

HSBC – Hong Kong Warrants and CBBCs Report



Warrants and Callable Bull/Bear Contracts (CBBCs) are investment products that allow investors to hedge their risk to an underlying security or take a leveraged position on the underlying asset. These derivatives are traded through a securities account, and the number of traders in Hong Kong surged in 2020 – especially among younger investors.

To better understand the Hong Kong Warrant and CBBCs market, HSBC recently commissioned a survey of local traders, delivering insights on market demographics, trader motivations, and what they need to make more informed investment decisions. In this document, we summarise the key findings.

Survey participants

Traders aged 18 or above who have used derivative warrants, inline warrants or CBBCs in the past 12 months and intend to continue trading over the next 12 months.

10-minute online survey

Sample size:

263

Conducted:

April 2021

Market demographics

The Warrants/CBBCs market bounced back, with the market getting younger and trading smaller portfolios.



In 2020, the total number of derivative traders in Hong Kong grew by: **17%**

Back to the high levels last seen in 2018. **CBBCs remain the most popular product.**

Profile of Warrants / CBBCs traders

Hong Kong’s derivative traders are getting younger, with many starting to trade in the last year – highlighting the importance of education in the market.

Date of survey:

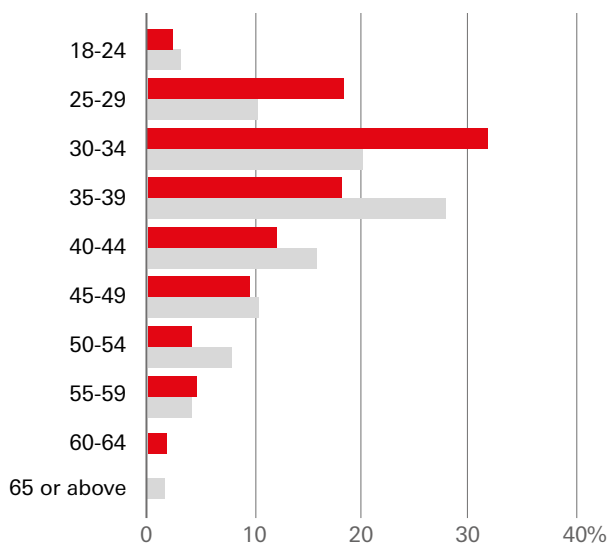
■ April 2021 (n=258) ■ May 2020 (n=269)

70% of traders are under 40, with 31% aged 30 to 34

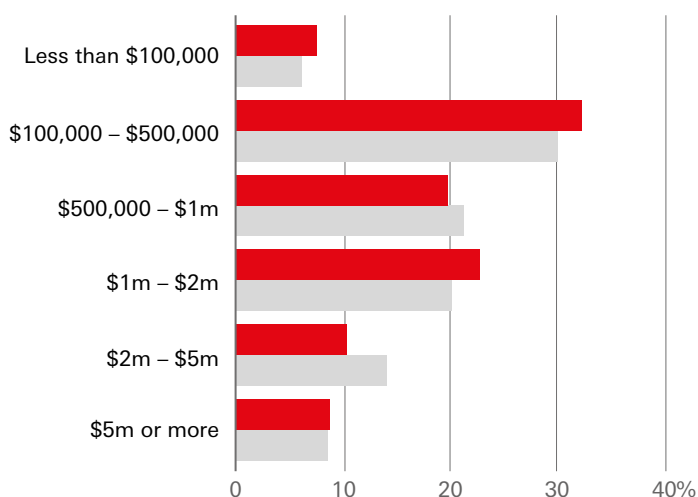
32% have less than one year of trading experience

\$1.6m is the average portfolio size, down from HK\$1.8m in 2020

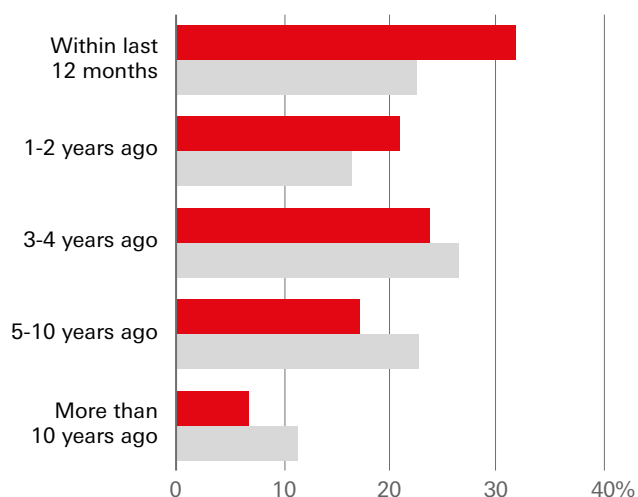
Age distribution



Profile size distribution, in HK\$



Trade experience



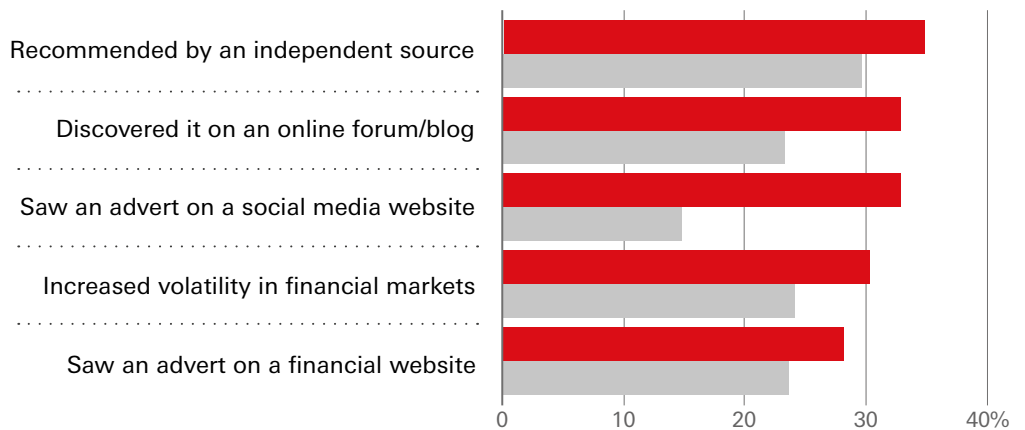
What motivates trader behaviour?

The internet is an important force driving new traders to the market, while lower fees and an improved personal situation are catalysts to trade more frequently.

Although a recommendation from an independent source is the most common trigger for a new trader to trade Warrants and CBBCs, the internet also plays an important role, with forums, social media, and online advertising playing a greater role than in the past.

What first prompted you to start trading your main Warrants/CBBCs product?

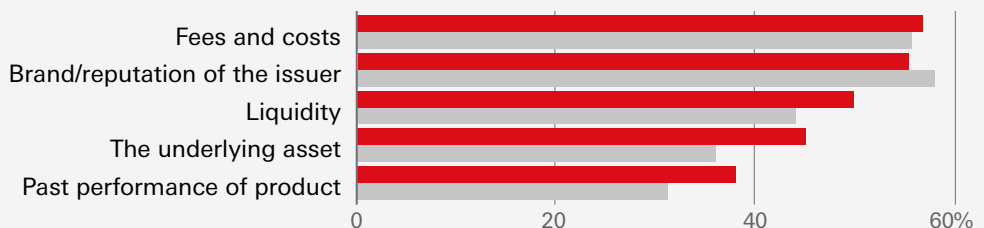
Key: ■ Apr 2021 (n=89) ■ May 2020 (n=65)



Fees and the reputation of the issuer remain the top factors influencing trading decisions, as traders often turn to the issuer’s website for additional research. Liquidity, the underlying asset, and the past performance of the product have all become more important over the last year.

Top five information considered when making most recent Warrants/CBBCs trade

■ Apr 2021
■ May 2020



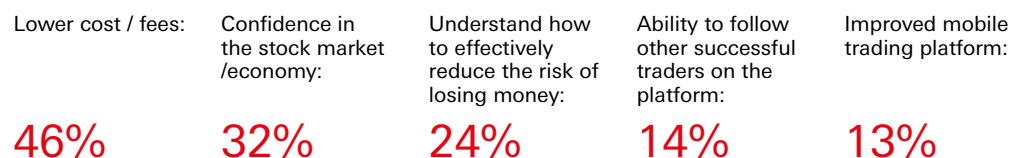
Traders cited a wide range

of factors that will encourage them to trade more, with costs being the biggest obstacle. Looking to the market, traders say that increased confidence in the economy and stocks would make them more active.

What would encourage you to trade main Warrants / CBBCs more frequently? (n=255)



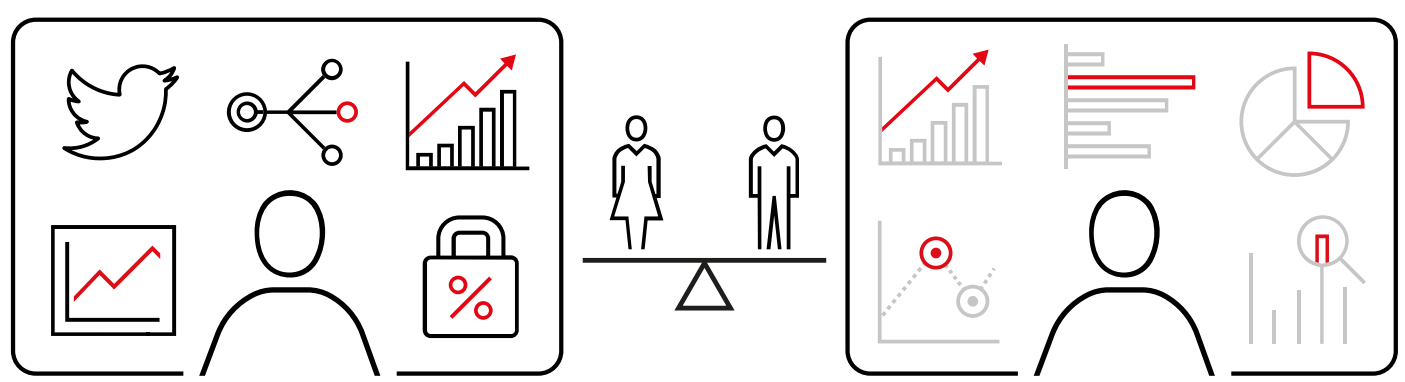
... and more specifically (the top response from a number of possible answers):



The millennial trader

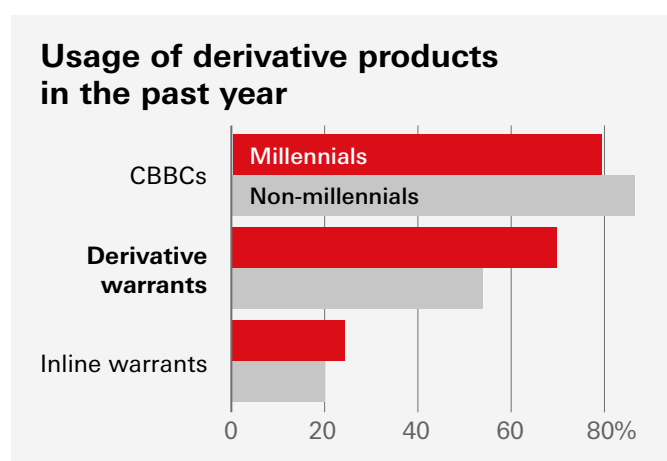
Tech-savvy millennials traders are becoming more numerous, bringing their own interests and trading style to the market.

85% of new Warrants/CBBC traders are under 40. It is important to understand how they compare with their older peers.

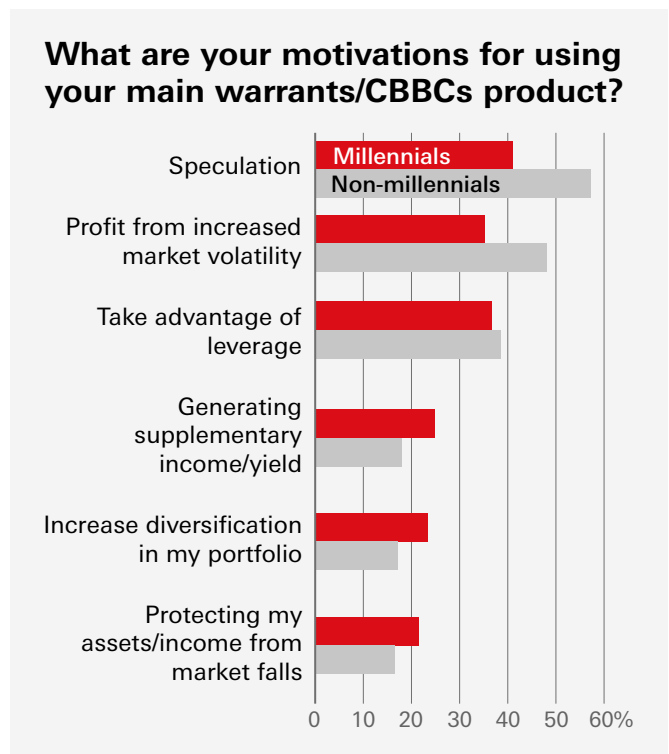


Millennials are:

- More inclined to trade warrants than their older peers.
- Exposure to international markets appears to be one of the key issuer selection criteria for millennials whereas older traders focus much more on past performance when selecting an issuer.



- Significantly more likely to rely on social media (26% millennials vs 11% among older traders).
- Less motivated than their older peers by speculation, profiting from market volatility, and taking advantage of leverage.
- More motivated by generating supplementary income, increasing diversification, and protecting against market falls.



The role of education

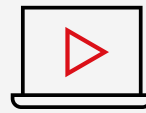
Derivatives are complex financial products and education initiatives can measurably increase trading activity.

Nearly all traders say that there is an education gap – especially in relation to risk management and understand price formation.

By meeting a trader’s education needs, a trader is more likely to:

- Trade a greater range of underlying assets
- Place more trades
- Make larger trades

In terms of format, traders prefer:



Videos

66%



PDF materials

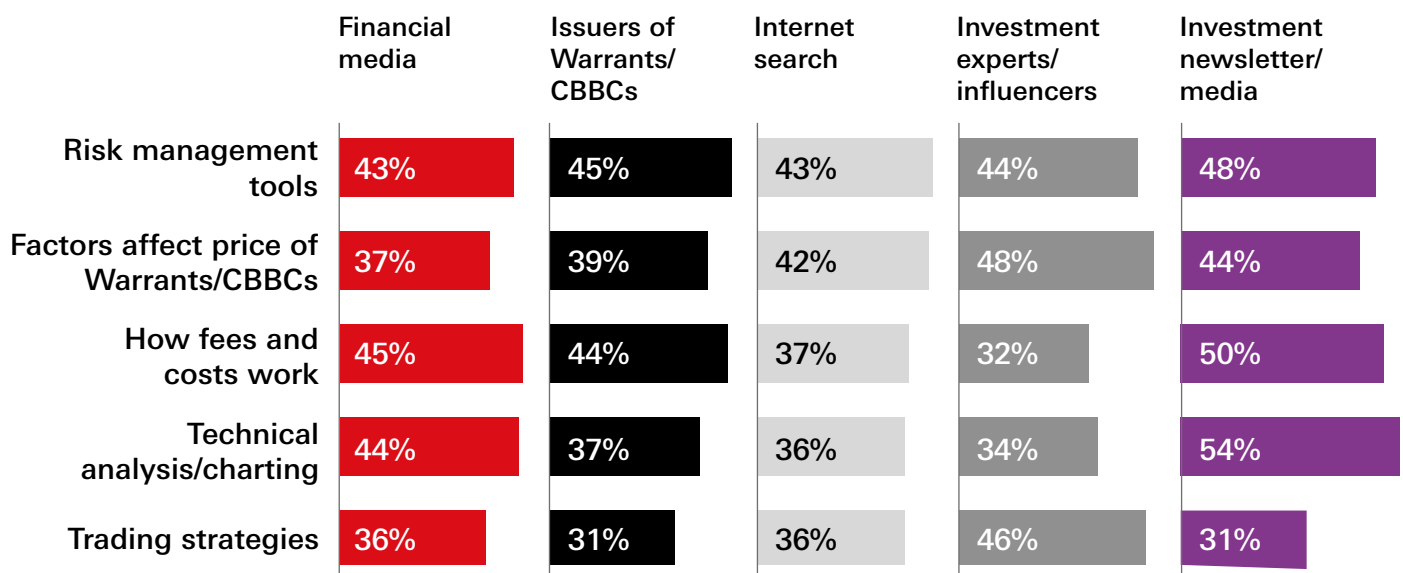
29%



Face-to-face sessions

21%

The top five education needs are met by different sources of information:



HSBC – A market leader in the Warrants/CBBC space

With increased overall satisfaction among customers in 2021, HSBC is recognised by Hong Kong’s traders as a financially strong educator in the derivatives space.

1st Overall brand association rank

HSBC comes first out of 15 issuers according to several core attributes:



An existing bank relationship with HSBC is an increasingly important selection driver for clients looking to open an equity trading account (only cash equity trading accounts are available).

48% in 2021 compared to 32% in 2020

Overall satisfaction in HSBC’s Warrants/CBBC business increased in 2021.

64% in 2021 compared to 61% in 2020

HSBC’s composite satisfaction score was boosted by improvements in the following areas:



Source:

The annual survey, sponsored by HSBC, was launched in 2019 and set out to identify and analyse the shifting sentiment and investment behavior of investors towards Warrants and CBBCs markets. Investment Trends conducted the survey in April 2021, and interviewed a total of 263 investors.

Important Risk Warning:

The structured products are not collateralized. If the issuer is insolvent or defaults, investors may not recover part or all of the amount due.

Structured products are complex products. Investors should exercise caution in relation to them. The price of the structured products may fall in value as rapidly as it may rise and investors may sustain a total or substantial loss of their investment. Prospective investors should ensure that they understand the nature and risks and seek professional advice where applicable. Please also note that CBBCs have a mandatory call feature and may therefore be subject to early termination, upon which (i) investors in category N CBBCs will lose all of their investments in the CBBCs; and (ii) the residual value of category R CBBCs may be zero. Inline warrants have been newly introduced to the market and there are no similar products currently listed on the Stock Exchange of Hong Kong Limited for comparison. Inline warrants carry exotic features, and their terms and pricing may be more complicated than standard derivative warrants. Maximum potential payoff is fixed and capped. Price movement of the inline warrants may be disproportionate or opposite to the price movement of the underlying asset. Trading structured products with United States (US) underlying index may be exposed to additional risks, including (a) risks relating to difference in trading days and hours, (b) less public information about the index and such information may not be available in Chinese, (c) political and economic risks relating to the index regions (such as the US), (d) exchange rate risks, (e) possible delay in settlement, and (f) publication of index level when component shares are not trading.

