Understanding Hybrid Securities

An attractive alternative for income

Contents

Introduction

Australian investors looking to receive a steady stream of income have often only considered bank term deposits. Hybrid securities traded on ASX can offer a higher level of return, although associated risk is also higher.

What is a hybrid security?

'Hybrid security' is a generic term used to describe a security that combines elements of debt securities and equity securities.

Hybrid securities typically promise to pay a rate of return (fixed or floating) until a certain date, in the same way debt securities do. However, they also have equity-like features that can mean they provide a higher rate of return than regular debt securities. This is due to the higher inherent risk of these equity-like features. These features may include reduced certainty as to the timing and amount of income generated from holding the security, the potential for the security to be converted into equity or early terminated at a time not beneficial to the holder, and the holder being subordinate to other creditors in the event of insolvency.

About ASX

ASX is one of the world's top-10 listed exchange groups and quotes a broad array of products including shares, bonds, hybrid securities, exchange traded funds, options, warrants, futures and other derivative products. This provides investors and risk managers the opportunity to access a broad range of asset classes, including domestic and international equities, debt, commodities and foreign exchange.

Hybrids quoted on ASX

Just as you would instruct your broker to buy or sell shares in a company quoted on ASX, you can instruct your broker to buy or sell hybrid securities quoted on ASX.

There are a variety of hybrid securities quoted on ASX. They can be broadly split into three categories – convertible/converting debt securities (debt securities that convert into equity securities), preference shares (equity securities with debt-like features) and capital notes (debt securities with equity-like features). Examples of the last category include perpetual bonds (bonds which don't have a maturity date), subordinated bonds (bonds that are subordinated to the claims of other creditors) and knock-out bonds (bonds that give the issuer or a third party a right to extinguish them under certain conditions).

Some hybrids combine elements of these different categories – for example subordinated convertible debt securities or convertible preference shares. Sound complicated? Well, the hybrids market is rife with jargon and it is not always used consistently. For example, the term 'note' is often used to describe a short-term debt security but a 'capital note' can be a very long-dated security. To help you understand some of the jargon, we have included a glossary of some of the more common terms used in the hybrids market on page 17.

Corporate vs bank hybrids

Issuers of hybrid securities in Australia are typically either corporates or banks and insurance companies. Corporate hybrids can be issued by either listed or unlisted companies and are a means for corporates to borrow money from smaller investors.

Bank hybrids that meet APRA's prudential standards to be treated as regulatory capital are classified as either Tier 1 bank hybrids or Tier 2 bank hybrids. Tier 1 bank hybrids do not have a fixed maturity date, and typically convert into ordinary shares on a fixed date assuming certain conversion conditions are met, in a process known as scheduled or mandatory conversion. Tier 2 bank hybrids have a fixed maturity date.

In the event of the bank's core capital falling below a predetermined level, or the bank becoming non-viable, the bank may be required to convert some or all of its Tier 1 bank hybrids into ordinary shares, with conversion terms likely to result in material losses for the security holder. Tier 2 bank hybrids may also be converted into ordinary shares, but only in the event of the bank becoming non-viable, and only after Tier 1 bank hybrids have been converted.

This booklet will help you to understand hybrid securities traded on ASX, the risks associated with them and how they may be used within your investment portfolio. The information in this booklet is necessarily general in nature, and you should take care to inform yourself about the specific characteristics of a particular hybrid security before making a decision to invest in it.

Hybrid securities are generally complex in nature with potentially higher risks than other forms of investment. Investors need to understand the conditions of these offers. Investors should obtain advice from a professional financial adviser prior to making any final investment decision.

Why invest in hybrid securities?

There are a variety of reasons investors may choose to invest in hybrid securities, including the potential to:

- receive an income stream for a pre-determined period, although the certainty of cash flows varies depending upon the hybrid structure;
- improve the return on your capital – the income from hybrid securities is typically higher than interest paid on simple bonds reflecting their higher risk;
- vary the risk profile of your overall portfolio; and
- profit from anticipated movements in interest rates or equity prices.

Using hybrid securities to diversify your portfolio

Diversifying your investment portfolio with a variety of ASX listed products can help reduce risk and protect returns over the longer term. Diversifying involves:

- spreading your investments across different asset types such as shares (both Australian and international), REITs (listed commercial property), bonds, hybrid securities, currencies and commodities;
- spreading your investments within each asset type so, for example, you hold a range of shares across different sectors, a spread of bonds and hybrid securities of different types with different issuers and maturity dates; and
- spreading your investments across assets that have low correlation with each other, recognising that the value of investments in different asset classes can vary through different cycles.

Risk and return – the trade off

It is important to understand the degree of risk associated with different types of investments and how that affects their expected return.

Generally speaking there is a trade-off between risk and return. Assets with a higher level of risk will generally have a higher potential rate of return attached and vice versa. That is why most hybrid securities pay higher returns than regular bonds – there is usually a higher level or risk attached to a hybrid security than to a regular bond.

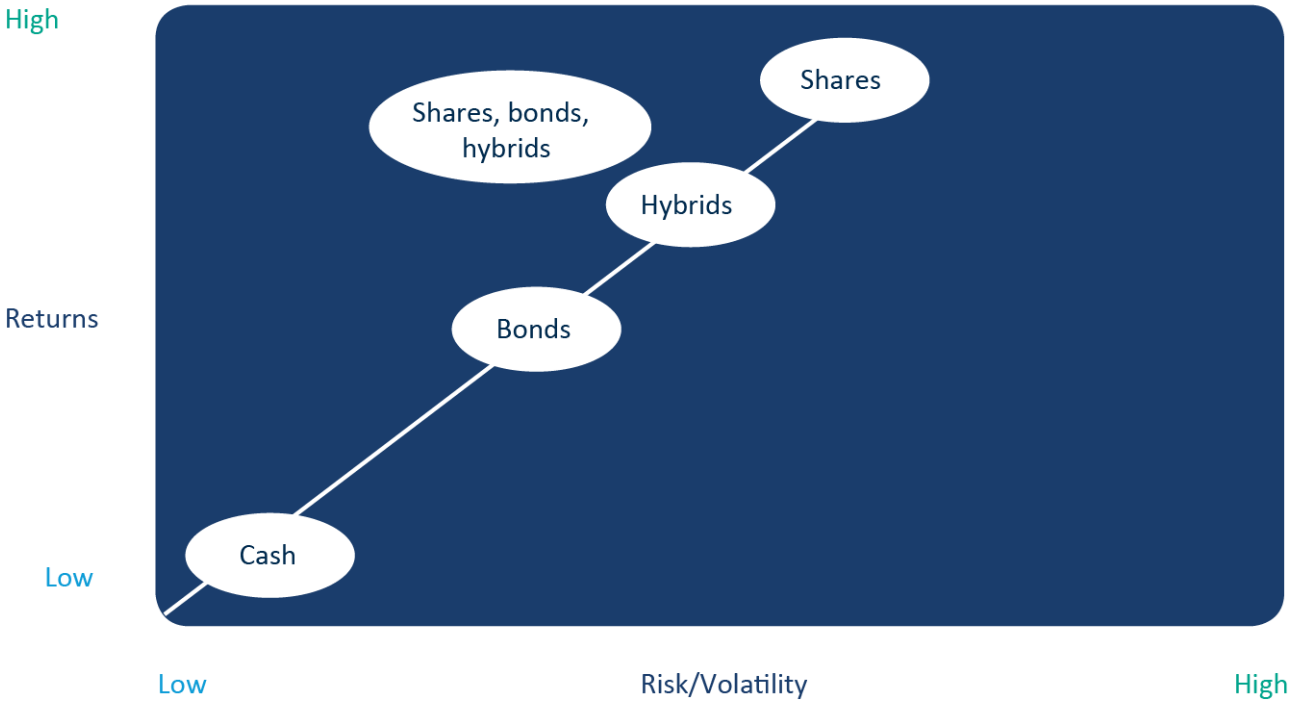
Investment risk is typically measured by the volatility of the security's price, and special care should be taken with hybrid securities due to the blend of equity and debt characteristics, as the price may behave quite differently in varying market scenarios. This is especially true of bank hybrids, which often have extremely complex terms, as well as being influenced by prudential regulator behaviour.

The diagram below illustrates how a portfolio that includes a balance of shares, hybrid securities and bonds may have a lower risk profile and more stable returns than a portfolio of shares only. This may suit investors with a desire for greater certainty of income rather than potential capital growth. When analysing the potential risk/reward trade-off of an investment in a hybrid security relative to other security types, particular reference should be made to the contribution of the following key risk types:

- Credit risk: the potential for the issuer to default on payment obligations. Hybrids may also include structural features that allow the withholding of distributions without triggering default on other debit instruments higher in the capital structure
- Liquidity risk: ability for the market to absorb buying or selling without significant price impact. Hybrids are typically less liquid than ordinary shares and their liquidity is also determined by issue size, credit worthiness and whether issuer is listed or unlisted
- Risks specific to bank hybrids: In order to be compliant with the international banking regulatory framework, bank hybrids contain trigger clauses with regards to capital levels and viability tests which can result in conversion into ordinary equity. Furthermore, the domestic and global regulations that Australian banks must comply with have changed considerably in the 25 years that they have been issuing hybrids. As such, older issues may have features

that are quite different to more recently issued hybrids and therefore extra care must be taken into considering the relative risks of each security.

Risk versus return



Comparing hybrids to other investments

The different types of hybrid securities

Hybrid securities include a very broad array of different products that have markedly different terms and conditions. They range from relatively simple convertible debt securities to some very complex financial instruments.

That's why it's so important to read the prospectus or product disclosure statement (PDS) for a hybrid security and to understand the particular terms and conditions that apply to that security before investing.

Comparing hybrid securities to bonds generally

Comparing a hybrid security to bonds is a bit like comparing one type of apple with a basket full of different types of apples and other fruit. The term 'bond' also describes a very broad array of different products, ranging from so-called 'simple bonds' (such as most government bonds) to some very complex debt securities. In fact, a number of hybrid securities use the term 'bond' as part of their name or are referred to as 'bonds' (for example, perpetual bonds and subordinated bonds), which can make a comparison even more confusing.

A bond is regarded as a 'simple bond' if:

- it has a fixed or floating coupon rate that does not change for the life of the security;
- interest payments under the security are paid periodically and cannot be deferred or capitalised by the issuer;
- it has a fixed maturity date which is not more than 10 years after its date of issue;
- it is not subordinated to other debts owed to unsecured creditors generally; and
- it does not attach any options to convert it to equity or to extinguish it (so-called 'knock-out' options).

Examples of more complex bonds include:

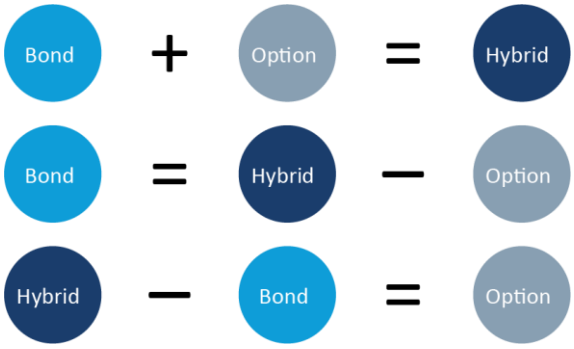
- bonds that allow the issuer to defer or capitalise interest payments under certain conditions;
- bonds that provide for the coupon rate to be re-set at certain times (often called 're-set' or 're-settable' bonds); and
- bonds that give the issuer the option to extend them but at the price of paying a higher coupon rate (typically called 'step-up bonds').

These more complex bonds are still regarded as debt securities rather than hybrid securities, as they do not have any equity-like features attached.

Hybrid securities, on the other hand, are called 'hybrid' because they combine features of debt securities and equity securities. Examples include convertible/converting bonds (bonds that convert into shares or other securities under certain conditions), perpetual bonds (bonds that don't have a maturity date), subordinated bonds (bonds that are subordinated to the claims of other creditors) and knock-out bonds (bonds that give the issuer or a third party a right to extinguish them under certain conditions).

Typically, the most complex hybrid securities are those issued by the major banks. They constitute the bulk of hybrid issuance in Australia and have widely varying terms. Under the Basel III global banking regulatory framework implemented locally by APRA, they are classified as either Additional Tier 1 (AT1) or Tier 2 capital. AT1 hybrids are senior only to ordinary shares. Tier 2 hybrids are senior to all Tier 1 Capital, specifically ordinary shares and AT1 hybrids. To compare a hybrid security with a regular bond (that is, a bond without any hybrid features) you need to compare the debt-like features of the two securities and then factor in the particular equity-like features attached to the hybrid security.

Take, for example, a simple convertible bond – a hybrid security that effectively combines the features of a simple bond (a debt security) with an option to convert it to a share (an equity security) at some point in the future. In this comparison, the relationship of the hybrid security to the simple bond can be thought of as follows:



You can see from the above formulas that a bond with an option to convert it to a share at some point in the future intrinsically has a different value than a simple bond. The option itself has value, which from the holder's point of view may be positive (where the option is exercisable by the holder) or negative (where the option is exercisable by the issuer). The convertible bond's price will reflect this embedded option value. Whilst the option is well 'out of the money', the market price of the convertible bond can be expected to perform similarly to a simple bond paying an equivalent return. However, as the option gets closer to being 'in the money', the value of the option is likely reflect more closely the market price of the convertible bond. For more information about simple bonds, please consult the ASX website and the 'Understanding Bonds' booklet.

Comparing hybrid securities to ordinary shares and simple bonds

The table below compares hybrid securities with ordinary shares and simple bonds.

Distinguishing features	Ordinary shares	Simple bonds		Hybrid securities	
Category	-	-	Convertible bonds	Preference shares	Capital notes
Legal form	Ordinary share	Debt obligation	Debt obligation	Preferred share	Debt obligation
Par value	N/A	Fixed or indexed to CPI	Fixed	Fixed	Fixed
Coupon rate	N/A	Fixed or floating	Fixed or floating	Fixed or floating	Fixed or floating
Payment frequency	Typically semi-annual	Varies but typically quarterly or semi-annual	Varies but typically quarterly	Varies but typically quarterly	Varies but typically quarterly
Income	Variable dividends	Coupon rate paid as interest.	Coupon rate paid as interest.	Coupon rate paid as a dividend	Coupon rate paid as a dividend or interest.
Possible franking credits	Yes	No	No	Yes	Sometimes
Discretionary distributions	Yes	No	No	Usually no	No
Term	Perpetual	Fixed	Usually fixed	Usually fixed	Usually fixed except for perpetuals, which have no specific maturity date
Convertible	No	No	Yes	Sometimes	Sometimes
Callable	No	No	Sometimes	Sometimes	Sometimes
Putable	No	No	Sometimes	Sometimes	Sometimes
Resettable	No	No	Sometimes	Sometimes	Sometimes
Step-up	No	No	Sometimes	Sometimes	Sometimes

The table above illustrates that hybrid securities have more complex and varying features than either ordinary shares or simple bonds. When comparing hybrid securities to other forms of investment, remember that you must carefully read the prospectus or PDS for the security to understand the particular features of that security. If you have any doubt about a hybrid security's terms and conditions, or whether it is the right investment for you, you should consult your financial adviser.

Types of hybrid securities traded on ASX

As mentioned previously, there are three broad categories of hybrid securities traded on ASX:

1. Convertible/converting debt securities;
2. Preference shares; and
3. Capital notes.

1. Convertible/converting debt securities

A convertible debt security is one that gives either the investor or the issuer the option to convert it into another type of security at a specified date in the future. Often this will be ordinary shares in the issuer. Convertible securities therefore have contained within them an embedded option. As mentioned previously, that embedded option has value, which from the holder's point of view may be positive (where the option is exercisable by the holder) or negative (where the option is exercisable by the issuer).

Securities that are convertible by the holder are attractive to investors because they typically offer downside risk protection while having a potential 'equity-kicker' on the upside. They are attractive to issuers because they can usually be issued at a lower interest rate than a standard bond, due to the value of that potential equity-kicker. This makes them less costly for the issuer to service. These bonds also allow the issuer to raise capital without having to immediately add a large number of shares to their pool of ordinary shares. If the company issues shares rather than convertible notes, the sudden addition of more new shares would result in a dilution of its equity. This can be unsettling for investors who see their 'piece of the pie' shrinking.

Some convertible and converting bonds contain 'anti-dilution' provisions which protect the value of the right of conversion for the investor. If not it can materially affect the value of the right of conversion and present a risk for investors.

2. Preference shares

Unlike ordinary shares, which pay a variable dividend rate as determined by the directors of the company, preference shares usually carry a specified dividend rate. It may be a fixed rate or a floating rate. They also usually carry a right to be redeemed for cash at maturity, much like a bond. It is these features that make them hybrid securities – they are equity securities that pay debt-like returns.

A preference share is given that name because holders of a preference share rank ahead of holders of ordinary shares for the payment of dividends and recovery of capital. That is holders of preference shares typically have priority over dividend payments to ordinary shareholders and preference shareholders typically are entitled to a payment of the face value of the preference shares ahead of any distribution of surplus assets to ordinary shareholders in a winding up.

The holders of preference shares generally do not have voting rights except in certain limited and exceptional circumstances.

Some preference shares may be issued without a maturity date. This type of preference share is referred to as a non-redeemable or perpetual preference share.

Some preference shares, called convertible preference shares, may give the holder or the issuer the option to convert the preference shares into ordinary shares at a specified date or dates in the future. Others, called converting preference shares, may automatically convert into ordinary shares at a specified date in the future.

3. Capital notes

Capital notes are debt securities that have equity-like features attached. Examples include:

- **perpetual debt securities** – these are debt securities with no fixed maturity date. They are regarded as hybrid securities because they are a debt security with equity-like features (like a share, they don't mature).
- **subordinated debt securities** – these are debt securities whose rights with respect to payment of interest and repayment of principal rank behind (are subordinated to) another class or classes of debt. The subordination may be in favour of the holders of senior debt or to ordinary creditors generally. Again, they are regarded as hybrid securities because they are a debt security with equity-like features (like a share, they rank behind certain debts in a winding up).
- **knock-out debt securities** – these are debt securities that give the issuer or a third party (such as a prudential regulator like the Australian Prudential Regulation Authority, or APRA) a right to extinguish them under certain conditions. They are typically issued by banks or other prudentially-regulated companies and have terms and

conditions attached so that they are treated like capital, or given a particular risk weighting, by prudential regulators, Again, they are regarded as hybrid securities because they are a debt security with equity-like features (in certain circumstances, like a share, they have no right to a return of capital).

Risks associated with hybrid securities

Any investment carries with it some risk. This applies to hybrid securities as it does to other investment types. Usually the greater the perceived risk, the higher the anticipated return required to compensate investors for that risk.

Accordingly hybrid securities that are perceived to have higher risk attached to them will generally attract a potential higher rate of return, whereas hybrid securities that are perceived to have a lower risk will generally attract a lower return.

Some key risks to consider when investing in hybrid securities are interest rate risk, credit risk and liquidity risk. Each of these risks are covered in more detail below.

Interest rate risk – the effect of changing interest rates on yields and prices

If the coupon rate on a hybrid security is floating, the yield on the security can usually be expected to stay in line with short-term interest rates, so movements in interest rates should have very little impact on its price. However, if the coupon rate is fixed, the yield on the security can only keep pace with changing interest rates if the price of the security changes.

Interest Rates	Hybrid Yields	Fixed-rate Hybrid Prices
Rise	Rise	Fall
Fall	Fall	Rise

*There is an inverse relationship between the market price of a fixed-rate hybrid security and expected yields – the market price will go up if expected yields fall and will go down if expected yields rise. The same thing happens to share prices – share prices go up if expected dividend yields fall and go down if expected dividend yields rise.

Credit risk

Credit risk is related to the financial strength of the issuer. A hybrid issuer falling into difficulties could result in the issuer defaulting on payments i.e. not being able to pay promised distributions on the face value on maturity. Generally, the higher the credit quality of the issuer, the lower the risk associated with the security and therefore the lower yield required by investors.

Credit risk also includes credit spread risk. This arises when investors demand a higher spread for securities with higher credit risks compared to lower risk debt securities, such as government bonds. This is often associated with a downturn in economic conditions, leading to an expectation of higher levels of default on higher risk securities.

Liquidity or marketability risk

Liquidity risk is the risk of not being able to sell your investment quickly and easily, or for a fair price, in the market if you need to. For some hybrid securities, particularly those with small amounts on issue, liquidity may be poor.

Complexity risk

As stated throughout this booklet, hybrid securities may contain features that are complex and impact significantly on the future value of the security. While these risks are required by law to be disclosed in a prospectus or PDS fully understanding them, especially for investors not familiar with complex financial instruments, is critical. It is very important, therefore, that you read the prospectus or PDS for a hybrid security carefully and if you have any doubt about the terms of the security, and/or whether it is the right investment for you, to consult with a financial adviser before deciding to invest.

Share price risk (for convertible and converting securities)

As mentioned previously, a convertible security effectively has an embedded option. The value of that option will rise and fall as the price of the underlying security (usually an ordinary share in the issuer) rises and falls. This will be reflected in the market price of the hybrid security. Hence, there is a risk that the market price of a convertible security will fall if the market price of the underlying security falls.

For converting hybrid securities, the relationship between the market price of the hybrid security and the market price of the underlying security is even more direct. Again there is a risk that the market price of a converting security will fall if the market price of the underlying security falls.

Hybrid securities – examples

Convertible debt security

Example: XYZ Company convertible note

In June 2013, XYZ Company issued hybrid securities called convertible notes with a face value of $100, maturing in June 2018. The securities pay a quarterly coupon set at 5%. The coupon is in the form of interest and thus no franking credits are available. The share price at the time of issuance was $2.20. Each note gives the holder the right to convert on maturity 1 note into 40 ordinary shares giving a conversion price of $2.50 (that is $100/40).

Assume that the share price at maturity of the convertible note is $4.10. The holder of the convertible notes will have the choice to either convert each note into 40 shares worth $164 or receive the note face value ($100). Given the conversion value is higher, the more profitable strategy for holders will be to convert into shares. Investors who bought the notes on the original issue date and held to maturity would therefore have earned 5% p.a. and received a capital gain on the notes of $64 – a total return of $89 or 17.8% p.a. (not including any return from reinvestment of income received).

Assume instead that the share price at maturity of the convertible note is $2.40. The holder of the convertible notes will have the choice to either convert each note into 40 shares worth $96 or receive the note face value ($100). Given the conversion value is lower, the more profitable strategy for holders will be to be paid the note's face value. Investors who bought the notes on the original issue date and held to maturity would therefore have earned 5% p.a. and made no capital gain or loss on the notes – a total return of 5% p.a. (not including any return from reinvestment of income received).

Preference share

Example: ABC Bank Converting Preference Shares

In March 2014, ABC Bank issued hybrid securities called converting preference shares, maturing in March 2020. The shares have a face value (issue price) of $100 and pay a 5% per annum fully franked dividend in semi-annual instalments. The terms provided that the face value of each converting preference share will automatically convert into ordinary ABC shares on the conversion date, at a 1% discount to the volume weighted average share price (VWAP) of those shares over the last 20 days of trading up to the conversion date.

Suppose you purchase 50 ABC Bank converting preference shares at the issue date for $5,000. If held to maturity, you would receive a fully franked dividend of $125 on each dividend payment date and if the 20 day VWAP at the conversion date was $25.00, then you would receive at the conversion date in 2020:

Number of shares = [number of hybrid securities x face value] / [(1 – discount rate) x 20 day VWAP]
= 50 x 100 / 0.99 x 25.00
= 202 ABC ordinary shares

Capital notes

Example: ABC Bank Capital Notes

In December 2013, ABC Bank issued hybrid securities called ABC Capital Notes. The notes are perpetual and pay a discretionary floating rate distribution that is in the form of a dividend and thus are expected to be fully franked. The floating rate distribution is paid quarterly and is a margin of 3.20% over the benchmark interest rate, being the 90 day bank bill rate. The bank has certain redemption rights including that of redeeming the securities in cash for their face value on a fixed date in the future. It also has the right to withhold interest payments and/or to convert the notes into ordinary shares in ABC in certain specified circumstances. In any winding up of ABC, the notes rank ahead of ordinary shares but behind bond holders and depositors.

Suppose you purchase 500 ABC Capital Notes at the issue date for $100 each.

The distribution being variable will be determined by the prevailing 90 day BBSW rate each distribution date. The distribution is paid quarterly so the amount you are due to receive four times a year will be:

(number of bonds x face value) x (distribution rate / distribution frequency)
= (500 x $100) x (distribution rate / 4)

If the 90 day bank bill rate applicable for a distribution is 3.05%, the distribution will be 3.05% plus the margin of 3.20% equalling 6.25%. Therefore the distribution for this particular payment date would be:

= (500 x $100) x (6.25 / 4)
= $781.20

Note that each distribution payment date would have a different distribution depending on the 90 day BBSW rate at the time. Distributions would continue in perpetuity unless the note was redeemed, converted, or an event was triggered that meant the bank was entitled to withhold the distribution. If you wanted to exit your investment in the notes at any time, you would have to sell them on ASX for the prevailing market price.

Buying and selling hybrid securities on ASX

There are two main ways in which you can buy hybrid securities. They are on the:

- primary market; or
- secondary market.

When you buy a hybrid security on the primary market, you buy it directly from the issuer. If it is an ASX quoted security, once the primary issue period has finished, the hybrid will start trading on ASX (the secondary market).

If you buy a hybrid security on ASX, you are buying it from another investor and not from the issuer.

In order to buy or sell hybrid securities on ASX you will need to use a broker. The ASX website can help you to locate a broker in your area that may be able to assist.

Visit asx.com.au/findabroker

ASX Codes

ASX hybrid securities trade in the same way as shares listed on ASX. Each security is identified by an ASX code that is six alpha characters long.

The first three characters identify the issuer, for example, WBC for Westpac.

The fourth character identifies the type of security. For example:

- G indicates a convertible note
- P indicates a preference share.

The fifth character, if any, is known as the sequence code. It indicates the number of that particular security within a series of securities for that issuer. For example, WBCPD indicates the fourth Westpac Capital Note on issue by Westpac Banking Corporation.

ASX security descriptions

In addition to its unique **code**, each hybrid security has three different security descriptions:

1. Long form description – a maximum of 50 characters;
2. Abbreviated description – a maximum of 18 characters; and
3. Short description – a maximum of 8 characters.

As you will have appreciated from this booklet, hybrids can have a wide variety of features and characteristics. The descriptions provide some more information about these features, which are not discernible from the code.

You will find one or more of these descriptions on your CHESS Statement, trading screen, broker advice, financial newspaper report such as in the Australian Financial Review and other places where ASX hybrid securities are referred to.

What do the descriptions mean?

To understand what each description or letter means, use the **Guide to the naming conventions and security descriptions for ASX quoted debt and hybrid securities**. The Guide also contains a glossary of terms.

Description example – ANZPE

The security description provides the basic information about a security's features. For example, ANZPE has the following 'Long form description':

CAP NOTE 6-BBSW+3.25% PERP NON-CUM RED T-03-24

Using **the Guide**, you can determine what the security description means.

CAP NOTE	A Capital Note, meaning that the issuer (or a third party such as a prudential regulator like APRA) has a right to extinguish the security under certain circumstances.
6-BBSW+3.25%	The security pays a semi-annual floating distribution based on the 6 month BBSW rate +3.25%.
PERP	The security has no maturity date (e.g. it is perpetual).
NON-CUM	The distributions are non-cumulative.
RED	The security is redeemable.
T-03-24	The security has a trigger date for possible conversion in March 2024.

Note: Due to character constraints, some features may not be able to be included in a security's description. For example, Capital Notes (such as ANZPE above) which by their nature are subordinated securities, do not include the description 'SUB'. Always review the issuer's prospectus, PDS or term sheet and consult your adviser to ensure you are familiar with all of a security's features

More information

- **The Guide to the naming conventions and security descriptions for ASX quoted debt and hybrid securities**
- **Hybrid Securities information**

Security description reports

- **Master list of security descriptions**

- **Convertible Bonds**
- **Preference Shares**
- **Capital Notes**
- **Hybrid Securities**

Settlement

Settlement of hybrid securities bought or sold on ASX takes place in CHESS (Clearing House Electronic Sub-registry System). You may hold hybrid securities in CHESS either as broker sponsored holdings or on the issuer's register as issuer sponsored holdings.

CHESS settlements normally occur on a trade day plus two (T+2) basis and the quoted prices for hybrid securities reflect this.

Price information

You can get information about current trading prices through a number of channels including:

- Financial websites such as the ASX website **asx.com.au**
- Your broker who should be able to provide the current market price for any ASX quoted security.
- The financial press which carry a list of the previous day's market action and closing prices.

Glossary

Accrued interest

The amount of interest that has accrued on a hybrid security from the security's original issuance date or the last coupon date to the date when the security is bought or sold.

The market price of a hybrid security can generally be expected to increase daily by the amount of interest accrued. For example, a security with a $100 face value and 6.5% coupon accrues interest at $6.50 per annum, or 1.78 cents per day. You can expect the market price of the security to increase by around 1.78 cents per day until the next ex-interest date, when the accrued interest value will fall to zero.

Annual coupon

A coupon that is paid once a year.

Bank bill swap rate (BBSW)

A compilation and average of market rates supplied by nominated domestic banks in regard to the specific maturities of bank bills. The purpose of BBSW is to provide an independent and transparent reference rate for the setting of interest rates and the pricing of various interest rate derivatives.

Basis point

One hundredth of a percentage point (0.01%). 100 basis points equals 1%. If a hybrid security's yield has gone up by 50 basis points, it has gone up by 0.50% (e.g. from 4.00% to 4.50%).

Bid price

The price a buyer is offering.

Call date

A date prior to maturity on which a call provision may be exercised by the issuer.

Call provision

A provision in the terms of a hybrid security giving the issuer the right, but not the obligation, to buy back the securities from the holder at a particular date or dates in the future at a specified price.

Callable

A hybrid security with a call provision.

Capital note

A hybrid security that is essentially a debt security but with equity-like features. Examples include perpetual bonds, subordinated bonds and knock-out bonds.

Capital price

Gross price less accrued interest.

CHESS

The Clearing House Electronic Subregister System, a system for clearing and settling trades executed on the ASX market and certain other markets in Australia.

Convertible

A hybrid security that gives the holder or the issuer the option to convert the security into another type of security (often ordinary shares) at a specified date or dates in the future.

Converting

A hybrid security that automatically converts into another type of security (often ordinary shares) at a specified date in the future.

Coupon

The interest amount paid on the specified date to an investor in a hybrid security. It is commonly expressed as a percentage rate. Coupons can be paid annually, semi-annually or quarterly or as agreed in the terms of the security.

Coupon date

The date on which the coupon interest is paid to an investor of a hybrid security.

Coupon frequency

The frequency with which coupon (interest) payments are made throughout the life of a hybrid security. Usually this will be quarterly, semi-annually or annually.

Coupon rate

The nominal interest rate a hybrid security pay (i.e. annual income dividend by the face value of the security).

Credit risk

The risk that an issuer may be unable to meet the interest or capital repayments on a hybrid security when they fall due. Generally, the higher the credit risk of the issuer, the higher the interest rate that investors will expect in order to risk providing funds to the issuer.

Cumulative

A preference share where missed dividend payments are added to the next (or a future) dividend payment.

Default

When an issuer cannot meet the payment obligations on a hybrid security.

Dirty price

The price of a hybrid security that includes the interest or dividend that has accrued and is due for payment on the next coupon payment. Dirty price is also known as the gross price of a hybrid security. See also 'clean price'.

Discounted price

When the clean price or capital price of a hybrid security is less than its face value.

Ex interest date or ex-dividend date

The date at which an exchange traded hybrid security starts trading ex the entitlement to receive the current interest or dividend payment. This is usually one business day before the record date for the interest or dividend distribution.

Exchange-traded

A security or other instrument traded on an exchange.

Face value

The amount on which interest or dividends are calculated over the life of a hybrid security. In the case of a hybrid security that provides for a return of principal at maturity, this will usually be the amount of principal that the investor is due to receive at maturity. This is also referred to as the par value or nominal value.

Fixed rate

A hybrid security that pays a fixed rate of interest over the life of the security.

Floating rate

A hybrid security that pays a floating rate of interest by reference to a variable benchmark interest rate, such as the 90 day BBSW rate.

Floating rate note (FRN)

Another term for a bond that pays a floating rate of interest.

Gross price

The price an investor pays to buy a hybrid security, which is made up of its 'capital price' plus 'accrued interest'.

Hybrid security

A security that has both debt and equity characteristics.

Issuer

The entity that issues the hybrid security to raise money from investors.

Knock-out bond

A bond that give the issuer or a third party a right to extinguish the bond under certain conditions.

Liquidity

The ease with which a hybrid security can be readily converted into cash.

Maturity date

The date on which a hybrid security matures. What happens at the maturity of a hybrid security depends on its particular terms and conditions. In some cases, this will be the date on which the final coupon and the face value of a hybrid security are paid to investors. In other cases, the holder or the issuer may have an option to convert the hybrid security into another security (most typically, ordinary shares in the issuer). In yet some other cases, the hybrid security might automatically convert into another security. A hybrid security effectively expires once the obligations at maturity have been met.

Nominal value

The face value of a hybrid security.

Nominal yield

A measure of the return on a hybrid security based on the annual coupon payments expressed as a percentage of the face value of the hybrid security. It takes no account of the current market price of the security or any future capital gain or loss on the security. For a fixed rate hybrid security, the nominal yield is equal to the coupon rate.

Non-cumulative

A preference share where missed dividend payments are forgone. The issuer of the share is not obliged to pay the unpaid amount to the holder.

Offer price

The price a seller is asking.

Over the counter

A security or other instrument that is not traded on an exchange such as ASX but transacted between buyers and sellers off-market.

Par value

The face value of a hybrid security.

Perpetual bond

A bond with no maturity date.

Premium price

When the clean price or capital price of a hybrid security exceeds its face value.

Principal

The face value of a hybrid debt security on which interest is calculated.

Purchase price

The dollar amount paid to purchase a hybrid security.

Put date

A date prior to maturity on which a put provision may be exercised by the holder.

Put provision

A provision in the terms of a hybrid security giving the holder the right, but not the obligation, to require the issuer to buy back the security at a particular date or dates in the future at a specified price.

Putable

A hybrid security with a put provision.

Quarterly coupon

A coupon that is paid four times a year.

Record date

The date at which an investor needs to be registered as the holder of a hybrid security in order to receive the current interest or dividend distribution.

Redeemable

Used mainly in the context of preference shares to indicate that the holder has a right to have the share redeemed for a cash amount (usually its face value) and/or that the issuer has a right to redeem the share for a cash amount. This is in contrast to ordinary shares, which are not redeemable.

Resettable

A hybrid security that allows the issuer to re-set the terms (e.g. by setting a new interest or dividend rate) after a specified period. Often the holder of the security will have certain options available to them on the re-set date, such as to accept the new terms, redeem, or in the case of convertible securities, to convert into the underlying security.

Running yield

A measure of the return on a hybrid security based on the annual coupon payments expressed as a percentage of its current market price. It takes no account of any future capital gain or loss on the security.

Secured hybrid security

A hybrid security backed by a charge over an asset of the issuer.

Senior debt

A class of corporate debt whose rights with respect to payment of interest and repayment of principal rank ahead of (are senior to) other classes of debt and over all classes of equity issued by the same issuer. Senior debt is typically backed by a charge over various assets of the debtor.

Semi-annual coupon

A coupon that is paid twice a year.

Step-up security

A hybrid security where the coupon is 'stepped up', that is increased by a nominated margin, upon a specific trigger happening. Often the trigger will be the issuer not exercising an option to repay the security at a particular date.

Subordinated bond

A bond whose rights with respect to payment of interest and repayment of principal rank behind (are subordinated to) another class or classes of debt. The subordination may be in favour of the holders of senior debt or to ordinary creditors generally.

Term

The period from the issue date of a hybrid security to its maturity. The term of a hybrid security can vary greatly, from short term (up to five years) to medium term (five to 10 years) to long term (10 or more years).

Time to maturity

The number of days until a hybrid security matures.

Unsecured hybrid security

A hybrid security that is not backed by a charge over an asset.

Yield

The annual return on a hybrid security expressed as a percentage. There are different measures of yield: nominal yield, running yield and yield to maturity.

Yield curve

A graph showing the relationship between yield to maturity and time to maturity.

Yield to maturity

The average annual return an investor should receive if they buy a hybrid security for its current market value and hold the hybrid security to maturity. The calculation factors in coupon payments, the time to and amount due at maturity, and the capital gain or loss that will be made on maturity. It also assumes that the coupon payments are reinvested in the hybrid security.