Income and Memory Autocallable Structures

Explained...

Structured Products – Autocall

The Classic Autocall

There is a separate document that goes into depth about the classic autocall – please refer to this if you haven't already. In this document we will explore the additional classifications of Income and Memory when applied to an autocallable structured product.

Income Autocalls

An income autocall product is a structure based around the classic autocall style, which provides the opportunity for regular income payments across a fixed term.

Fixed Income Autocall

This product pays a predefined income regardless of how the underlying performs, as long as the issuer does not default. It will be paid every period (e.g. quarterly or annually), until the product is called or matures.

Term: Max 6 years

Underlying: FTSE 100 index

Investment return: X% paid monthly

Autocall condition: If the FTSE 100 index price is at least 5% higher than its strike price on any observation date, the product will kick out and mature early.

This product will pay X% every month for which the product is active. At any observation date, if the FTSE 100 is 5% or more than its strike level, the product will terminate, and the investor will receive all of their invested capital back.

If for example, exactly one year after the product had started, the FTSE 100 price has grown by 10%, the product will automatically terminate despite having been predefined as having a 6-year term. A return of capital gives the investor the opportunity to reallocate funds into more structured products!

Conditional Income Autocall

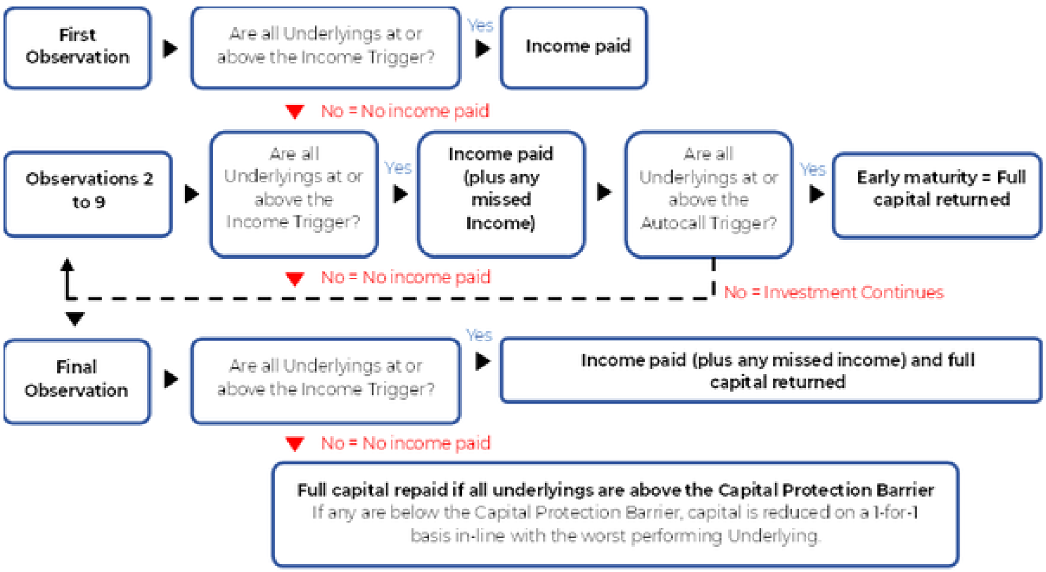
Income is only paid if the underlying is above a certain level on each observation date. This is the income trigger level which will often be lower than the autocall trigger. Since, unlike the fixed income autocall product, the income is not guaranteed, this product will pay a higher coupon to compensate.

The Memory Income Autocall

Same features as the Income Autocall but also includes the Memory Feature on the income. This feature has become increasingly popular as it increases the probability of the investor receiving a higher number of income payments. Note the memory feature is for the income rather than the autocall.

The added benefit of the memory feature means that any income previously unpaid will be included when the income trigger is next activated.

The flow chart below demonstrates the possible routes of the investment of a 6-year Semi-Annual Memory Income Autocall note. The first autocall observation is at 12 months with semi-annual observations until maturity.



The Memory Autocall

A Memory Autocall is the same as the classic autocall, but the memory feature enhances the opportunity of an early return.

The Memory Autocall (also known as a Knockout structured product) requires that each underlying has been at or above their initial strike level (the trigger level) on any observation date. Once an underlying is at or above the trigger level on an observation date, the product effectively ‘remembers’ that and so the performance of that underlying going forward is no longer relevant. Once all underlyings have achieved their trigger points, irrespective of on which observation date that occurred, then the product autocalls.

Refer to the table below as an example, with 3 underlyings and 6 observation dates.

Observations		**Underlying 1**	**Underlying 2**	**Underlying 3**	
Observation 1	Underlying Exceed Initial Level (Y/N)	Y	N	N	
Observation 2		N	N	N	
Observation 3		N	N	N	
Observation 4		Y	Y	N	
Observation 5		N	N	Y	Autocall Triggered

As you can see, after underlying 1 triggered, it’s future returns do not matter as the product remembers this and waits to see if the other underlyings trigger. Once all 3 have breached the trigger level at least once, the autocall will trigger and coupons will be paid with full capital returned.