equity put option on the underlying share. This equity put serves to compensate the short fall of the loan value and, therefore, a key variable is the required number of shares to be disposed at a particular time in order to recover the loan value.

Keywords:

Share Value, Collateral, Monetisation, Derivatives, Credit Spread, Trigger Level