



COMMERZBANK

## Product Group

# Participation Certificates and Swiss Participation Certificates

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the participation certificates and Swiss participation certificates product group.

### General characteristics and investment opportunities

By acquiring these financial instruments, investors may benefit from both rising prices and from distributions, which can either vary in their amount or be omitted.

Holders of participation certificates and Swiss participation certificates rank behind senior creditors in the event of insolvency or resolution of the issuer.

Participation certificates (also known as participation rights) issued by non-financial companies or banks are typically debt securities with a nominal value and a right to a participation in profits. However, participation certificates often also participate in the losses of the company in the form of a decrease in the redemption amount. Depending on their specific design, participation certificates are closer in character to a share or more to an interest-bearing security. Participation certificates generally provide for redemption of the nominal value at the end of the term as well as a claim to annual interest. However, the amount of this non-guaranteed interest depends - like a dividend on a share - on the issuing company's distributable profit. The price of equity-like participation certificates is determined, among other factors, by supply and demand from market participants.

Swiss participation certificates, which in the past were issued by Swiss companies for foreign investors, constitute a national speciality. The holder of a Swiss participation certificate owns a fixed share in the participation capital of the company and acquires a right to a share in the distributable profit or liquidation proceeds of the company.

### Typical product characteristics

Participation certificates do not carry voting rights and, as a form of capital, can neither be unambiguously classified as debt nor as

equity. When acquiring participation certificates, investors need to consider the specific features of the individual design of the security; in the absence of a statutory regulation, the issuer is entitled to determine these features. The issuer specifies the term or cancellation period, the subordination to certain senior claims and the extent of any loss participation.

Participation certificates allow for a very individual design, and trading on the securities exchange is typically very illiquid.

A Swiss participation certificate may entitle the holder to purchase new shares. Like a preference share, the holder of a participation certificate possesses no participation or voting rights. Participation certificates are typically traded on a securities exchange. Because of liquidity differences compared to shares of the same issuer, participation certificates may be quoted at a higher or at a lower price than the respective shares.

### Material risks of the product group

By investing in these financial instruments, investors benefit from return opportunities, but are also exposed to additional material risks. These include the following:

Issuer risk - also referred to as default risk - when the issuer fails to meet its obligations or can only meet them in part, for example as a result of insolvency. Profit participation certificates issued by banks are subject to special regulations. If the issuing bank runs into financial difficulties, a regulatory intervention may result in a bailout of the bank, partial or total loss of the investment, or a compulsory conversion into equity, such as shares. Generally: The worse the credit rating of an issuer, the higher the default risk, but also the risk premium and the resulting yield. Participation certificates are generally not covered by deposit insurance. Sustainability-related decisions relating to the environment, social aspects and corporate governance also impact on the issuer.

Interest rate and price risk - when interest rates rise, participation certificate prices generally fall. A downgrade in the issuer's credit rating reduces the value of a participation certificate during its term.

Liquidity risk - during the term, investors may not be able to sell the security or may only be able to sell it at a possibly much lower price.

Foreign currency risk - Investors are exposed to currency risk when investing in a foreign currency denominated security as performance could be adversely affected by exchange rate movements.

Early redemption and reinvestment risk - investors are exposed to the risk that the issuer may exercise an ordinary or extraordinary option to call the fixed income security at a time or in a financial market environment that is unfavourable for the investor, as the investor can reinvest the redemption amount only on less favourable terms.

#### **Further information and costs**

For further details on these aspects and the product, please refer to the relevant sales prospectus or a basic information sheet, if available. In principle, inflation trends impact your investment performance. A resulting loss of purchasing power affects both the income generated and your capital invested. When acquiring, holding and eventually selling securities and derivatives, costs will impact returns. For further details, please refer to the respective cost information before entering into a securities transaction.

For further details on the characteristics and risks of the products, please refer to the brochure "Basic Information on Securities and Other Investments".