

SGX launches structured certificates; First product linked to Hong-Kong listed Alibaba

By : Tan Nai Lun

SINGAPORE Exchange (SGX) is launching structured certificates, becoming the first exchange in Asia to list and offer the trading of such products.

Available to Specified Investment Products (SIP)-certified retail investors, these products are part of SGX's bid to offer a wider range of instruments for investors of various profiles and needs.

These products are third party-issued financial instruments that offer benefits such as yield enhancements and growth payoffs. Returns are largely dependent on the performance of the underlying asset they are linked to, which can be a single stock or an equity index.

“Structured certificates with yield-enhancement features bring a very different dimension to an investor’s portfolio, and (are) also congruent to Singapore’s position as a wealth management hub,” said Serene Cai, head of securities trading, equities at SGX Group, on Tuesday (Aug 15).

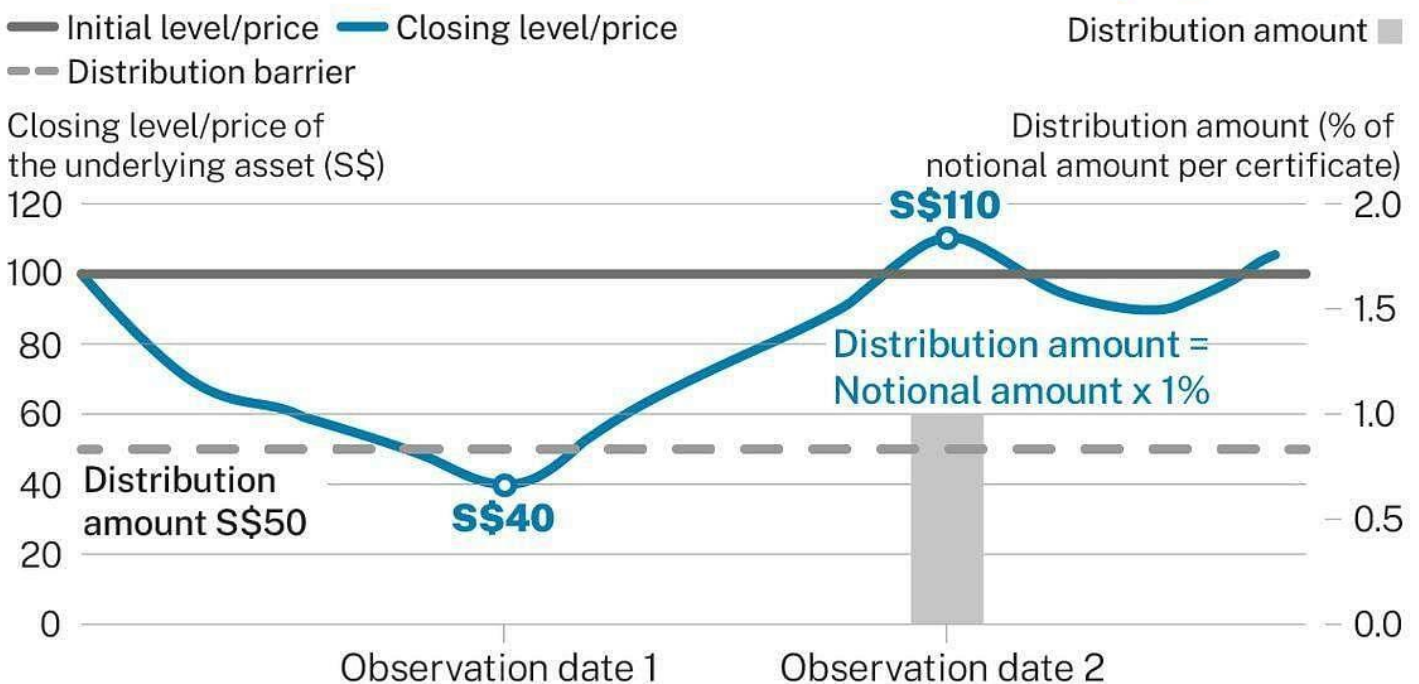
She sees structured certificates as a complement to an investors’ portfolio, instead of a direct substitute of owning a stock, as they offer different benefits.

Commonly traded in Europe, these products provide benefits such as price transparency and liquidity, she said.

The first structured certificate will be a yield-enhancement product linked to Hong Kong-listed Alibaba, designed with an auto-callable feature.

The product will pay out distributions on fixed observation dates if the price of the underlying asset does not fall below the distribution barrier – for example, if it does not fall below 50 per cent of its initial price.

Illustration of conditional distribution payment



Note: Assuming the conditional distribution rate is equal to 1% flat
 Figures used for purely indicative purposes

These products can have an early expiry if the price of the underlying asset rises to or above the auto-call barrier on an observation date – for example, at 105 per cent of its initial price. In this case, investors will receive the full notional amount originally invested – which is 100 per cent of the product’s issue price.

In the case of the product reaching its full term, investors need to take note of its strike price and knock-in barrier.

If the final price of the product is at or above the knock-in barrier, investors will receive the full notional amount.

If the final price is below the knock-in barrier, investors will receive the notional amount, multiplied by the closing price and divided by the strike price.

Illustration of cash settlement amount at expiry

Assuming that the closing level/price of the underlying asset is below the knock-in barrier and below strike level



Note: Figures used for purely indicative purposes

SOURCE: SOCIETE GENERALE GRAPHIC: BTVISUAL

The Alibaba-linked product will have a one-year term, with fixed observation dates once a quarter.

Societe Generale is the issuer, and UOB and UOB Kay Hian are the primary distributors of this auto-callable certificate.

Olivia Chen, head of distribution sales for South-east Asia and Australia at Societe Generale, said the product is designed for investors who believe that the performance of the underlying asset will remain flat or rise only slightly during its term, and are seeking distributions with the possibility of early expiry.

The product is also suitable for customers who already have a good awareness of its underlying assets, said Winston Lim, UOB regional head for deposits and wealth management.

He noted that Singapore consumers are generally quite familiar with counters listed in Singapore, Hong Kong and the US.

Chen said Societe Generale will be looking to issue more Hong Kong-listed underlying assets after Alibaba, as well as consider other underlying assets in Singapore as well as the US.

Cai added that SGX will look to introduce additional payoffs as investors become more acclimatised to such products.

The auto-callable certificates are the first in SGX’s pipeline of new product launches, which includes outperformance certificates, digital participation certificates and discount certificates.

The structured certificates will be listed and available for trading from Aug 30.