Additional Reading Material

on

Structured Products

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Relevant for

Module 12: Investment Management and Corporate Finance

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Topic 17: Structured Products

About This Topic

This topic discusses the structured products market in Malaysia, providing a reference on the types of structured products, principal features of structured products and the uses as well as risks associated with investing in structured products.

Topic Objectives

At the end of this topic, you should be able to:

- list out the basic aspects of structured products;
- explain the uses of structured products in meeting investment needs;
- describe the typical profile and features of structured products; and
- recognise the risks associated with structured products.

1. Introduction

Structured products are a pre-packaged investment strategy where the payout or return of the investment is often linked to the performance of an underlying reference (a single security like a share or bond, a basket of securities, indices, commodity price etc). Structured products are becoming increasingly popular with investors as they provide access to a market that can be tailor-made to suit the demands and views of investors. Furthermore, the level of derivative knowledge is more widespread among investors who are now more comfortable investing in a non-traditional asset class.

In Malaysia, structured products are offered to the following sophisticated investors[1]:

- Accredited investors – include Capital Markets Services Licence (CMSL) holders, executive directors or chief executive officers of CMSLs, licensed banks, insurance companies, unit trusts or approved closed end funds
- High net worth entities – include trust companies or public companies approved as a trustee with assets under management exceeding RM10 million or entities with total net assets of more than RM10 million
- High net worth individuals – individuals who have total net personal assets of RM3 million excluding the value of his or her primary residence, a gross annual income of more than RM300,000 in the preceeding 12 months, or jointly with his or her spouse has a gross annual income exceeding four hundred thousand per annum in the preceeding 12 months.

A requirement for risk-adjusted returns is the main driver of investor demand for structured products in recent years. The highly customisable nature of structured products is able to cater to a specific investor's risk/return profile and investment objectives. These objectives may include principal protection, diversification, yield enhancement, leverage, regular income, tax/regulation optimisation, and access to non-traditional asset classes, among others. As an investment product which has the mixed characteristics of bonds, equities or any other asset, it produces returns with different levels of correlation to traditional assets. This translates into higher expected return for any given level of risk in an investment portfolio.

Structured products also offer investors exposure to a particular financial market by taking a view on market movements. Investors are able to choose structures with returns dependent upon movements of a predetermined index, basket of stocks or group of indices of international markets. This allays investors' concern about entering into unfamiliar markets since structured products provide for a degree of downside protection while leveraging upside participation.

[1] *Defined under the Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework as sophisticated investor which means any person who falls within any of the categories of investors set out in Part 1, Schedule 6 and 7 of the CMSA*

2. What is a Structured Product?

In general, the term "structured products" refers broadly to financial products created by financial institutions specifically for their institutional and certain individual clients and has a risk/reward profile designed to achieve a specific set of objectives. They are hybrid investments that combine a traditional security with one or sometimes more asset classes into a single "structure."

In Malaysia, according to the Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework (LOLA), structured product means any investment product that falls within the definition of "securities" under the Capital Markets and Services Act 2007 (CMSA) and which derives its value by reference to the price or value of an underlying reference. The underlying reference in turn means any security, index, currency, commodity or other assets or reference, or combination of such assets or reference.

3. Issuers of Structured Products in Malaysia

Eligible issuers of structured products according to the LOLA comprise the following categories of persons:

- Qualified banks;
- Qualified dealers;
- A locally incorporated Special Purpose Vehicle (SPV) sponsored by a qualified bank or a qualified dealer; and
- Cagamas Bhd (Cagamas) and locally incorporated SPV sponsored by Cagamas, provided that the underlying reference of the structured product is restricted to assets originated in the domestic banking sector.

Qualified banks refer to a licensed bank, a licensed Islamic bank, or a licensed investment bank in Malaysia whereas qualified dealers means holders of CMSL for dealing in securities under the CMSA, that is either a universal broker, 1+1 broker or special scheme broker as defined in the Principal Adviser Guidelines.

Besides LOLA, issuers and distributors of structured products would also need to comply with the relevant guidelines issued by the authorities when issuing, offering or making available structured products in Malaysia.

4. Uses and Benefits of Using Structured Products

Structured products are designed to meet the specific investment needs and to address some of the shortcomings of traditional investment products. Structured products can be created with fixed term maturity with the principal being fully, partially or not protected. At the same time, they can be used to enhance investment yield and diversify risk. On the maturity of a principal-protected investment, investors receive the principal amount plus returns, if any, based on the performance of the underlying references.

4.1 Fixed Term Maturity

Like both debt securities and options, structured products normally have fixed maturities, or expiration dates, at which they are redeemed. For example, a structured product in the form of a note might be linked to the performance of share index over a 30-month period. The shortest term available to investors in a structured "off the shelf" investment may be about a few days while the average maturity is approximately one year although there are those with longer maturities.

4.2 Principal Protection

For the more conservative investors seeking market exposure with principal protection, structured products incorporating elements that protect the principal sum invested can be created if held until maturity.

A principal-protected structured product typically offers protection on the principal sum at maturity with the potential for additional return based on the performance of an underlying reference or group of underlying references. Certain principal-protected products have differing levels of protection; some, for instance, do not offer 100% principal protection. However, in exchange for the principal protection, investors may forfeit some upside exposure to an underlying reference. Also, return on principal as well as principal protection may not be obtained if the investment is sold or withdrawn by the investor prior to maturity as it is typically sold or terminated at prevailing market prices, and for investment withdrawn, all costs incurred by the issuers for early termination of the structured products will also be deducted. Principal protection and payment at maturity are subject to the credit risk of the issuer, as such the creditworthiness of the issuer is an important factor to consider in investing in a principal-protected note.

4.3 Yield Enhancement

Certain structured products are designed for more risk-tolerant investors who are seeking higher returns than comparable traditional instruments. Payment at maturity on these structured products is determined by the performance of an underlying references or group of underlying references and principal may be at risk. Investors generally forfeit partial or full principal protection at maturity in exchange for the potential to earn a higher participation. Investors can be exposed to downside risk and may lose part or all of their original investment. Additionally, investors may receive securities in the form of the underlying reference (i.e. shares, currencies, commodities etc) at a value below the original principal amount at maturity. Coupon payments and payment at maturity is subject to the credit risk of the issuer.

4.4 Diversification and Accessibility

Structured products can also be designed to provide investors with access to an asset or group of assets not readily available to investors. Such products may offer investors exposure to markets or strategies that are not conveniently accessible directly by investors, such as currencies and commodities. To an average investor, accessing the currencies and commodities market directly

may require significant amounts of time, money and expertise. Structured products can be created so as to provide a way for investors to added exposure and diversification to alternative investment products in a cost-effective and simpler way.

4.5 Leverage

Most structured products utilise leverage. This is to provide opportunity to investors, especially those who are aggressive in their investment approach, to capitalise on a particular market view. Mainly designed for the short term, these products provide partial or no principal protection but do offer the potential to receive leveraged returns on the value of the underlying reference. Some structures may offer additional leverage in exchange for capped or limited upside potential. The target market for such products is aggressive investors who seek high growth in their investment.

Investors can use structured products to achieve greater flexibility than the alternatives offered by traditional instruments such as exchange-traded funds, bonds and bank deposits. Among the benefits and opportunities that are derived from investing in structured products include:

- enhancing potential return from domestic and international markets or protecting against market price volatility;
- deferring, avoiding or reducing transactions costs, income taxes or management fees associated with buying and selling other type of securities;
- obtaining returns from potentially higher yielding and otherwise unavailable investments by combining elements of different asset classes into hybrid instruments;
- limiting, reducing and virtually eliminating downside exposure to price fluctuations in cash investments;
- participating in the returns of international markets with less cash exposure;
- diversifying into international markets, reducing exchange rate exposure or minimising regulatory risks; and
- investing in internationally linked structured instruments that trade in the investor's home market during normal trading hours rather than trading hours in other time zones.

5. Components of a Structured Product

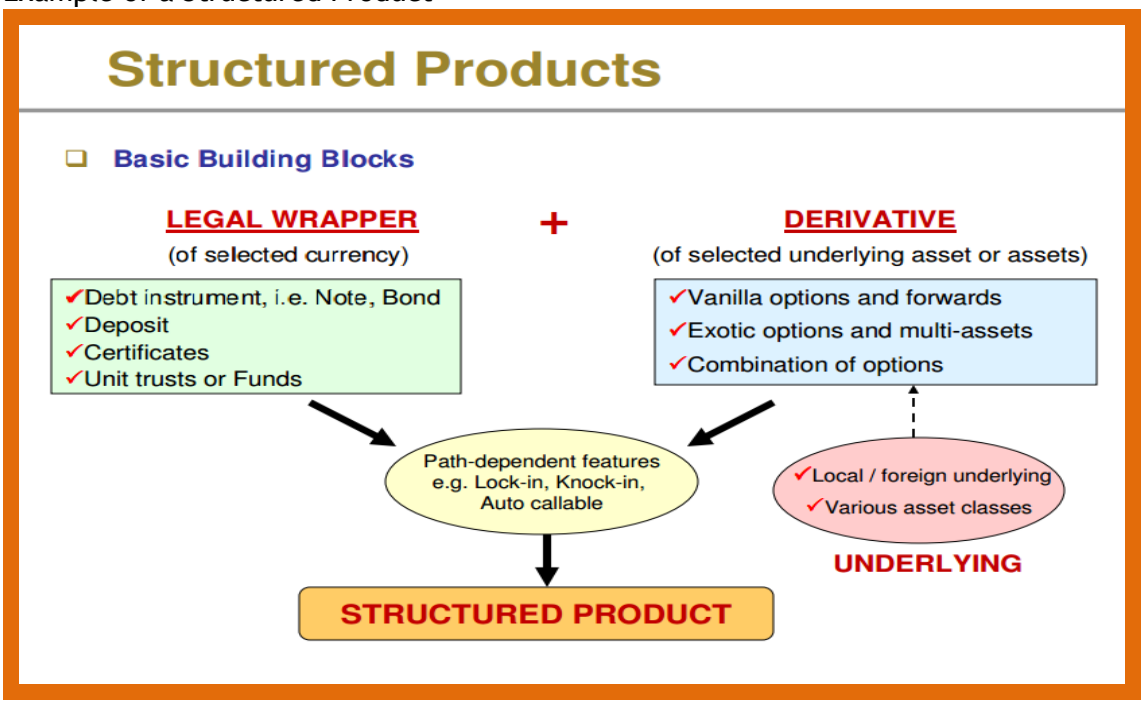
Structured products are tailor-made investments generally composed of several elements or component parts, each providing a specific exposure or protection for the investor. A structured product can be defined as a security which is constructed by combining bond-like elements and derivative instruments. The end result of this combination is an investment product that is generally characterised by:

- Some form of capital protection, which is provided by the bond or bond-like element. This bond, referred to as the zero-coupon bond, promises to pay the holder back some or all of the original investment;

- Defined return outcomes at maturity, provided by the derivative instrument. This instrument pays a pre-defined amount, either a fixed amount or an amount calculated by reference to the change in an underlying reference, for example the FTSE Bursa Malaysia KLCI or a combination of stocks or indices; and

- Restricted liquidity (or ability to buy and sell freely), as the zero-coupon and derivative when combined together by an issuer into a security are normally not traded on an exchange. This means that structured products can in practice only be sold back to the issuer.

Example of a Structured Product[2]



[2] *http://www.fpam.org.my/fpam/wp-content/uploads/2008/09/evaluating-structured-investment-products.pdf*

The common types of underlying references for structured products are equities, equity indices, currencies, interest rates, credits, exchange-traded funds and commodities:

5.1 Equities

Shares of companies listed on major stock exchanges, both domestic and international, are commonly used as underlying reference for equity-based structured products. These shares usually have large market capitalisation and are actively traded. Among the shares of local companies used as reference for structured products are the blue chip shares and FTSE Bursa Malaysia KLCI component shares.

5.2 Equity Indices

The primary advantage of equity indices is the capacity to create diversified exposure to a complete universe of shares. This makes equity indices an ideal underlying reference for equity structured products. Some of the widely used indices are FTSE Bursa Malaysia KLCI, Dow Jones Industrial Average (DJIA), Nikkei 225 and S&P500 but narrower types of indices may be used, such as those relating to particular sectors or regions.

5.3 Currencies

Foreign currencies such as the Australian Dollar, US Dollar, Singaporean Dollar, British Sterling and Euro are commonly used as underlying for structured products. These currencies are used either singly or in combination, for example a basket of currencies. The number of and particular currencies selected vary by product and issuer. In general, structured products linked to foreign currencies tend to be more short-dated given the volatile nature of currency trading.

One of the attractions in investing in currencies or currency-related products is that currencies have very low correlation to that of other asset classes and this makes perfect sense in the context of an asset allocation framework. For the product structurer/issuer, the currency market is extremely liquid, which means that transaction costs are very low — even during times of financial crisis and turmoil when other asset class markets can demonstrate a severe loss of buyers or liquidity providers. With the size of the daily turnover in the currency market, it is very difficult for an active currency management strategy to run into capacity constraints.

5.4 Interest Rates

Like equities, interest rates are commonly used as an underlying reference for structured products. In Malaysia, many of the interest rate-based structured products use the three-month and six-month Kuala Lumpur Interbank Offered Rate (KLIBOR) as reference. Other benchmark rates commonly used as underlying for interest rate-linked structured products are the London Interbank Offered Rate (LIBOR) and Singapore Interbank Offered Rate (SIBOR).

The low interest rate environment and the search for extra yield by investors have prompted a large number of commercial banks to offer structured products linked to interest rate benchmarks as an alternative to traditional deposits. Most interest rate-linked structures in Malaysia take a view on the interest rate term structure or yield curve, for example, 3-month KLIBOR.

5.5 Credits

Credits refer to debt obligations of a company issued to provide long-term funding. It is commonly used as the underlying reference for structured products. Credit-based structured products can be issued in different ways, in various forms of deposit notes or private placement notes, in the name of the issuer or in the name of an issuer-sponsored special purpose vehicle (SPV). Normally, they resemble conventional bonds or fixed income instruments, with very similar cash flow and credit risk characteristics. These products are created by embedding a credit derivative, such as credit default swap, which involves the transferring from the issuer to the investors, the credit risk of specified borrower companies or reference entities. The payout of these notes is linked to performance of the debt of reference entities.

A credit-linked note (CLN) is an example of a credit-based structured product. CLNs, normally issued by financial institutions, are structured products whose principal and interest payments are contingent on the performance of specified borrower companies. In return for assuming the credit risk of these borrower companies, investors are offered higher returns. For domestic investors who are restricted from investing in foreign securities, they can invest in such credit-linked structures in order to gain exposure to foreign credits.

5.6 Exchange-traded funds (ETFs)

ETFs are commonly applied as underlying reference for structured products as they provide diversified exposure, efficient pricing and liquidity. With ETFs, investors have the ability to access a wide variety of financial exposures — ranging from specific types of stocks, i.e. of large or small cap companies; to stocks of companies in single countries such as Indonesia or Germany; to international bonds and many other variations of financial exposure.

5.7 Commodities

A selected, basic good or group of goods which value is used as an underlying reference(s) for some of the structured products. The types of commodities vary by product and issuer, for example, crude oil, gold, corn and natural gas. These investments pay a return linked to the performance of a commodity over a defined period.

The main drivers for interest in commodity structured products are:

- Speculation – investors seeking to speculate on future price movements of the underlying commodities
- Inflation protection – investors seeking inflation-proof assets in an attempt to preserve the purchasing power of their monetary assets, particularly under conditions of high inflation

- Pure commodity exposure – investors seeking pure commodity exposure that is not obtainable efficiently through equity investment
- Commodities as a separate class – investors seeking exposure to commodities in a diversified portfolio where commodity assets are treated as a unique asset class.

6. Payout Structures of Structured Products

Unlike traditional products such as bank deposits, shares and bonds where the usual payment features, for example, interest, dividends and coupons, are derived from the issuer's own cash flow, the payoffs from structured products are determined from the performance of one or more underlying reference which the structured product is linked to. The payoffs from these performance outcomes are contingent in the sense that if the underlying reference return is 10%, then the structured product with a participation rate[3] of 100% will pay out 10%.

Some of the more common payout structures are listed below.

6.1 Callable

A callable or 'auto-call' structured product is essentially an investment product which can automatically mature prior to the scheduled maturity date if certain predetermined market conditions are achieved. The criterion for deciding whether the product is automatically matured ('auto-called') is whether the price or level of the underlying reference is above a predetermined trigger level (the 'auto-call barrier'). This auto-call test is usually carried out on a set of predetermined dates (for example, annually, quarterly, etc.) specific to that particular investment product, so that the product can only mature on one of these 'auto-call dates'. The underlying reference will typically be an equity index, but it can also be linked to other forms of assets such as shares, basket of shares, exchange traded funds and currencies. When a structured product is auto-called, the investor normally receives a predetermined payout along with the capital redemption on that auto-call date. That coupon is typically proportional to the length of time from the start date to the auto-call date.

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[3] *The participation rate is the extent to which an investor will participate in the underlying reference's gain. This is applied to the percentage change in the underlying reference's value. Consider an investment product where the underlying reference is Cressta shares and the participation rate is 50%. If the investor holds the investment to maturity, he will receive the principal amount plus 50% of any gains in Cressta's share price. Assuming that Cressta's shares rose by 60% on the maturity date, the investor would receive his principal plus 30% (participation rate of 50% of 60% rise in share price).*

6.2 Range Accruals Payoff

In a range accrual structure, the investor is in essence forecasting that the price or the performance of the underlying reference will stay within a predefined range. A range accrual structured product normally provides for a fixed payout whose amount depends on the number of times the performance of the underlying reference stays within a certain range during a specific period of time. The payout for such product is determined largely or entirely by an embedded range accumulation option, hence the name.

6.3 Averaging Values

For an average value structured product, the payoff is determined by the average underlying price over some pre-set period of time. Such a structure is created using the type of options known as the Average or Asian Option where the payoff of the structured products depends on the average price of an underlying reference over a specific period of time. One of the objectives of averaging the price of the underlying is to reduce the risk of market manipulation of the underlying instrument at maturity. Another advantage of average value structured products involves relatively lower cost. Because of the averaging feature, the volatility inherent in the price of the structured product will be reduced.

6.4 Lookback

Products with lookback structures are those with a payoff linked to the maximum or minimum price registered by the underlying reference during the observed period. These structures enable the investors to ‘look back’ at the behaviour of the underlying and to benefit from the most favourable level reached during the investment period. The embedded lookback options can be structured in the form of lookback call and lookback put, in order to offer a bullish or bearish exposure to the market. The powerful concept behind a lookback option is that the investor has the privilege of benefitting from a favourable market timing for his synthetic operations of buying or selling the underlying.

6.5 Cash or Nothing Payoff

Cash or Nothing Payoff is a structure that pays a set amount if the underlying reference is above, at or below a certain level on a specific date. Such a structure is created using the type of options known as Digital or Binary. These options have only two possible outcomes: a set payout, or nothing at all.

6.6 Quantity Adjusting - Quantos

This is the type of structured product in which the underlying is denominated in one currency, but the instrument itself is settled in another currency at some fixed rate. Such products are attractive for speculators and investors who wish to have exposure to a foreign asset, but without the corresponding exchange rate risk.

7. Risks of Investing in Structured Products

The risks associated with structured products, especially those products that present risks of loss of principal due to market movements, are similar to those risks involved with derivatives.

Investing in structured products carries some inherent risks, such as:

- Credit risk
- Income risk
- Pay-out structure risk
- Market risk
- Liquidity risk
- Currency risk
- Option risk
- Call risk
- Counterparty risk

7.1 Credit Risk

Structured products are unsecured debt obligations of the issuer and as a result, are subject to the risk of default by the issuer. The creditworthiness of the issuer will affect its ability to pay interest and repay principal. The financial condition and credit rating of the issuer are, therefore, important considerations. The credit rating, if any, pertains to the issuer and is not indicative of the market risk of the structured product or the underlying reference. If a structured product issue provides principal protection or a minimum return, any such protection rests on the credit quality of the issuer. The issuer may apply to Perbadanan Insurance Deposit Malaysia (PIDM) for a structured product to be eligible for deposit insurance. Structured products are generally not covered by PIDM unless it satisfies the criteria set under the Guidelines on Deposit Insurance Coverage for Deposits.

7.2 Income Risk

Structured products may not pay interest at all or may not pay interest in regular amounts or at regular intervals, so they are not appropriate for investors looking for constant income. As the return paid on structured products at maturity is tied to the performance of the underlying reference or a group of underlying references, it will be variable and it is possible that the return may be zero or significantly less than what investors could have earned on an ordinary, interest-bearing securities or bank deposits. The return on structured products, if any, is subject to market and other risks related to the underlying reference.

7.3 Pay-Out Structure Risk

Some structured products impose limits, caps and barriers that affect their return potential. With barriers, a structured product may not offer any return if a barrier is broken or breached during the term of the structured product. Conversely, some structured products may not offer any return unless certain thresholds are achieved. Some structured products impose maximum return limits so even if the underlying reference generate a return greater than the stated limit or cap, investors do not realise that excess return. Structured products also have participation rates that describe an investor's share in the return of the underlying reference. As stated earlier, participation rates below 100% mean that the investor will realise a return that is less than the return on the underlying reference.

7.4 Market Risk

Market risk can be defined as the risk of movements in market prices or rates adversely affecting value of the underlying reference. The returns from structured products may vary depending on the outcome of one or more market factors. This may include lower than expected returns, or no returns at all, if the underlying reference linked to the product does not perform. There are various factors that can affect the performance of the option embedded in structured products which include volatility, dividends (if any), and interest rates.

7.5 Liquidity Risk

One common risk associated with structured products is a relative lack of liquidity due to the highly customised nature of the investment. The payout profile of a structured product defined in advance is always valid only at the end of the term. Before the end of the term it may not be possible to sell the product at an acceptable price, for example, because no binding prices are quoted for it.

Structured products are not listed and traded on the stock exchange, or traded on the derivatives exchange in Malaysia. Investors who need to terminate their structured products prior to maturity are likely to receive less than the amount they invested. Therefore, structured products with longer maturities are subject to greater liquidity risk. Because of this, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

7.6 Currency Risk

Currency risk is present when the principal amount or the returns of structured product are denominated in a currency other than the preferred currency of the investor. Currency fluctuations may also potentially have indirect effects on the movements of the underlying reference index or related market factors. Investors need to be aware that he/she may experience some gains or losses due to currency fluctuations.

Investors may be exposed, directly or indirectly, to foreign currency risk due to any foreign currency(ies), securities or commodities that may be linked to the respective structured product. The prices of foreign currencies, commodities or securities may be greatly affected by economic, financial, political, and social factors in the home country of the securities' issuer, including but not limited to, changes in the country's government, legislation, economic and fiscal policies, currency exchange laws or other laws.

7.7 Option Risk

Structured products normally have embedded derivatives such as options. The value of this option depends on a variety of market factors, including movements in the underlying reference index, the variability or volatility of such index, profit rate levels, dividend levels, foreign exchange rates and other factors. The value of the option does not change in constant proportion to changes in the underlying reference index. Further, options by their nature will tend to decline in value over time, assuming that all other market factors remain unchanged. Note that the factors affecting the value of the option will also be reflected in the value of the structured product in which it is embedded.

7.8 Call Risk

Structured products may include a provision that allows the issuer to retire or 'call' all or part of issue before maturity. This creates some uncertainty for investors as their cash flow may not be known with certainty. Besides, there is reinvestment risk and lower capital appreciation potential for investment. The magnitude of call risk depends on the various parameters of the call provision and market conditions. For example, a structured product may be callable by the issuer on the first call date (two quarters after issue date) or every quarter thereafter, if any of the conditions for a call is met. The investor faces reinvestment risk as they may not be able to find alternative investment as attractive, if the original investment is called back.

7.9 Counterparty risks

When you use instruments that are traded through an exchange, there are no counterparty risks because the exchange ensures that trades are backed by margins, marked to market, etc.

Using structured products results in counterparty risks as the fulfilment of the contracts depends on the performance of other parties. If these parties are unable to fulfil their part of the transaction, you would have to close your transaction at terms that may not be favourable to you.

There should be risk control mechanisms in place to manage counterparty risks. The investor may limit this risk by ensuring that no more than a certain percentage, say 10% of the portfolio, should be exposed to counterparty risk from a single party. Also, you should enter into a transaction with a counter party only after you have assessed its financial condition.

8. Conclusion

An immense range of products, innovations, technologies and investment avenues have penetrated the financial market in the last decade. More and more, new investment opportunities infiltrate the evolving current financial state. Among them, structured products are a mode of investment for addressing the risk–return balance. Structured products provide an entire range of market exposure, anything from conservative to aggressive instruments, giving investors opportunity to gain from the individual market views and capitalise on perceived market drift to accomplish preferred economic benefits.

Structured products provide investors with alternative investment strategies. With their wide range of diversification, structured products assist in mitigating portfolio risk thereby controlling volatility and providing for a finer focus on financial goals. Structured products allow investors to have an individualistic view of the market and achieve desired results irrespective of whether the market is bullish or bearish in trend.

As with any investment product, there are going to be some investors for whom structured products will not be suitable, but the introduction of more structured products to the market does give investors greater choice, and the option to express a greater range of investment views. Perhaps investors need to be cautious not to be seduced by headline rates, and to ensure they understand the additional risk they are taking on with these products. They must also be aware that the additional value from the extra risk being taken on does not necessarily need to be used to give a greater return, it can be used to reduce risk elsewhere.

The success of structured product issuance to date can be attributed to the dynamic derivatives market and willingness by investors to buy a variety of different domestic securities.

Review Questions

Question 1

Structured investment products are tailored, or packaged, to meet certain financial goals of investors. Which of the following are motivations for investing in structured products?

I. Yield enhancement
II. Portfolio diversification
II. Seeking principal protection
IV. Hedging against volatility of currencies

A. I. II and III only
B. I, III and IV only
C. II, III and IV only
D. All of the above

Question 2

One of the principle attractions of structured products is the ability to customise a variety of features into one instrument. Which of the following statements are CORRECT?

I. Structured products are investment vehicles that are linked to the performance of a basket of underlying references, such as equities, debts, commodities, indices, currencies, or any combination thereof.
II. Structured products are created mainly to meet the financial needs of individual investors.
III. Structured products may have a range of possible payouts.
IV. Structured products with principal protection expose investors to the risk of the issuer.

A. I and III only
B. I, II and III only
C. I, III and IV only
D. None of the above

Question 3

All of the following statements relating to structured products with principal protection are RELEVANT except:

A. There may be additional cost to the investor for securing the protection.
B. For investors of a protected product, there is still risk on principal repayment.
C. For a protected product, the strength of the protection is dependent upon the financial strength of the underlying reference.
D. The protection is subject to the financial strength of the issuer.

Question 4

Which of the following describes the payout structure of a range accrual structured product?

A. Payouts that are predetermined by the performance of more than one underlying reference.
B. Payouts that are fixed after the underlying reference price exceeds the strike price.
C. Payouts for situations where the price of the underlying reference stays within a certain range.
D. Payouts upon the occurrence of certain predetermined events.

Question 5

Structured products may include a provision that allows for the issuer to retire all or part of issue before maturity. Investors of such structured products are said to be exposed to risk known as:

A. Market risk
B. Call risk
C. Credit risk
D. Mismatch risk

Answer

Question 1: D

Question 2: C

Question 3: C

Question 4: C

Question 5: B