



**Bringing a new dimension to
exchange traded products**

JSE 

EQUITY MARKET

Exchange Traded Notes

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Johannesburg
Stock Exchange

Launched in 2010, Exchange Traded Notes (ETN) are still relatively new products in the South African exchange listed market. They bring a new dimension to exchange traded products as well as offer their own unique characteristics to the South African investment world.

What are ETN?

An Exchange Traded Note is a listed debt instrument where a contractual obligation is made by an issuer, to pay the holder a return which is linked to the performance of underlying securities or benchmarks. Examples of these include: the performance of one or more shares or bonds, an index, an exchange rate or a commodity. ETN are senior, non-bespoke, unsubordinated, uncollateralised debt securities. They are mostly issued by underwriting banks. Similar to other debt securities, ETN have a maturity date and are backed only by the credit of the issuer. These have long dated maturity periods that generally range from 5 to 30 years. ETN can also act as an effective hedging tool and are similar to Exchange Traded Funds (ETF) in that they are listed on an exchange and can be bought and sold throughout the trading day. They provide investors exposure to markets which are otherwise difficult to gain access to in a cost effective way.

Benefits of investing in ETN

- ▶ **Accurate in tracking underlying securities**
ETN provide investors with a product that tracks the performance of various underlying securities without any tracking error (deviation from the value of the underlying securities). The issuer guarantees the holder a return which is exactly the same as that of the underlying securities, less expenses.
- ▶ **Simple**
ETN do not involve any of the difficulties or costs of buying and then managing a number of different securities or buying and storing physical assets.
- ▶ **Liquidity**
Buying or selling ETN on the JSE can be done quickly and at a low cost, due to the fact that issuers act as market makers by always offering clients a price at which to buy or sell ETN.
- ▶ **Guaranteed and transparent pricing**
ETN are priced using published settlement prices and this pricing is based on a transparent formula updated daily by the issuer.
- ▶ **Tax efficiency**
Securities Transfer Tax (STT), levied once you buy a security, does not apply to ETN. However, be sure to consult a tax professional for advice on whether Income Tax or Capital Gains Tax (CGT) is applicable.

Issues to consider

Credit rating of the issuing company

If the credit rating of the issuer is downgraded the value of the ETN could decrease even if the value of the underlying benchmark remains constant. Also, investors are subject to risk of default by the issuer as the ETN is unsecured debt with no principle guarantee. Most ETN, however, offer daily redemptions.

Types of ETN

▶ **Equity ETN**

These ETN offer investors exposure to the performance of one or more shares or an index

▶ **Commodity ETN**

These ETN offer investors exposure to the performance of a single commodity or an index that consist of a basket of commodities.

▶ **Interest Rate ETN**

These ETN track interest rate and bonds movements. Clients investing in these instruments could benefit from a rising interest rate cycle.

▶ **Currency ETN**

These ETN offer investors exposure to the performance of a single underlying currency or an index that consist of a basket of currencies.

In a nutshell

ETN are an exciting new way to have a vested interest in a variety of securities while not having to outlay the capital to acquire the securities themselves. As long as investors are mindful of which issuers they choose to invest with, ETN offers increased diversification and investment opportunities in local markets.

For more information on ETN traded on the JSE, please refer to 'Equity Market Products' on the JSE website listed below.

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