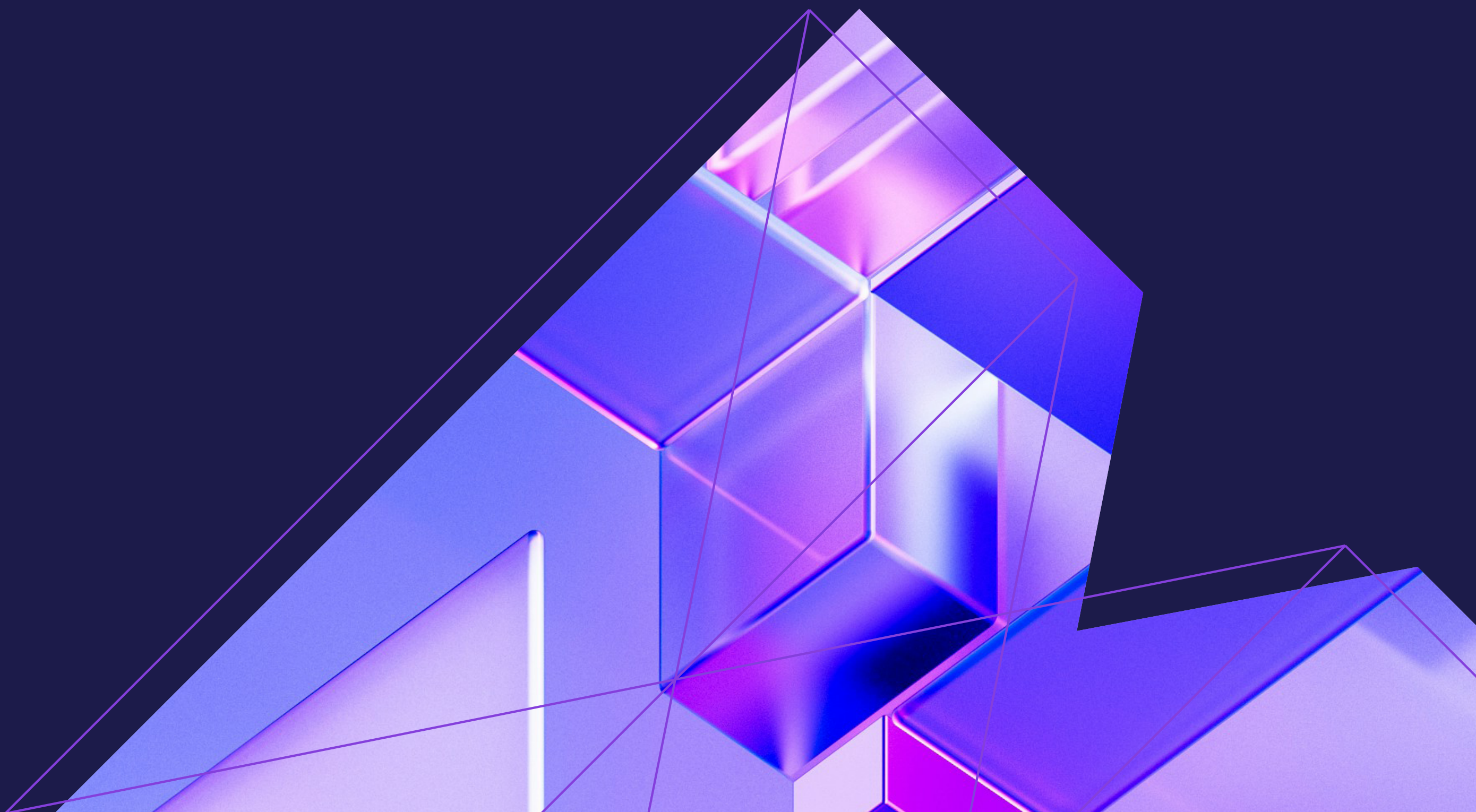


# Structured Products, Unstructured

## 5. Barrier Reverse Convertibles (BRC)



# What are they?

A type of yield-enhancing structured product linked to an underlying asset such as a stock, index, or basket of equities.

Provides regular fixed coupon payments, independent of the underlying's performance throughout the lifecycle of the product.

If the underlying's price falls below the barrier during the investment term, you may be exposed to the underlying's downside at maturity.

Typically suited for those seeking higher guaranteed income potential in range-bound or moderately bullish markets.

# Why use them?

## Enhanced return potential

Offer higher coupons compared to traditional bonds or notes.

## Market View Alignment

Suitable for investors with neutral to moderately bullish market outlooks.

## Volatility Monetisation

Allow investors to benefit from elevated volatility in underlying assets.

## Portfolio diversification

Adds differentiated risk/return exposure alongside traditional assets.

# How do they work?

You receive fixed coupon payments during the investment term.

If the underlying remains above the barrier, you receive full principal at maturity.

If the underlying falls below the barrier, you may receive the underlying asset (or a cash equivalent) worth less than the original investment, depending on the final performance.

## Barrier Reverse Convertibles

Zero-Coupon Bond

Derivative

# Illustrative example

## BRC on ABC Corporation

Coupon Level: 10% p.a. | Currency: USD

Maturity: 1 year | Barrier Level: 60% of initial level

If ABC's share price stays above 60% of its initial level during the term:

- You will receive +10% annual coupon
- At maturity, you get your full capital back

If ABC's share price falls below 60% barrier during the term and finishes below the initial level at maturity:

- You will receive +10% annual coupon
- You may receive shares of ABC (or their cash value) instead of your capital
- The value of those shares may be lower than your original investment

# Points to consider

## Equity Exposure Risk

If the barrier is breached, you may receive the underlying asset at maturity, potentially incurring a loss if its value has fallen.

## Barrier Observation Type

The level and type of barrier (e.g., European or American) affect risk - continuous observation increases the chance of breach.

## Liquidity and Secondary Market Risk

BRCs may be less liquid than traditional bonds, and secondary market prices can fluctuate with volatility, time to maturity, and underlying performance.

## Complexity

Payoff structures can be complicated and require full understanding.

# In summary

Barrier Reverse Convertibles = High Coupon Income + Conditional Downside Risk

A way to generate high income in range-bound or moderately bullish markets, with potential equity exposure if the barrier is breached.

# Glossary

## Barrier Level

A predetermined price level that determines whether the investor retains capital protection or becomes exposed to the underlying asset.

## Coupon

The fixed, periodic payment investors receive, usually independent of the underlying's short-term performance unless the barrier is breached.

## Maturity

The end date of the product term, when the final redemption amount is calculated based on the underlying's closing price relative to the barrier.

## Underlying

The asset to which the BRC is linked to, typically a single stock, equity index, or basket of equities.

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