

# Digital Coupon Note

## What is a Digital Coupon Note?

A Digital Coupon Note ("DCN") is a participation-type structured product which pays out a fixed amount of coupon if the coupon condition is fulfilled at maturity. The DCN is normally linked to the performance of a stock, ETF, equity index, or commodity.

## Key Features

- The tenor period is at least 1 month or above (negotiable with issuer).
- The note is normally issued at par. There is no coupon payment during the life of the transaction.
- Investors will receive 100% of the notional amount plus a fixed amount of coupon if the price of the underlying asset closes at or above the strike price on the final valuation date.
- If the price of the underlying asset closes below the strike price on the final valuation date, investors will receive physical delivery of the underlying asset at the strike price where physical settlement is applicable to that underlying asset. No coupon will be paid in this situation.

## Payoff Illustration

*Investor should note that the below example is prepared for illustrative purposes only and do not constitute an offer or solicitation of any investment.*

Sample Product Terms	
Notional amount	\$1,000,000
Tenor	6 months
Currency	USD
Digital coupon	18% flat
Underlying asset	Stock A
Initial fixing	\$100
Strike price (90% of initial fixing level)	\$90

### Scenario 1: Closing Price of the Underlying Asset $\geq$ Strike Price (At Final Valuation Date):

Performance of the Underlying Asset		
	Final Fixing	Performance
Stock A	\$105	$(\$105 / \$100 = 105\%)$

### For Cash Settlement

The investor shall receive in cash the notional amount plus the digital coupon on the maturity date:

$$\begin{aligned}
 &\text{Notional amount} \times (100\% + \text{Digital Coupon}) \\
 &= \$1,000,000 \times (100\% + 18\%) \\
 &= \$1,180,000
 \end{aligned}$$

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### Scenario 2: Closing Price of the Underlying Asset < Strike Price (At Final Valuation Date):

<b>Performance of the Underlying Asset</b>		
	Final Fixing	Performance
Stock A	\$85	$(\$85 / \$100 = 85\%)$

#### **For Physical Delivery Settlement**

Given the underlying asset is Stock A, the number shares of Stock A to be delivered:

= Notional amount / strike price

=  $\$1,000,000 / \$90$

= 11,111 shares plus fractional shares in cash

#### **For Cash Settlement**

Given the Stock A is closed at \$85, the cash amount to be received:

= Notional amount x (final fixing / strike price)

=  $\$1,000,000 \times (\$85 / \$90)$

= \$944,444.44 (a realized capital loss would be \$55,555.56 against the notional amount)

### Scenario 3: Worst Case Scenario

Under the worst-case scenario, the investor may lose all of his/her initial invested amount in the event of the issuer's default, or the value of the underlying asset drops to zero.

### Disclosure of Risk Factors

DCN may involve some or all of the following risks:

- Issuer's credit risk
- Market risk
- Interest rate risk
- Foreign exchange risk
- Reinvestment risk
- Liquidity risk
- Limited secondary market

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