恒生銀行
HANG SENG BANK

Bonds and Certificates of Deposit: Features and How They Work (Video Script)

I usually apply for a bond when it is issued by the Government. But I’ve heard that there are many investment choices for bonds and certificates of deposits (“CDs”). So, what are the choices for investors to earn a stable return and diversify risks? How should investors pick the bonds/CDs suitable for themselves?

Bonds are debt instruments issued by governments, corporates or other issuers. Generally, bond holders lend money to the issuer in return for its undertaking of scheduled interest payments during the tenure and principal repayment upon maturity.

Issued by financial institutions (like banks), CDs are a form of debt instrument similar to bonds. CD holders lend money to the issuer in return for its undertaking of repayment of the principal with interest upon maturity.

Bonds can be broadly classified into government bonds and corporate bonds. Government bonds are debt instruments issued by governments, such as sovereign bonds, as a tool to control money supply, support national development etc. Corporate bonds are issued by corporates to meet their financing needs for entering a new market, developing new products and so on.

By investing in bonds and CDs, investors may have the opportunity to earn a stable income plus the prospective return, and benefit from risk diversification with a balanced investment portfolio.
Example: Generally, bond/CD issuers will undertake to repay the principal on a certain date, i.e. the maturity date. Say, for a bond with a nominal value of US$1,000, 3% coupon rate and 5-year maturity. Under the provisions in the offering documents and term sheet, an investor will normally receive USD30 as the annual coupon interest plus, upon maturity, the principal of USD1,000 as well.

**The performance and returns of an investment product may be subject to various factors. Investors should refer to the “Important Risk Warnings” below and read carefully the relevant products’ offering documents as well as the terms and conditions (including the full text of the risk factors stated therein) before making any investment decision.*

When investing in bonds/CDs, one should be cautious about the issuer’s credit quality, as its deterioration will result in a higher default risk. Also called credit risk, it is an indicator of the issuer’s solvency in paying up the principal or interest. Interest rate changes are closely related to the movements of bond prices. A key gauge of the interest rate risk of a bond is its duration. Generally, bonds with a longer duration are more sensitive to interest rate fluctuations. That means they tend to have a bigger price dip when interest rates go up. When interest rates go up, investors tend to prefer bonds and CDs with a shorter duration or those linked to inflation or offer a floating rate. Bonds are not deposits and should not be treated as substitutes for time deposits. CDs are not protected deposits and are not protected by the Deposit Protection Scheme in Hong Kong.

Bond issuers are normally rated by credit rating agencies. The risk of default arises when the bond issuer fails to repay the principal or make coupon payments on schedule according to the term sheet.
Credit rating is an indicator of the credit quality of a bond, as well as the issuer' s solvency in making interest payments and/or principal repayment on schedule. Credit rating is the most commonly used indicator for assessing the default risk of bonds. The higher the rating, the lower the default risk is. Currently, there are three major credit rating agencies in the market, namely, S&P, Moody' s and Fitch. There are also some corporate bonds which are unrated. As it is difficult to compare them on an apple-to-apple basis with bonds with a credit rating, investors should be aware of the underlying uncertainties.
When interest rate cuts are expected, bonds with a longer duration, which are more sensitive to interest rate changes, may provide an upside potential for investors upon maturity. Any credit quality improvement or upgrade may also bring a potential upside, bringing bond holders a potential return on top of the coupon interest.

To subscribe for bonds/CDs, you may visit Hang Seng Personal e-Banking (desktop version), Hang Seng Personal Banking mobile app, Hang Seng Phone Banking Service*, or any of our branches. For enquiries, you can also chat with HARO WhatsApp.

*Hang Seng Personal Banking Service is only applicable for Signature and Prestige Banking customers.

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- The information in this webpage is provided for reference only and shall not be considered as investment advice. It does not constitute any offer or solicitation of offer to subscribe, transact or redeem any investment product. Investors should note that all investments involve risks (including the possibility of loss of the capital invested). Prices or value of investment products may go up as well as down and past performance is not indicative of future performance. Investors should obtain independent professional advice if they have concerns about their investment.
- The information displayed does not constitute nor is it intended to be construed as any professional advice, offer, solicitation or recommendation to deal in Bonds / CDs. Investors should be aware that all investments involve risks (including the possibility of loss of the capital invested). The prices of Bonds and CDs may go up as well as down and past performance is not indicative of future performance. Investors should not only base on this information alone to make investment decisions, and should carefully consider whether an investment is suitable for them in view of their own investment objectives, investment experience, investment tenor, financial situation, risk tolerance abilities, tax implications and other needs, etc., and should read the relevant product offering documents and terms and conditions (including the full text of the risk factors therein) in detail before making any investment decisions. Investors should obtain independent professional advice if they have concerns about their investment.

- Bonds and Certificates of Deposit (CDs) are investment products. The investment decision is yours but you should not invest in a bond/CD unless the intermediary who sells it to you has explained to you that the bond/CD is suitable to you having regard to your financial situation, investment experience and investment objectives. Your intermediary is under a duty to assure that you understand the nature and risks of this product, and that you have sufficient net worth to be able to assume the risks and bear the potential losses of trading in this product.
- Bonds are not deposits and should not be treated as substitute for conventional time deposits.
- Certificate of Deposit is not a protected deposit and is not protected by the Deposit Protection Scheme in Hong Kong.
- Investors who purchase bonds/CDs are exposed to the credit risk of the issuer and guarantor (if any) of the bonds/CDs. There is no assurance of protection against a default by the issuer/guarantor in respect of the repayment obligations. In the worst case scenario, any failure by the issuer and the guarantor (if any) to perform their respective obligations under the bonds/CDs when due may result in a total loss of all of your investment.
- Renminbi (RMB) is not a freely convertible currency. As such, investors trading bonds and/or CDs denominated in RMB are subject to additional risks (such as currency risk).
- The above is not an exhaustive list of risk factors. Please refer to the section on "Risk Factors" in the relevant "Bond / Certificate of Deposit Trading Services" Factsheet to understand other risk factors applicable to bonds and CDs.
- Investors must make their own assessment of the relevance, accuracy and adequacy of the information provided and make such independent research/investigations as they may consider necessary or appropriate for the purpose of such assessment. The Bank does not make any representation or recommendation or assessment as to whether or not any of the investment(s) mentioned are suitable or applicable to any persons and thus shall not be held responsible in this regard.