

Equity-Linked Bonus Coupon Note Valuation

A bonus coupon note, also referred to as coupon growth note or bonus enhanced note or basket coupon note, is an equity-linked note that provides guaranteed coupons over the life of the note with potential for a bonus coupon based on the underlying asset trading above a specified barrier level.

The note pays a series of coupons based on the weighted performance of all assets in the basket on each Coupon Determination Date. The coupons are usually capped and floored.

There is also a barrier. If on any barrier observation date, the performance of any asset in the basket exceeds the 'digital barrier', its performance is replaced by a digital coupon.

If the performance of ALL assets in the basket hit or exceed the bonus barrier on a coupon determination date, the equity-linked coupon above is instead replaced by a fixed Bonus coupon.

The equity-linked bonus coupon notes typically benefit investors who are moderately bullish the short-term prospects of particular shares or index and who are looking for a guaranteed cash flow. Investors feel also comfortable being put stock at maturity if the asset price is below the strike.

Unlike fixed coupon note, bonus coupon note does not have knock out feature and coupon is not flat.

Due to the complexity of the payoff structure, the note is normally priced via Monte Carlo simulation.

Reference:

<https://finpricing.com/lib/EqConvertible.html>