Equity securities (shares, participation certificates and dividend rights certificates)

What are equity securities?

Equity securities include shares, participation certificates and dividend rights certificates. They embody a share in the ownership of a company and confer certain rights on the holder in relation to that company, such as voting and profit-sharing rights and in some cases also pre-emption rights (preferential rights to buy any newly issued securities). Equity securities are not normally redeemable, but they are tradable and transferable on the secondary market.

What risks are associated with equity securities?

Equity securities are subject to a volatility risk that depends on a variety of factors, including the company's financial health, the general economic situation and interest rate levels. They do not pay interest. Instead, they typically pay out a share of profit, for example in the form of a dividend set by the company, usually in line with its business performance. Sometimes, however, no dividend is paid.

Equity securities are also subject to an issuer risk in that a total loss is possible if the issuer goes bankrupt, in which case holders of equity securities are only taken into consideration once the company has settled all other claims against it.

Issuer risk

Most investments involve a risk that the issuer will become insolvent. This is called the issuer risk. A financial instrument's value depends not only on product-specific aspects – e.g. business results for equities or the performance of the underlying financial instrument for structured products – but also on the issuer's creditworthiness. This can change at any time during the term of an investment. It is therefore important to know who issued the instrument in question and who is responsible for meeting the obligations. This is essential for correctly assessing the issuer's creditworthiness and thus the issuer risk. With debt instruments (any kind of security that is not an equity security) such as bonds, this risk is known as the credit risk because the borrower normally acts as the issuer.

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.).