

## KNOWLEDGE & EDUCATION – FIXED INCOME SECURITIES

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### Checklist

#### 1. What is a Fixed Income security?

- A Fixed Income security is a formal contract to repay borrowed money at the end of the life of the bond (maturity date) with interest paid at regular intervals (the coupon). The most common type of fixed income securities are Bonds. Other types of fixed income securities include Treasury bills, Treasury notes, certificates of deposit (CD), as well as more specialized instruments such as Perpetual and preferred stock. This document covers all of the fixed income securities mentioned above.
- A Bond is a type of debt instrument issued by governments and corporations: the issuer is the borrower (debtor), the holder is the lender (creditor), and the coupon is the interest.
- Bonds enable governments or corporations to borrow to fund their activities.
- Government bonds – national, state and regional, and local or municipal – are often called 'sovereign' or 'treasury' securities.
- The principal value (also known as face value or par value or nominal value) of a bond is the amount that is promised to be repaid on the maturity date.
- Bonds and stocks (equities) are both investment securities, but the major difference between the two is that stockholders have an equity (ownership) stake in the company, whereas bondholders have a creditor stake in the company and do not 'own' a part of the company (that is, they are lenders).
- Bonds are issued for multiple investors via public 'subscription' and the investors are granted with 'securities' (also known as bonds) against their cash.
- A right to claim the 'loan' amount back and to receive 'interest' is embedded in the issued bonds.
- Bonds can be traded between any two parties. Purchase of a bond entitles the holder of the bond to receive periodic "interest" and "principal" at maturity from the bond issuer.

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#### 2. What are the major characteristics of a Fixed Income security?

- Four major characteristics are:
  - i. The term or tenor of the bond
  - ii. The nature and creditworthiness of the borrower / issuer
  - iii. The legal structure of the bond (in particular the priority held by the investor)
  - iv. The interest rate or coupon payments
- A bond will typically be described using these characteristics: for example a 'Ten-year General Electric senior unsecured fixed rate bond' or a '2027 General Electric floating rate bond'.

#### 3. What is the term or tenor of a Fixed Income security?

- The tenor is the legal lifetime of a bond, usually described via a time period from its date of issuance (for example, 'ten year') or via its maturity date (for example, 'March 2027'). Generally, the longer a bond has to maturity, the greater the credit, interest rate and reinvestment risks of the bond, and therefore in general the bond will bear a higher interest rate to compensate for the risks.
- Tenors may vary from overnight to days, weeks, months (7-day, 14-day, 1-month, 3-month / 90 day, 6-month / 180-day), years (1, 5, 10, 20, 30) and perpetual securities (either with no fixed maturity date or with maturity date far into the future).

#### 4. What is the nature and creditworthiness of the borrower / issuer?

- Bonds are generally divided into government and corporate issues.
- Government bonds may be issued by:
  - i. National governments
  - ii. Government owned or related businesses
  - iii. International institutions (such as the World Bank, or European Central Bank)
  - iv. State or regional governments
  - v. Local or municipal governments
- Corporate bonds may be issued by:
  - i. Corporations
  - ii. Banks, finance companies and financial institutions

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- iii. Special-purpose vehicles, usually backed by a bank or a corporate sponsor, often as part of a securitisation transaction, often secured by a pool of assets
- Some bond issues contain features such as a parent guarantee or a holding company guarantee or a guarantee by a bank in the form of a Standby Letter of Credit (“SBLC”), which ensures that the guarantor at some level guarantees repayment. When investing in such bonds it is important to understand the nature of such a guarantee, any conditions attached, and who is providing it.
- The credit quality of an issuer determines its estimated capacity to repay its debt and interest obligations. The poorer the credit quality, the higher the coupon (interest rate) is likely to be as investors will demand to be compensated for the greater risk they take on their investment and vice versa. The risk of default, that is non-payment of coupon or principal, is called the credit risk.
- The credit quality of issuers is often assessed through credit ratings. Credit ratings are provided by international independent rating agencies such as Standards & Poor’s, Moody’s or Fitch and local ratings agencies. These may provide investors with an independent view on the credit quality of the issuer.
- Investors should note that bond issues are rated on issue by issue basis by the rating agencies and a particular bond issue rating may be different from the issuer rating or another bond issue rating of the same issuer depending on various factors relevant to such bond such as structure, payment rank and so on.
- Some issues may be unrated.
- Bonds with high credit quality are called Investment Grade bonds while bonds with low credit quality are called High Yield bonds (or Junk Bonds). High Yield bonds are generally subject to higher investment/credit risks and higher price volatility.

#### 5. What are the key factors in the legal structure of a Fixed Income security?



- Two key factors are:
  - i. the priority of the claim a bondholder has over the assets of the borrower; and
  - ii. are there specific features that may adjust the repayment terms for the borrower.
- Firstly, priority of claim measures the strength of a bondholder’s right to be paid of his/her coupon and/or face value at maturity or in the event of bankruptcy. Generally, interest payments and debts have a higher priority of claim over dividend payments and repayment of equity to stockholders.
- Priority is usually expressed in a hierarchy from the strongest claims to the weakest, ranking from:
  - i. Secured – where the bond holder has priority claim to a particular pool of assets in the event of a bankruptcy
  - ii. Unsecured – Unsecured debt could be senior or subordinated. Subordinated debt (sometimes referred as ‘junior’) ranks below other forms of debt. This is particularly more

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common in certain types of banks, insurance companies or other financial institutions debt issuances

- iii. Preferred shares (often known as 'pref') - where the holder has superior rights to payment of dividend and equity before other equity holders are paid
  - iv. Common equity
- Secondly, certain specific features in some bonds may allow the borrower to adjust the timing of repayment of principal. In some cases, the principal value of the bonds may be written down and the bondholder would suffer losses in such scenarios. Such bonds may be:
    - i. Callable or redeemable – the issuer may under certain conditions, or on certain dates, redeem and repay the principal amount of the bond before its stated maturity date. Callable bonds can be attractive for the higher coupon rates that they typically offer to investors, due to the redemption feature. A company will usually call a bond if it is paying a higher coupon rate than the current market interest rates as the issuer may call the bonds and then issue new bonds at a lower rate of interest, enabling the issuer to enjoy some savings on the coupon payments
    - ii. Putable – the bond holder may have the right, but not the obligation, to demand early repayment of the principal, usually exercisable on specified dates before maturity. Investors typically exercise a put provision when they need cash or when interest rates have risen, so that they may then reinvest the proceeds at a higher interest rate. Given that such provision is generally in favour of the investor, issuers of bonds with these redemption features usually offer a lower return than comparable bonds without a put option.
    - iii. Convertible – the issuer or the bond holder may in certain circumstances have the right but not the obligation to redeem the bond in shares of the company rather than in cash. In cases where the bondholder has the option to redeem the bond in shares, such bonds offer investors a fixed income with the opportunity for capital gains if the stock price increases in value. As a result the coupon rate on convertible bonds tend to be lower than those conventional issues.
    - iv. Bail-in-able – recent changes in laws and regulations of various national regulators have made it possible for bonds issued by banks, insurance companies and other financial institutions to be subject to bail-in i.e. a partial or full principal write down (as the case may be) may occur in the event that the financial institution is not able to meet capital requirements as defined by the applicable regulator, in order to restore the capital levels of the institution. In such situations, the investor may lose partial or all of his initial investment amount permanently.

#### 6. What other types of Fixed Income securities are available to investors?



- There are many different types of bonds and bond structures, depending on the type of issuers and their objectives, as well as the preferences of investors. Issuers are constantly innovating to develop different bonds with different features. In addition to the bonds outlined above, there are bonds with features such as:
  - i. Perpetual – these bonds do not have a stated maturity date. Theoretically they may never be redeemed by the issuer, however they are usually callable at the sole discretion of the issuer

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- on specific call dates. Call back would depend on various factors, including but not limited to prevailing interest rate environment at the time of call and refinancing cost
- ii. Inflation linked – the principal amount and the interest payments may be indexed to an inflation index such as US CPI. The interest rate is normally lower than the interest rate for a fixed rate bond with a comparable maturity, but overtime the payments increase with inflation. An investor can benefit from inflation linked bonds if the realised inflation rate is actually higher than the implied inflation rate at purchase. In periods of deflation, however, inflation linked bonds may underperform conventional bonds
  - iii. Asset backed – bonds whose interest and principal payments are backed by underlying cash flows from specific assets. Examples are mortgage backed securities (MBSs), collateralised mortgage obligations (CMOs) and collateralised debt obligations (CDOs). These differ from other kinds of bonds because their creditworthiness is derived from sources other than the ability of the originator of the issuer to meet the payments
  - iv. Municipal bonds – bond issued by a state, city, local government or their agencies. Interest income received by holders of municipal bonds is often exempt from the federal income tax and from the income tax of the state in which they are issued, although municipal bonds issued for certain purposes may not be tax exempt
  - v. Claim Elimination Securities (CES) - these are bonds where the terms expressly provide for the elimination or diminution of the holder's economic claims upon certain trigger events. For example, if the issuer's Core Equity Tier 1 ratio falls below a certain trigger level (the Trigger Event), the bond's principal value may be partially or fully written down as defined by the terms of the bond. In other cases, the bond may be converted to common equity. Other types of Trigger Events may include but not limited to the applicable regulator's declaration that the issuer is no longer viable on a going concern (stated otherwise, the issuer have reached the point-of-non-viability). For example, more recent subordinated debt issues of banks, insurance companies or other financial institutions are commonly CES.
  - vi. Islamic securities or Sukuk – these are Shariah compliant securities, which means it is structured to adhere to Islamic law. These securities represent beneficial ownership in an underlying pool of assets and the corresponding right to the income streams generated by these assets. They do not pay interest as it is forbidden under Islamic law, but may pay periodic distribution from the profit generated by these assets
- The above features are not mutually exclusive and more than one feature may apply to a particular bond.
  - In addition to bonds, there are also money market instruments such as Certificate of Deposit ("CD"). These are issued by depository institutions and have a fixed term which repays the deposit at the end of the term with interest. Most CDs are issued with a term up to one year, but there are instances where the tenor is greater than one year and interest is paid at regular intervals. A CD is not equivalent to a time deposit and may not be protected by deposit protection or insurance schemes and an investment in a CD is subject to risk factors such as investment risk, credit risk, liquidity risk and so on.

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#### 7. What is the interest rate or coupon of the Fixed Income security?

- The issuer of the bond pays interest to the bond holder for the use of their money over the term of the bond. This is the interest rate or coupon of the bond.
- Coupons are usually paid on a regular basis such as quarterly, semi-annually or annually.
- Coupon may be fixed for the term of the loan ('fixed') – such as 2.25% p.a. - or may vary over time, often tied to a benchmark interest rate such as LIBOR, HIBOR or SIBOR ('floating') – such as 3 month LIBOR + 2.00%. The coupon rate resets periodically according to the movement of the benchmark interest rate and such bonds are called floating rate bonds.
- For certain bonds, especially short term bills (less than a few months' maturity), or bonds without any contractual coupons known as 'zero coupon bonds' or 'deep discount bonds', or 'zeros', the investor purchases the bond at a discount to the face value – these are known as 'discounted securities', and do not pay a regular coupon. At maturity the bondholders receive the par value, which can be looked at as the principal invested plus the accumulated interest earned.
  - i. A 90-day bill paying around 5% per annum (1.25% per quarter) may be sold for \$98.75 for each \$100 face value, so the interest is paid at maturity by the issuer paying the full face value and providing the investor with his return
  - ii. A ten-year \$1 million zero coupon bond may sell for \$613,913 today, representing a 5% annual return for an investor holding to maturity when he/she will receive the \$1 million face value
- Bond may be issued by a local or foreign bond issuer and may be denominated in currency other than the local currency of the issuer or the bond holder. A buyer of foreign currency bonds is assuming some degree of foreign exchange risk, both on the purchase price and principal received at sale or maturity and on the coupon income.

#### 8. Are Fixed Income securities traded? Possible factors which will impact the price of a Fixed Income security.

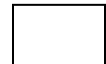
- Bonds may generally be bought and sold before they mature, usually either in over-the-counter ("OTC") markets or trading exchanges.
- The price of a bond will depend on supply and demand in the market, the creditworthiness or reputation of the bond issuer, the time to its maturity, prevailing interest rates, etc.
- Bonds tend to fall in value if the creditworthiness of the issuer falls and may rise if it improves.
- As bonds may be bought or sold over their lifetimes, investors may trade bonds at prices other than their face value and may sell bonds at a profit or loss depending on the prevailing market prices. Although the issuer's contractual agreement to repay the principal at maturity and to pay the coupon at regular intervals provides investors with some certainty, there are substantial risk factors that must be considered by investors.

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- Assuming all other factors remain unchanged, the other possible impact on the bond prices are:
  - i. Market interest rate movement  
Bond price has an inverse relationship with the market interest rate.
    - When market interest rate increases, the bond price decreases
    - When market interest rate decreases, the bond price increases
  - ii. Effects of inflation
    - Higher inflation expectations decrease demand for bonds and increase their supply. Both factors result in lower bond prices and higher interest rates.
    - Lower inflation expectations increase demand for bonds and decrease their supply. Both factors result in higher bond prices and lower interest rates
  - iii. Term-to-maturity as the bond moves closer to its maturity date  
  
Bonds tend to converge to their initial face value as they approach to maturity as the issuer's promise to repay the bond in full approaches.
    - If a bond is at a premium, the price will decline over time toward its par value.
    - If a bond is at a discount, the price will increase over time toward its par value.
    - If a bond is at par, its price will remain the same.

### 9. What is the yield of the Fixed Income security? What is Yield to Maturity?



- The current yield (or running yield) of a bond is the rate of return received from investing in the bond as a function of the price paid and the coupon payment. If a bond is purchased at a price below par, the current yield of the bond will be higher than the coupon because an additional gain can be expected on the capital.

So a bond paying 5% coupon when trading at par (\$100), has a 5% current yield .

- i. If market interest rates fall, and the bond is purchased for \$110, the 5% coupon now represents a current yield of 4.55% ( $\$100 \times 5\% / \$110$ )
- If market interest rates rise, and the bond is purchased for \$90, the 5% coupon now presents a current yield of 5.56% ( $\$100 \times 5\% / \$90$ ) Yield to Maturity (YTM) is the anticipated rate of return on a bond if it is held until the maturity date, and is a better measure of the bond return than current yield. YTM reflects the interest to be received as well as any capital appreciation or loss which the holder incurs by holding the bond till maturity. Calculation of YTM takes into account the current market price, par value, coupon and time to maturity. It is also assumed that all coupons are reinvested at the YTM.
- For callable bonds, investors should also consider the Yield to Call (YTC) which is the anticipated rate of return on a bond if it is called on the following call date. For puttable bonds, investors should consider the Yield to Put (YTP) which is the anticipated rate of return on a bond if it is put

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on the following put date. When considering investing into bonds with callable or puttable features, investors should always consider these yield measures and take into account the lowest of the YTM, YTC or YTP as a probable rate of return in his/her investment.

#### 10. What are the benefits of investing in Fixed Income securities?

- Fixed income securities offer investors, at different points of their lives, certain benefits which can help them to achieve specific investment or financial objectives or mitigate risks from other investments.
- In general, investing in debt may be safer than investing in equity. The reason is the priority that debt holders have over shareholders, both in payment of their (pre-determined) coupon, and in repayment of their principal at maturity. Hence the certainty of receiving income on a bond is higher (volatility of return is lower), and recovery is typically higher in the event of bankruptcy.
- If a company goes bankrupt, debt holders are ahead of shareholders in the line to get paid. In a worst-case scenario such as bankruptcy, the creditors (debt holders) usually get at least some of their money back while shareholders may lose their entire investment.

Historically, bonds have been less volatile than equities over the long run and returns have been lower. However, this relationship may not always hold over prolonged periods. Bonds may help to provide an element of stability to a portfolio and should be considered as part of a diversified portfolio of investments

#### 11. What are the risks of investing in Fixed Income securities?

- The following is a list of some common risk factors when investing in bonds. The list is not exhaustive and investors should always refer to the risk disclosures in the bond prospectus. Investors should also monitor investments proactively by regularly checking the disclosures by the issuers (or guarantor if any) and monitoring any news relating to the bond issue or issuer. Where the issuer is a publicly listed company, investor may also find more detailed information on the relevant stock exchange and on the company's website.
- **Investment Risk** – Bonds are not a Bank Deposit and have no Bank guarantee, are not government insured and may lose value.
- **Credit or Default Risk** – Risk of issuer failing to repay a loan or otherwise meet a contractual obligation. Bond prices can become volatile depending on the credit rating of the issuer – for instance if the credit rating agencies like Standard & Poor's and Moody's upgrade or downgrade the credit rating of the issuer. A downgrade will cause the market price of the bond to fall. As with interest rate risk, this risk does not affect the bond's interest payments (provided the issuer does not actually default). A company's bondholders may lose part or all their money if the company goes bankrupt.
- **Market or Interest Rate Risk** – Potential for loss due to fluctuations in securities prices due to change in interest rates.
- **Inflation Risk** – Risk that the purchasing power of future cash flows reduces over time. Investors are exposed to inflation risk because the income / profits they expect to receive may have less purchasing power in the future.



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- **Liquidity Risk** – Potential lack of marketability of security such that it cannot be bought or sold with ease subjecting investors to additional losses.
- **Concentration Risk** – Over-exposure to the credit risk of a particular issuer, country or industry by allocating funds to a single bond rather than a portfolio of bonds, or a bond mutual fund.
- **Re-investment Risk** – Some bonds are callable and may be early redeemed prior to the maturity of the bond by the bond issuer, in accordance with the terms and conditions of the bond issue. The bond holder may suffer reinvestment risk when reinvesting the principal and/or coupon interest received from a bond as such reinvestment would be at the prevailing market rates and conditions which may be lower than the initial projected investment return.
- **Regulatory Risk** – Changes in laws and regulations could adversely affect the value and return of the bond. Legislation to deal with ailing banks and/or corporations may give regulators resolution powers to approve or allow the issuer and/or its parent company to have existing debt obligations absorb losses through principal write down and/or exchanged for other debt or equity securities. If any such event were to occur, investor may lose up to all of his/her initial investment.
- **Exchangeable Risk** – Bonds that are convertible or exchangeable in nature will expose investors to both equity and bond investment risk.
- **High Yield Bonds** – High Yield Bonds are bonds typically rated below investment grade or may be unrated and are often subject to a higher risk of issuer default. During economic downturns such bonds typically fall more in value than investment grade bonds as investors become more risk averse and default risk rises. Investors should also be aware that High Yield bonds generally bear higher risks and larger price volatility.
- **Subordination Risk** – in the event of a bankruptcy, subordinated bonds have lower priority of claim compared to senior bonds. Such bondholder may not receive any repayment until all higher ranking creditors are repaid in full. In addition, there remains a risk that these issues may be subject to claim elimination and suffer principal losses through various means such as principal write downs or equity conversion even if such provisions are not expressly written in the governing terms as laws and regulations changes.

### 12. What should investors consider before investing in Fixed Income securities?

- **Risk Profile**

Investor's risk profile (Investor Rating) is determined based on the investor's risk tolerance, investment objective and the risk capacity.

  - Risk tolerance is the investor's sensitivity to the variability of returns over a one year time horizon. This is based on the investor's willingness to absorb potential losses and acceptance of being unable to liquidate investments in a timely manner or at a certain price.
  - Investment objective expresses the investment goals for the investor – whether for capital preservation, generation of income or providing capital growth.
  - Risk Capacity considers the factors that limit the investor's capacity to take risk which will differ depending on investor's age, liquidity needs and time horizon to achieve the investment objective.
- **Time Horizon**
  - It is a critical factor in determining what types of investments are suitable given the time horizon and also to ensure that the time horizon is appropriate to meet investor's financial

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goals and objectives. Investments that offer higher potential returns also involve greater risk of price fluctuation and therefore require a longer time horizon.

- Credit or Default Risk
  - A bond investor may lose part or all of his/her money if the bond issuer goes bankrupt. Bond prices can be very volatile depending on the credit rating of the issuer.
- Foreign Exchange Risks
  - Depending on the direction of exchange rate movements, investor may be subject to foreign exchange gains or losses when investing in foreign currency bonds.
- Concentration
  - Investing in a single bond or small number of bonds may overly expose the portfolio to a particular issuer or sector, reducing diversification. Diversifying a bond portfolio with multiple bonds or investing in bond mutual funds may assist to protect against over-concentration.

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### ISLAMIC SECURITIES

*[Remark: GCG business unit can consider removing all references to Islamic Securities if these are not offered in your respective jurisdictions]*

#### 13. What are Islamic Securities?

- These are securities compliant with Shariah law, which mean it is structured to adhere to Islamic law. Shariah is the moral and religious code of Islam. These securities represent beneficial ownership in an underlying pool of assets and the corresponding right to the income streams generated by these assets. They do not pay interest as it is forbidden under Shariah law, but may pay periodic distribution from the profit generated by these assets. They may appear similar to more conventional debt securities, but they have important differences.
- Some principles of Shariah include but are not limited to the following:
  - i. Interest is forbidden, unjust enrichment from unfair contract or excessive income is also forbidden;
  - ii. Financing must be used towards real activities e.g. trade finance, asset finance, construction finance or leasing;
  - iii. Funds from investors cannot be used to finance businesses dealing with *haram* activities as classified under Shariah law;
  - iv. Avoidance of uncertainty, that is the structure of financing and contract must be clear and use of funds is certain;
  - v. There must not be any speculative trading/gambling.
- Islamic securities are generally asset based. This means there must be an exchange of goods or services or income generating assets for money and the income that is generated from these identified assets must be Shariah compliant.
- Issuers generally issue Islamic securities through a special purpose vehicle (SPV). Under the SPV structure, investors will have limited recourse to the issuer, meaning that investors will depend on income sourced from the identified assets to meet distribution requirements and will not have access to other assets of the issuers.

#### 14. What are some common Islamic Security structures?

- Islamic securities are usually issued through an SPV under various structures. Some example of these structures are:
  - i. Al-ijara Sukuk
    - This is the most commonly used structure in the market. It entails a sale of assets by the issuer (also known as borrower) to the SPV and corresponding lease back to the issuer.
  - ii. Al-Musharaka Sukuk
    - This is an equity participation or partnership structure. Investor and borrower contribute assets in the form of cash or Shariah compliant assets and correspondingly own a proportional share of the partnership and receive distributions proportionately. Any losses in the partnership are also shared proportionately.
  - iii. Al-Mudaraba Sukuk
    - This is a partnership structure but only the investor provides equity and the borrower does not provide any equity investment. Instead, the borrower provides expertise in managing the enterprise according to a pre-specified investment plan and profits are shared between investor and borrower according to a pre-agreed profit sharing plan. However, any losses in the partnership are borne entirely and solely by the investor.

**15. What are some similarities and differences between Islamic Securities and conventional bonds?**

- Similarities:
  - i. Both are generally structured to pay a periodic distribution and principal repayment at maturity.
  - ii. Both are generally exposed to the unsecured credit risk of the issuer.
- Differences:
  - i. Islamic Securities may be bought by both Muslim and non-Muslim investors whereas conventional bonds may not be invested in by Muslims.
  - ii. Islamic Securities issuer would generally be engaged in business activities permissible under Shariah but conventional bond issuers are not restricted in its business activities.

**16. What are additional risks to Islamic securities?**

- Shariah compliance risk - Investor should make their own assessment and/or seek independent advice that the security is Shariah compliant and accept the risk that the security may not remain Shariah compliant over the investment period. Holders of Islamic securities may suffer losses and/or the Islamic security may be pre-terminated in the event the Islamic security becomes or is declared to be non-compliant with Shariah principles.
- Limited recourse risk - Ability of issuer to pay amounts due on Islamic securities will depend on receipts from the identified assets. Such income streams of the Islamic security, being derived from specific underlying assets, are therefore commonly described as “asset based”. However, most Islamic securities are not secured against those assets and an investor will not have any direct legal claim over the identified underlying asset. As such, investors will have an unsecured claim against the issuer. Additionally, the limited recourse nature means investor may not have recourse to any other assets of the issuer or its affiliates in respect of any shortfall to meet all claims under the terms and conditions of the Islamic securities.
- Investors should understand that the characteristics of Islamic securities are distinctively different from conventional bonds. As a result, the investor assumes incremental risks associated with Islamic securities compared to conventional bonds. Islamic securities are generally issued by special purpose vehicles. The types of Sukuk structures (Ijara, Musharaka, Mudaraba and other arrangements) and/or assets underlying each Islamic security results in different risks inherent in such Sukuk structures, which may include but are not limited to exposure to the credit risk of the various parties involved in the arrangement and/or to the ability of the asset to provide returns and meet all claims. Questions as to the Shariah permissibility of the structure or the issuance and the trading of the Islamic security may also limit the liquidity and adversely affect the market value of the Islamic security.
- Jurisdictional risk – Islamic securities are typically issued under the law of the jurisdiction where the SPV is incorporated. These laws may be relatively untested, and investor may assume incremental risks of uncertainty compared to conventional bonds.

Other risk factors common to conventional bonds such as investment risk, market risk, credit risk, foreign exchange risk, inflation risk, liquidity risk, re-investment risk, regulatory risks generally also apply to Islamic securities.

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I/We have read and understood the educational materials and content on Fixed Income security as detailed in this document. I/We acknowledge that the risks, disclosures and other information set out herein are not an exhaustive description of the risks involved in a transaction and will consult my legal, regulatory, tax, financial and/or accounting advisors to the extent I consider necessary. I/We have also read the brochure and/or all other marketing materials pertaining to the specific product prior to entering into a financial transaction.

Client Signature \_\_\_\_\_

Date \_\_\_\_\_

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#### RP Acknowledgement

I acknowledge having utilized the above materials to educate the client(s)/authorized representative for the referenced Product Category.

RP Signature \_\_\_\_\_ Date \_\_\_\_\_