

FAQ - Bonds

1. What are Bonds?

Bonds are debt securities, similar to an I.O.U. When you purchase bonds, you are lending money to a government or corporation, broadly known as issuers. Issuers of bonds may use the money to finance their operations or investments. In return for the loan, the issuer generally pays you income at a specified rate and on specified dates during the life of the bonds (except zero-coupon bonds), and to repay the face value (principal) of the bonds when they mature. Bonds are usually seen as a long-term investment and can have terms of up to 30 years, although five to ten years is the normal investment period. Bonds also tend to have a high entry level, with minimum investment of more than RM250,000 or its equivalent in foreign currency. Many fund managers use bonds as a stable element in unit trust products. Bonds are available through brokers and banks.

2. What is the relationship between Interest rates and Bond prices?

Bond prices and interest rates are inversely correlated. When interest rates fall, bond prices rise, bond yields fall and vice-versa. If you buy a bond and hold onto it until it matures, which many investors do, rising interest rates will not have any effect on the face value (principal) amount you receive at maturity. If interest rates go up and you need to sell your bonds before they mature, you need to be aware that their value may have gone down and you may have to sell at a loss. If the interest rates have gone down since you bought your bonds, the value of your bonds may have gone up, giving you what is known as a "capital gain".

3. How can I benefit from investing in Bonds?

- Potentially gain more returns via bonds.
- Enjoy a regular stream of interest income - usually payable on a half yearly basis. By investing in bonds, you will receive stable interest income with a yield that is usually higher than the interest earned on banking deposit accounts with comparable tenures. Bonds also offer predictable repayment of principal at maturity.
- Diversify investment risk. The inclusions of bonds may bring stability to a portfolio as bonds have low correlation to other asset classes.
- Reap potential long-term capital gain. Bond prices often move in the opposite direction of market interest rates. Should market interest rates fall, there may be potential for capital gain from price appreciation. Price appreciation may also happen when: (i) the perceived credit worthiness of the bond's issuer strengthens; or (ii) the demand for the bond exceeds its supply.

4. What are the different types of Bonds available through HSBC Bank Malaysia Berhad (“HSBC”)?

HSBC has selected a wide range of investment grade bonds for our customers. These bonds are issued by governments, supranationals or well-known corporations around the world and are available in different currencies and tenors.

5. What is the minimum initial investment amount and what is the multiple amounts thereafter?

The minimum initial investment amount and the multiple amounts thereafter differ accordingly to the various bond issuances. Generally, the minimum initial investment amount for a Ringgit ("RM") denominated bond is RM250,000 and in multiple of RM250,000 thereafter. For foreign currency denominated bond, the minimum initial investment amount and the multiple amount thereafter, in the respective currencies, are predetermined upon issuance of bond in the primary market. Please refer to the individual bond Fact Sheets for the respective minimum initial and multiple investment amounts.

6. Is there a minimum investment period? Is there a lock-in period to my investment?

There is no minimum investment period or a lock-in period. Bond investing is mainly for medium to long term horizon, not for short term speculation. You should be prepared to invest your funds in bonds for the full investment tenor, i.e. hold until maturity. You could lose part or all of your investment if you choose to sell your bonds prior to maturity. Hence, it is advisable that you consider whether bond investing is suitable for you in light of your own financial circumstances and investment objectives.

7. Is my investment guaranteed by HSBC?

No. Bond is subject to the actual and perceived measures of credit worthiness of the Issuer and the guarantor (if applicable). There is no assurance of protection against a default by the Issuer and/or Guarantor (if applicable) in respect of repayment obligations. In the worst case scenario, you might not be able to recover the principal and any coupon payment (i.e. the periodic interest payment that a bondholder receives during the time between the bond is issued and when it matures), if the Issuer and/or the Guarantor (if applicable) defaults on the bond. Customers are reminded that bonds are not insured by Perbadanan Insurans Deposit Malaysia (PIDM). Hence, you are exposed to credit risk of the Issuer and the Guarantor and you have no recourse to the Bank.

8. Can I invest in Bonds online or do I need to visit the branch?

Currently, online service for Bonds is not available in HSBC. Kindly contact your Relationship Manager.

9. What are the risks in Bonds?

All bonds are subject to investment risks (including possible loss of the principal amount invested). Different types of bonds carry different levels of risks. Some are higher in risk than others. The general risks of investing in bonds are, general securities risk, principal risk, return risk, issuer or credit risks, legal risks, country risks, currency risks, liquidity risks, market risks, interest rate risk, inflation risk, prepayment risk and others. For detailed information, please refer to Bond Investment Key Features Document and respective bond papers' Fact Sheet.

10. Is there a currency risk associated with investing in Bonds?

Currency risk, also known as foreign exchange risk, is a risk associated with investments denominated in foreign currencies. If you invest in bonds denominated in currencies other than your home currency, there is the risk if the foreign exchange markets move against you, which upon maturity or any earlier dealing the net proceeds converted into your home currency, or the currency from which the initial funds were converted (as the case may be), may be significantly less than the equivalent amount on the date the investment was made, and that any income or gains made may be entirely negated.

11. What are the different fees & charges for my Bond investment?

There are no fees and charges.

12. Will the bank provide me with information on various Bonds?

Yes. Base prospectus is readily available upon request. In addition to the base prospectus, bond's salient features is summarised in an individual bond Fact Sheet. For bond pricing, HSBC provide real-time bid and ask bond prices which can help you make timely decision for placing buy / sell orders to capture potential gains. You may contact your Relationship Manager for the pricing information.

13. Will the bank provide me with regular statements of my Bond investment?

Yes. The Bank will provide a monthly statement. As a HSBC customer, you may also access your investment portfolio via personal internet banking.