



## **IB-HK Complex Products which are bonds or fixed income securities - Risk Disclosure**

Interactive Brokers ("IBKR") is furnishing this disclosure to clients to provide additional information regarding the characteristics and risks associated with fixed income securities that are Complex Products<sup>1</sup>. This disclosure should not be construed as an invitation or solicitation to undertake any transaction in, or a recommendation of, any bond or Complex Product which is a bond.

Please note that product naming conventions can vary by market or jurisdiction for the purposes of this disclosure we use the term "bond" to refer to certain fixed income securities.

### **Key Risks**

It is important to note that certain bonds are Complex Products and these bonds contains special features and additional risks that warrant special attention. These include:

- **Perpetual Bonds:** Perpetual bonds do not have a maturity date, and, as such, the coupon payments depend on the viability of the issuer in the very long term. Specifically, coupon payments may be deferred or even suspended subject to the terms and conditions of the issue. Furthermore, perpetual debentures are often callable and/or subordinated, and so additionally bear re-investment risk and/or subordinated bond risk, as detailed below.
- **Callable Bonds:** If the bond is callable then the issuer may redeem the bond before maturity at its discretion or upon the occurrence of certain events. The yield received when re-investing the proceeds may be less favourable than that paid on the original investment.
- **Subordinated debt:** Holders of subordinated debt (sometimes referred to as "debentures") are exposed to a higher degree of credit risk than are holders of senior debt due to a lower priority of claim in event of the issuer's liquidation or

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<sup>1</sup> Complex Products means a product as referenced in Paragraph 6.1 of the Guidelines on Online Distribution and Advisory Platforms and/or in Paragraph 5.5 of the SFC's Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct)

other credit events impacting the issuer. In particular, subordinated debt may be unsecured (with no collateral or asset backing) and have lesser priority than that of an additional debt claim of the same asset. As such, subordinated debt usually has a lower credit rating than senior debt. Investor should carefully consider the credit information of such products, including the respective credit rating of the Issuer, the debenture (i.e., the debt product) and/or the Guarantor, as the case may be.

- Bonds with Variable Coupon/Coupon Deferral features: If the bond contains variable and/or deferral of interest (or coupon) payment terms, then the investor may face uncertainty over the amount and frequency of the interest payments/coupons to be received.
- Bonds with Extendable Maturity Date: If the bonds contain extendable maturity date terms, then the investor would not have a definite schedule of principal repayment. This may expose an investor to further inflation and/or liquidity risk.
- Convertible or Exchangeable Bonds: Convertible or Exchangeable bonds, also sometimes called "hybrids" or "hybrid security", are instruments which have a feature where the debt instrument (the bond) is converted into or exchanged for an equity instrument (like a share of the issuer or an entity related to the issuer). Investors in these types of instruments may be subject to both equity and debt investment risk.

Depending on the instrument, the conversion or exchange may be at the election of the bond holder, or may occur automatically on a specific date or in occurrence with specific circumstances and some instruments are designed with contingent write-down or loss absorption feature, meaning the bond may be written-off fully or partially or converted to common stock on the occurrence of a trigger event.

Some debt instruments contain one or more features outlined above.

Some bonds available on the IBKR platform may have been authorized by the SFC. Please note that the SFC authorization does not imply official recommendation or endorsement of the product nor does it guarantee the commercial merits of the product or its performance.

For bonds that are not authorized by the SFC or the offering documents or information provided by the issuer have not been reviewed by the SFC, clients are advised to exercise extra caution in relation to the offer.

Finally, client should note that where past performance is given, it is not indicative of future performance. All investment involves risk, the price of a financial instrument/product may move up or down, become valueless and you may lose more than your initial investment. Client should carefully consider their investment experience, financial situation, investment objective, risk tolerance level and should consult an independent financial adviser prior to making any investment decisions, particularly in relation to investment decisions on Complex Products.