Bonds

What are bonds?
From the issuer's perspective, a bond is a kind of fixed-term loan. The issuer (borrower) normally pays a fixed rate of interest at regular intervals. Most bonds are redeemed at the end of their term, and some can be redeemed early.
In addition to conventional bonds, there are special forms that, alongside their debt function, also have equity-like features from the issuing company's point of view. These include convertible, warrant and hybrid bonds.

What risks are associated with bonds?
The price of a bond can fall during its term, in particular due to a lack of demand, rising interest rates or a decline in the issuer's creditworthiness.
Bonds are subject to
- market risk
- issuer risk
- liquidity risk
- interest rate risk
- currency risk

Holders of a bond can lose some or all of their investment if the issuer goes bankrupt as bonds are not classed as privileged claims – in fact, they are allocated to the third bankruptcy class (the lowest-ranked bankruptcy class, comprising non-privileged claims).

Market Risk
The risk of price fluctuations within a given period due to factors impacting a specific market. Volatility is the generally accepted measure of market risk.

Issuer Risk
Risk of the issuer of the financial instrument becoming insolvent.

Liquidity Risk
The risk that an investor will not always be able to sell an investment at an appropriate price.

Interest rate Risk
Interest rate risk affects investors buying bonds, particularly when interest rates rise as this means that new bonds will be issued with higher rates, making existing bonds with lower rates less attractive and causing their prices to fall.

Currency risk
If a financial instrument is denominated in a currency other than the investor's reference currency, the risk of exchange rate fluctuations must be taken into account.

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DISCLAIMER

This information sheet contains an extract from the brochure “Risks Involved in Trading Financial Instruments” published by the Swiss Bankers Association (SBA), the complete version of which can be consulted at www.swissbanking.org or on the Bank’s website (www.corner.ch).

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Before making any investment decision, we invite you to consult a financial advisor and to examine carefully all documents and information available for each financial instrument (prospectus, basic information sheet, term sheet, etc.).

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