Report on **Master Thesis**

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Bc. Petr Rýgr
Advisor:	doc. PhDr. Jozef Baruník Ph.D.
Title of the thesis:	Empirical evidence on pricing of contingent convertibles

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

Contribution

Pricing of contingent convertibles (COCOs) became important during in the aftermath of the 2007-2009 global financial crisis since there were legal disputes on trigger events of COCOs. Petr Rýgr investigates the topic when empirical testing two crucial modelling assumptions of COCOs pricing for 8 TOP EU banks. His contribution is therefore clear.

Methods

The author applies the credit derivatives model for COCOs pricing. He correctly highlights that input variables require cautious measurement (especially the relationship between an accounting trigger level and a stock price level). Moreover, he provides calibration of the model to make results more robust (the models is tested on data of TOP EU banks). When undertaking a sensitive analysis, he also runs regression analysis as a standard method.

Literature

5-page literature on pricing COCOs and related aspects seem reasonable. Petr identifies two main gaps in the literature: the lack of analysis of behaviour of stock volatility near the trigger level and the lack of analysis of the linkage of a stock price level with a CET1 ratio level determined in the COCO contract. He builds his models on De Spiegeleer and Shoutens (2011). However, references do not follow common standards (e.g. „Rüdlinger" in Conclusion).

Manuscript form

The manuscript form is the weakest part of the thesis: poor English and format issues. Both abstract and introduction have a non-standard format. There are no sources under figures and tables. The format of references is not unified. Presentation of the results is very week.

Summary and suggested questions for the discussion during the defense

Petr has developed a solid academic approach, reviewed the existing literature, identified and investigated open questions and drew relevant conclusions from that.

Questions to the defense:

1)   Figure 12 on page 32 implies almost identical empirical relationship of COCO spread and interest rate for Credit Suisse and HSBC. What is the reason? Is that data correct?

2)   The author concludes that "…this suggests that market participants trading with contingent convertibles do not assume that information available on balance sheet of particular CoCo issuer fully reflects its financial position and health". It is a strong statement. What other financial ratios are used by the traders then?

SUMMARY OF POINTS AWARDED *(for details, see below):*

CATEGORY		POINTS
Contribution	*(max. 30 points)*	25
Methods	*(max. 30 points)*	27
Literature	*(max. 20 points)*	18
Manuscript Form	*(max. 20 points)*	5
TOTAL POINTS	*(max. 100 points)*	**75**
GRADE	**(A – B – C – D – E – F)**	**C**

NAME OF THE REFEREE: Doc. PhDr. Petr Teplý, Ph.D.   _____

DATE OF EVALUATION: January 16, 2018   ***Referee Signature***
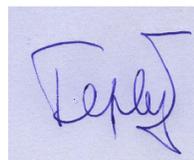
<u>**EXPLANATION OF CATEGORIES AND SCALE:**</u>

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong   *Average*   *Weak*
30   *15*   *0*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong   *Average*   *Weak*
30   *15*   *0*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong   *Average*   *Weak*
20   *10*   *0*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong   *Average*   *Weak*
20   *10*   *0*

<u>**Overall grading:**</u>

TOTAL	GRADE
91 – 100	**A**
81 - 90	**B**
71 - 80	**C**
61 – 70	**D**
51 – 60	**E**
0 – 50	**F**