Investor Education

Fixed Coupon Note

What is a Fixed Coupon Note?

A Fixed Coupon Note ("FCN") is a structured product which makes periodic coupon payment(s) to the investor until its early redemption or maturity. The coupon payment is fixed and payable on a regular basis. The FCN is normally linked to the performance of a stock, ETF, equity index, commodity or an alternative asset (such as cryptocurrency).

Key Features

- A fixed coupon amount is made on the coupon payment date.
- The minimum tenor period is normally at least 2 months or above and at most 12 months (negotiable with issuer).
- A Knock-out ("KO") barrier level is set as a percentage of the initial fixing level of the underlying asset(s). The KO event is deemed to occur when the closing price of its underlying asset(s) is at or above the KO barrier on the relevant KO observation date. FCN will be terminated early upon the KO event with 100% notional amount being returned to the investor. If the KO event does not occur, FCN will still be valid until its early redemption or maturity.
- If the closing price of the underlying asset(s) is below the strike price on the final observation date, the investor will receive physical delivery of the underlying asset(s) at the strike price where physical settlement is applicable to that/those underlying asset(s).

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	3 months
Currency	USD
Coupon	12% p.a. (monthly payable)
Underlying asset	Stock A
Initial fixing	$88
KO barrier (100% of initial fixing level)	$88
KO observation frequency	Monthly after the issue date
Strike price (80% of initial fixing level)	$70.4

Scenario 1: Scheduled Redemption

If no KO event occurs in any KO observation date(s):

Coupon Payment

The investor shall receive the coupon amount on the relevant coupon payment date(s) as follows:

Coupon amount = Coupon (%) p.a. / coupon frequency x notional amount
= 12% p.a. / 12 months x $1,000,000 = $10,000

A total of $30,000, i.e. 3 times monthly coupon amount shall be received by the investor over the lifecycle of the transaction.

Redemption Amount

1. If the closing price of the underlying asset(s) ≥ strike price:
   The investor receives 100% of the notional amount.
2. If the closing price of the underlying asset(s) < strike price:
   The investor receives the underlying asset(s) at the strike price.

For Physical Delivery Settlement

Number of shares to be delivered:
= notional amount / strike price
= $1,000,000 / $70.4
= 14,204.54 shares (fractional share of 0.54 will be settled by cash based on the closing price)

For Cash Settlement

Assuming the closing price of the underlying asset is $68, the cash amount to be received:
= notional amount x (closing price / strike price)
= $1,000,000 x ($68 / $70.4)
= $965,909.09 (a realized capital loss would be ~$34,090.91 against the notional amount)

Scenario 2: Early Redemption

If a KO event occurs on the first monthly observation date:

Coupon Payment

The investor shall receive $10,000 in cash on the first coupon payment date.

Early Redemption Amount

FCN is terminated early and the investor receives the full 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(s) drops to zero.

Additional Product Features and Variations

- FCN may be offered by linking to the worst-performing underlying asset in a basket ("Worst Performer"). In such case, the product is named as Worst-of Fixed Coupon Note ("WOFCN"). The determination of the KO event and maturity payoff are based on the Worst Performer.
- The fixed coupon could be paid out periodically or in a bullet format.
- The KO observation frequency could be daily or the end of certain period (e.g. monthly or quarterly).
- For additional risk management purpose, a Knock-in ("KI") barrier, set as a percentage of the initial fixing level of the underlying asset(s), can be added to FCN. In such product, investors benefit from minimum redemption amount until the KI barrier is breached under a certain condition.

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Disclosure of Risk Factors

FCN 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