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Outline

PART I: A Brief History of the HK Retail Bond Market

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PART II: Offering Structured Retail Products

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PART I: A Brief History of the HK Retail Bond Market

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A Brief History of Retail Bonds in HK

- How it all began....1988...1998...2001
- The first deals (HKMC, Airport Authority...)
- The MTRC issue: HK\$5.6bn in subscription (HK\$3.5bn issued), first fully underwritten deal
- The SCB Retail CD: 4NC2 HK\$530mm.first of its kind
- The Wharf 2 & 3y issue: first come first served
- Ford Motor Credit 2003: first “canto” bond
- HK Link: HK\$7.7bn in subscription (HK\$3.5bn issued)
- HKSARG bonds: HK\$8.24bn in subscription (HK\$5.25bn issued), largest issue to date

Success Factors

- Using retail banks as the distribution channel
- Falling interest rate environment
- Risk aversiveness of investors after the Asian financial crisis
- Balanced portfolio concept taking shape
- Huge pools of savings: HK\$3 trillion
- Alternative to guaranteed funds

Structured Notes Issues

- Continuation of the yield enhancement theme
- Hutchison “Mini” bonds
- Change in regulatory environment
- Stand alone vs. programme documentation
- Pivotal point: SFC “quick fixes” in 2003 that allowed the use of a “dual prospectus” arrangement
- Setting up of numerous programmes and increasingly sophisticated structures

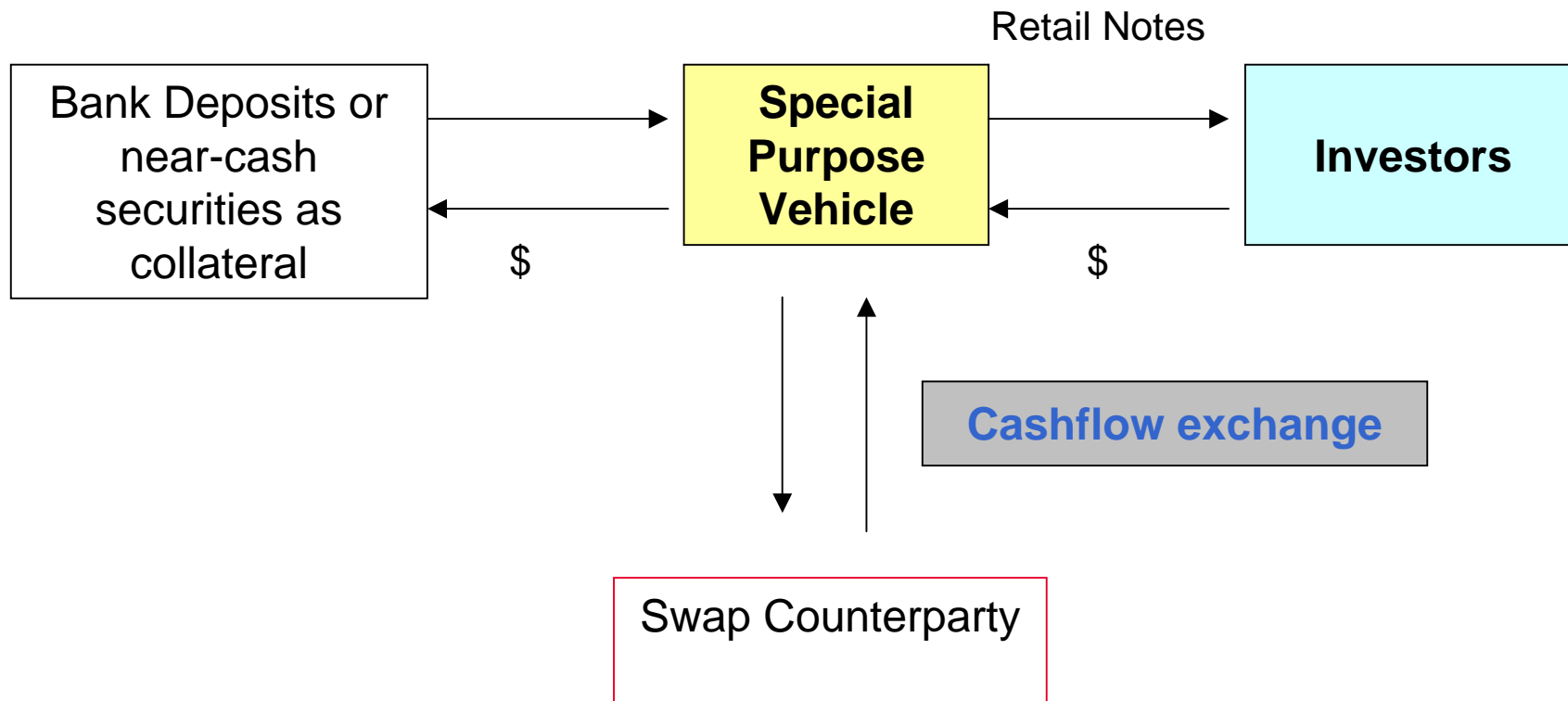
PART II: Offering Structured Retail Products

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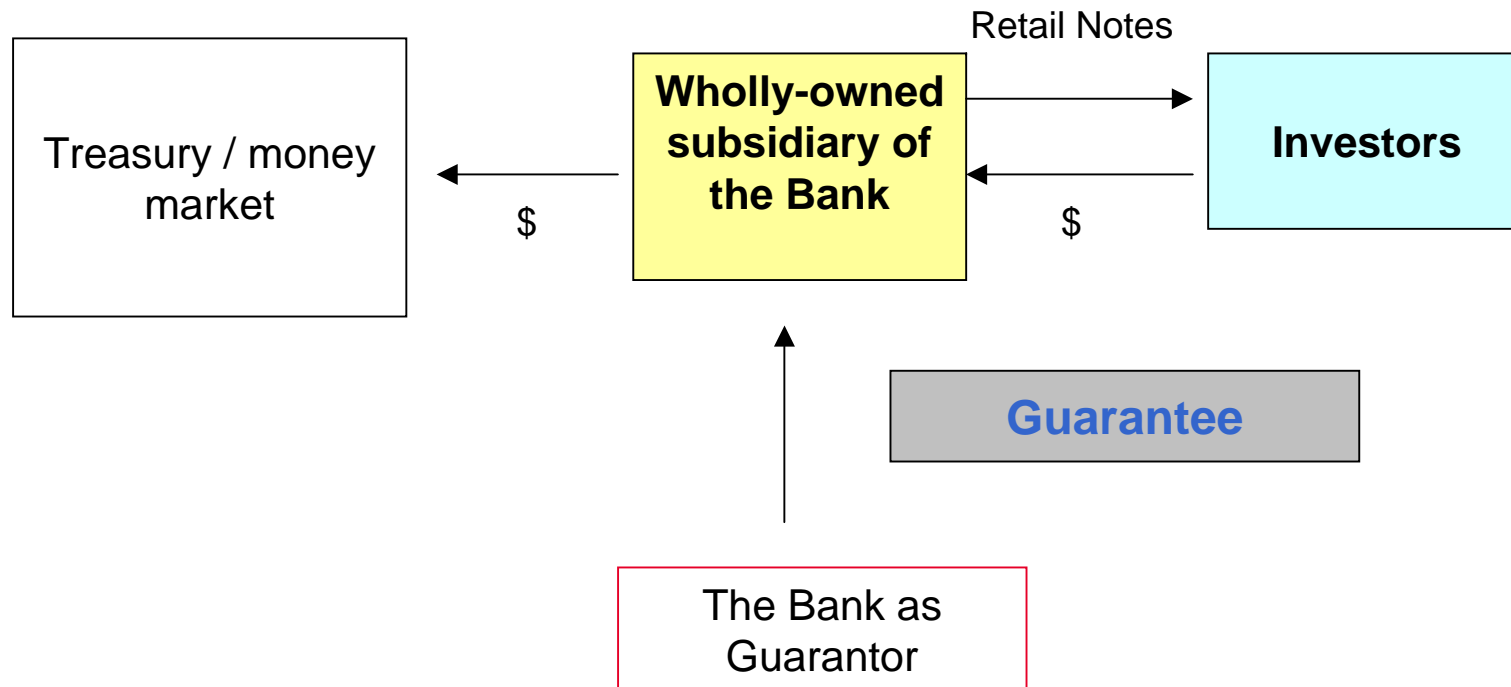
Products

- Capital guaranteed or non-capital-guaranteed, risk linked to
 - ▶ Interest rate
 - ▶ FX
 - ▶ Commodity price
 - ▶ Index
 - ▶ Corporate Credit
 - ▶ Equity price
 - ▶ Performance of funds

Typical Structure for retail notes issued by SPV



Alternative Structure for bank subsidiary as issuer



The Offering Mechanism

1. Pre-launch

- ▶ Determination of structure
- ▶ Forming or distribution group
- ▶ Approval for prospectuses
- ▶ Advertising plan
- ▶ Printing and delivery of selling material

The Offering Mechanism

2. Offer/Subscription Period

- ▶ Advertising campaign starts
- ▶ prospectuses/selling material available for collection by prospective investors
- ▶ Distributors collect orders via branches
- ▶ Daily purchase orders submitted
- ▶ Confirmation of orders

The Offering Mechanism

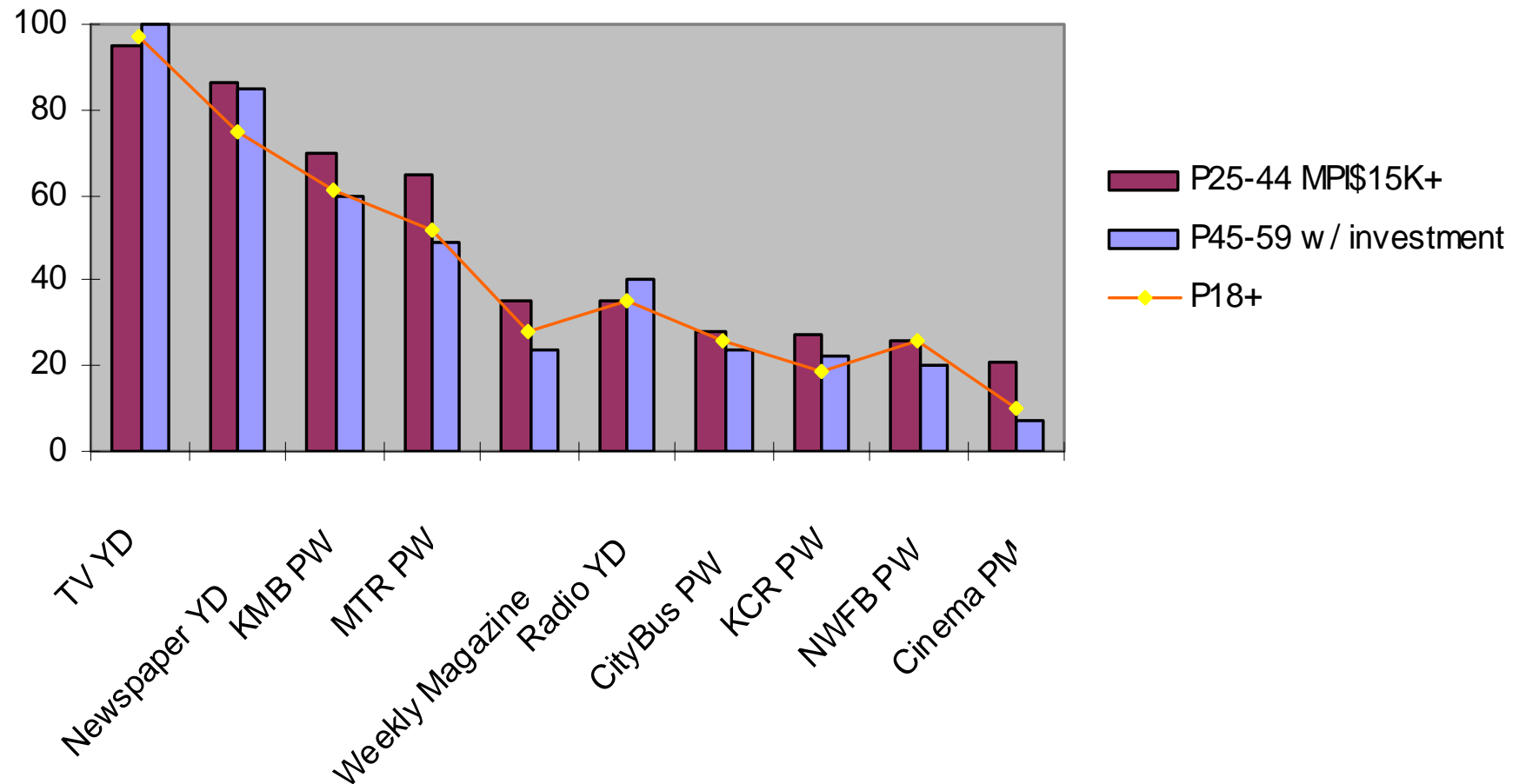
3. Settlement

- ▶ Normally 7-10 business days after close of offer/subscription period
- ▶ Investors accounts being debited
- ▶ Settlement between Issuer (or Arranger) with dealers via clearing system
- ▶ Dealers hold the bond on behalf of investors

Advertising / Marketing

- Selling material – take-one, posters
- Advertisement on newspapers and press
- Outdoor Media
- Radio and TV
- Press release/conference
- Interviews

Media Consumption Habit



Considerations

- Budget constrain
- Creative
- Content of the advertising material

Question : Is it profitable to sell retail structured bond?

Answer : Depends !

How much can you earn?

■ First consider how much you need to spend :

- ▶ Selling commission
- ▶ Legal cost
- ▶ Advertising cost
- ▶ Printing cost
- ▶ Delivery cost
- ▶ Other overheads

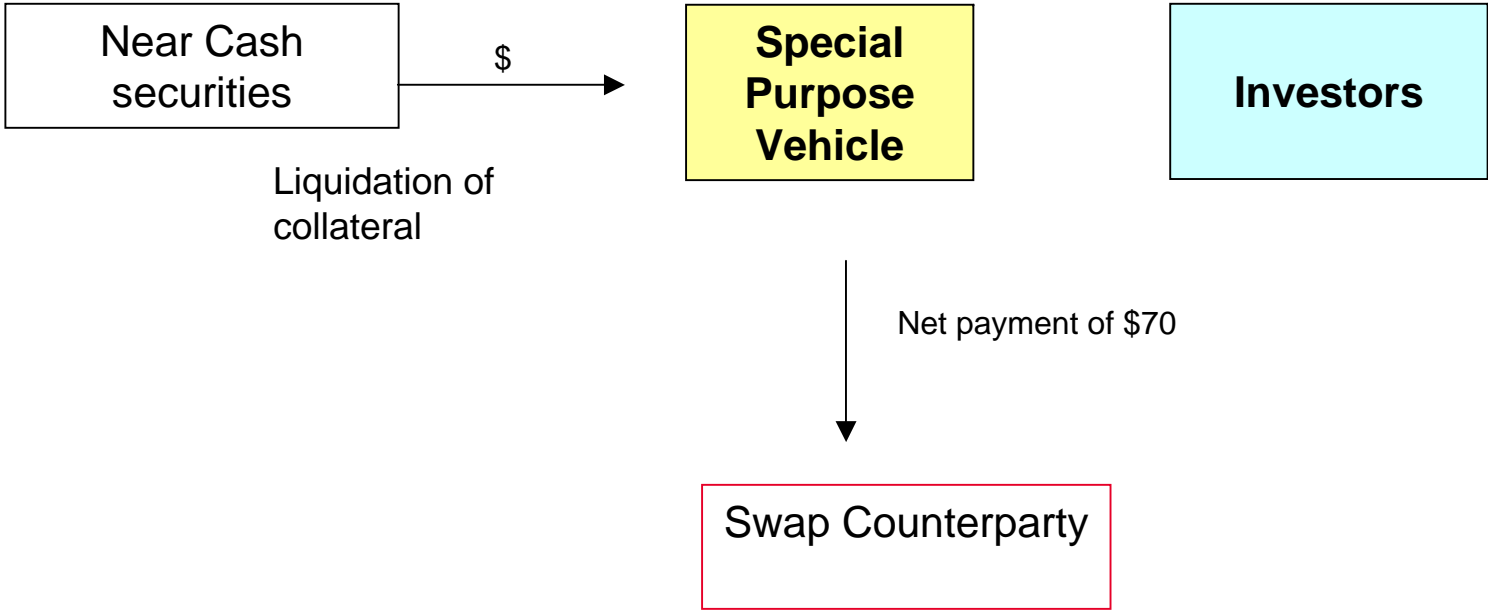
How much can you earn?

- Gross Sales Profit = Issue size x margin
- Issue size : <US\$10 to >US\$100m
- Margin : Fixed terms offering vs. Floating terms offering

Other Consideration - Risk

- Unsuccessful result – immediate loss
- Market risk
 - ▶ Hedging mechanism
 - ▶ Liquidity
 - ▶ Cancellation of order
 - ▶ Residue exposure

Residual Exposure



Other Risks

- Legal risk
 - ▶ criminal liability on inaccurate information
 - ▶ Infringement of royalty
- Reputation risk
- Working relationship

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