



## Equity Derivatives: 23<sup>rd</sup> of August 2007

### Delta of Share Instalments

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At times like this when markets are in turmoil and shares are falling like a stone it's worth addressing the underlying structure of Standard Bank Share Instalments. In the structuring of Standard Bank Share Instalments the bank prices in some share price protection for the purchaser. What this means is that in a worst case scenario, if a share over which a Share Instalment is issued falls below the exercise price of the Share Instalment, that the maximum amount the client will lose is the amount invested in the Share Instalment.

This is achieved by including a put option as part of the structure with an exercise price and expiry date the same as that of the Share Instalment. Think of the put option as built-in insurance that limits your maximum potential loss to the amount initially paid for the Share Instalment.

The embedded put results in the net delta of the Share Instalment coming out (at issue) at slightly less than 1 for Share Instalments that are geared two times (ordinary Share Instalments). At issue In the case of Turbo Share Instalments, their higher levels of gearing means that the net delta at issue date will be in the region of 0,9 or 90%.

Delta is defined as the change in the price of an option for a 1% change in the underlying. It can range from 0 to 1, an option with a delta of 1 will move 1 cent for every 1 cent that the underlying moves, an Instalment with a delta of 0,9 will move 0,9 cents for a 1 cent movement in the underlying.

Depending on the movement of the share price post listing, the delta of the Share Instalment will also change – if the share price moves up, the delta will move back up towards 1, whilst if it falls it will move down towards a delta of 0,5 or 50% around the strike and towards zero if it falls lower. What this practically means is that in a falling market that a clients' exposure to the market will reduce as the delta of the Share Instalment falls and then rise again as the share price recovers and the delta heads back towards one.

What one needs to be aware of is that whilst for every 1 Share Instalment or Turbo Share Instalment that a person holds that they will receive one shares worth of dividend (when its paid), but that the movement of the Share Instalment will be dictated by its delta. So a Share Instalment with a delta of 0.5 or 50% will move 50 cents for a R1 movement in the price of the underlying.

Need more information? Call us on 0800 111 780 or email [derivatives@standardbank.co.za](mailto:derivatives@standardbank.co.za).

[Share Instalment Brochure](#)

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