

# Getting Started Trading DLCs

An introductory guide

March 2023

# 1. What is a Daily Leverage Certificate?

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- ❑ Daily Leverage Certificates (DLCs) are listed exchange-traded financial products that offer investors fixed leveraged returns of up to 7 times of the daily performance of the underlying asset
- ❑ DLCs offer the opportunity to investors to profit from both rising and falling markets
- ❑ DLCs are currently available for listed equity underlyings, including single stocks and equity indices
- ❑ The DLC leverage effect will amplify gains or losses depending on price movement in the underlying asset. For example, if the underlying asset moves by 1% from its adjusted closing price of the previous trading day, the price of a 3x leverage DLC will move by 3%, and for a 7x leverage DLC it will move by 7% before cost and fees

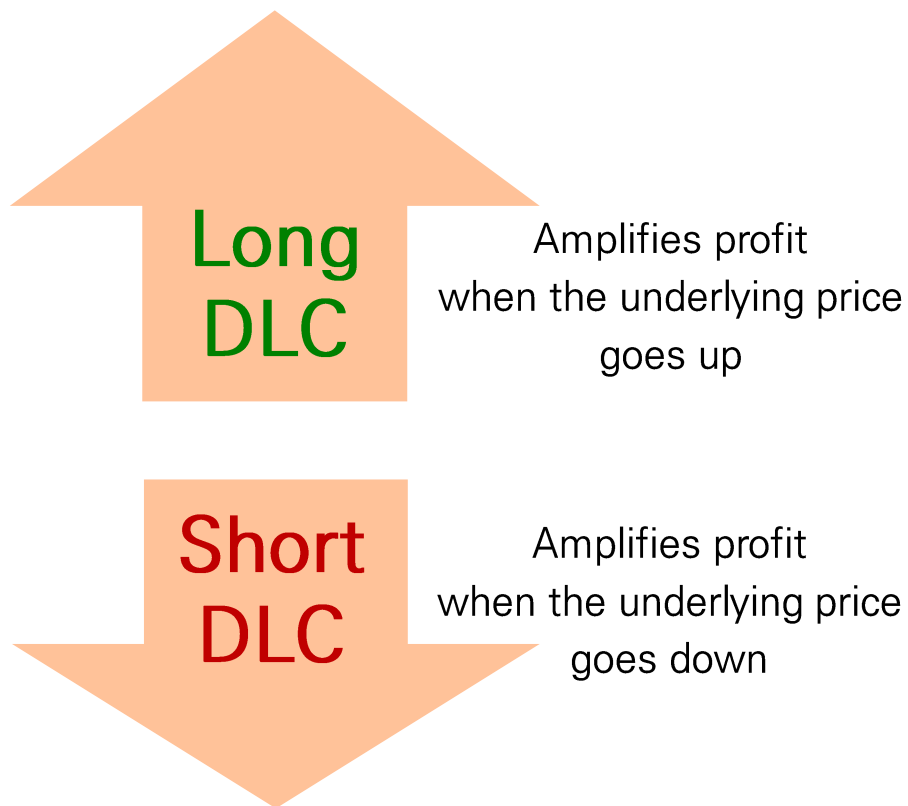
$$\begin{array}{c} \text{DLC} \\ \text{Daily Performance (\%)} \\ \text{before cost and fees} \end{array} = \begin{array}{c} \text{Underlying Asset} \\ \text{Performance (\%)} \\ \text{adjusted for dividends and} \\ \text{corporate actions} \end{array} \times \begin{array}{c} \text{Fixed Product} \\ \text{Leverage Factor} \end{array}$$

- ❑ DLCs are designed to be traded over short periods of time, predominantly on an intra-day basis

## 2. What are Long and Short DLCs?

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- ❑ For each underlying asset and leverage level, there are normally both Long and Short DLCs listed
- ❑ Bullish investors can buy long DLCs while bearish investor can buy short DLCs to express their market view



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### How a bullish Investor can take advantage of 3x Long DLCs

Investors expecting the underlying asset to rise can buy a 3x Long DLC which will increase in value by 3% for each 1% increase in the underlying asset before costs and fees

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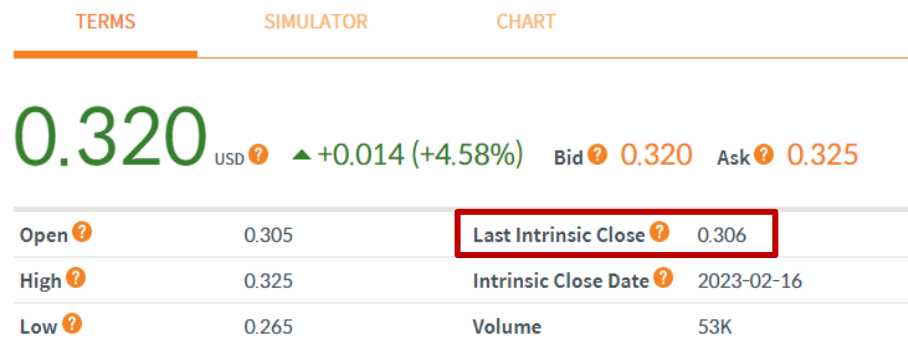
### How a bearish Investor can take advantage of 3x Short DLCs

Investors expecting the underlying asset to fall can buy a 3x Short DLC which will decrease in value by 3% for every 1% decrease in the underlying asset before costs and fees

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### 3. What is the Intrinsic Close Price of a DLC?

- ❑ The Intrinsic Close Price is the theoretical closing price of a DLC. This value is computed daily with reference to the valuation formula of the certificates and published on [dlc.miraeasset.hk](https://dlc.miraeasset.hk) for DLCs issued by Mirae Asset



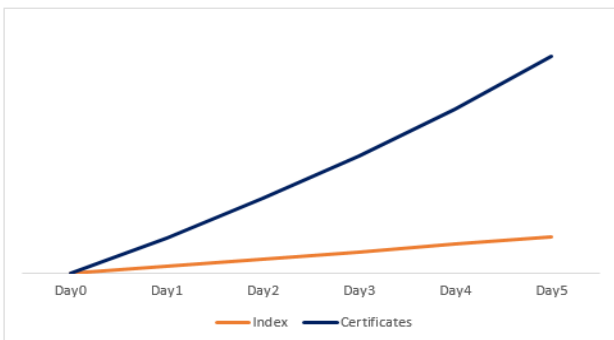
- ❑ The Intrinsic Close Price is the official reference price that determines DLC daily percentage performance, which may differ from the last traded price
- ❑ The DLC price continues to fluctuate based on the movement of the underlying asset even when the DLC does not trade, therefore the last traded price of the DLC is not used as a reference price to calculate the returns of the DLC

## 4-1. What is the Compounding Return Effect of DLCs?

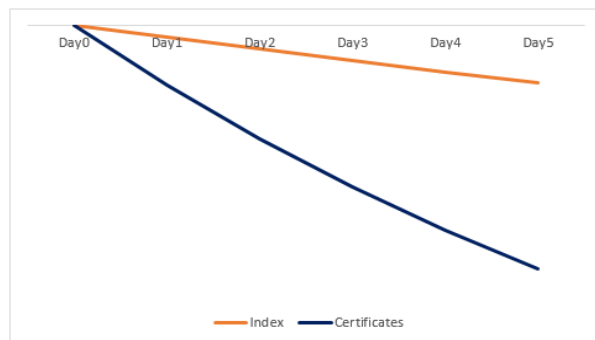
- ❑ The performance of the DLC is calculated based on the adjusted closing underlying price on the previous trading day each day which results in profits and losses being compounded
- ❑ If an investor holds a DLC for more than one trading day, the performance of the DLC may vary from the leverage factor of the DLC
- ❑ The performance of the underlying asset and the DLC is reset at the end of each trading day

### Illustrative Examples for 3x Daily Long DLC

#### Upward Market Trend



#### Downward Market Trend

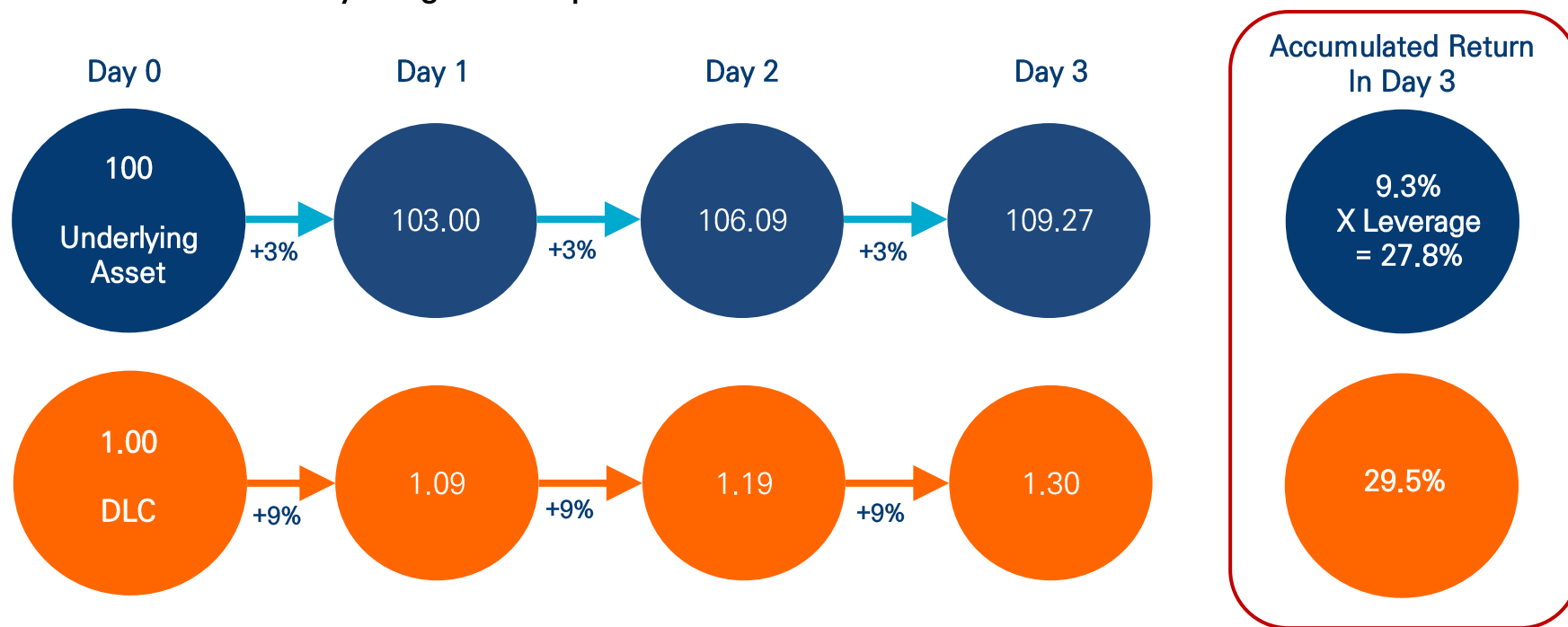


#### Volatile Market



## 4-2. Compounding Effect during Upward Trend for a Long DLC

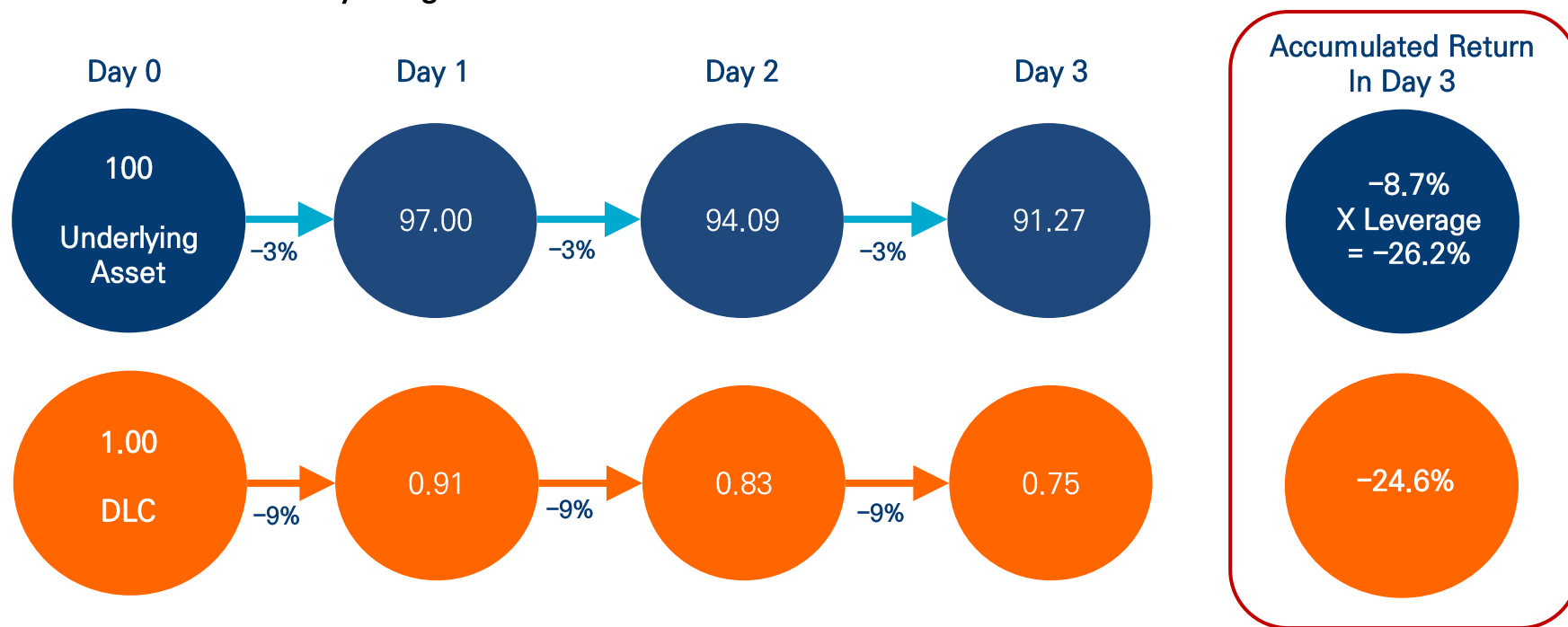
### Scenario 1 for 3x Daily Long DLC – Upward Market Trend



- ❑ If the investor holds a 3x Long DLC for 3 consecutive days and the underlying asset price increases by 3% each day, the 3x Long DLC would rise more than 3 times the performance of the underlying asset
- ❑ When the market trends upwards, a long DLC will have an accumulated return exceeding the fixed leverage

## 4-3. Compounding Effect during Downward Trend for a Long DLC

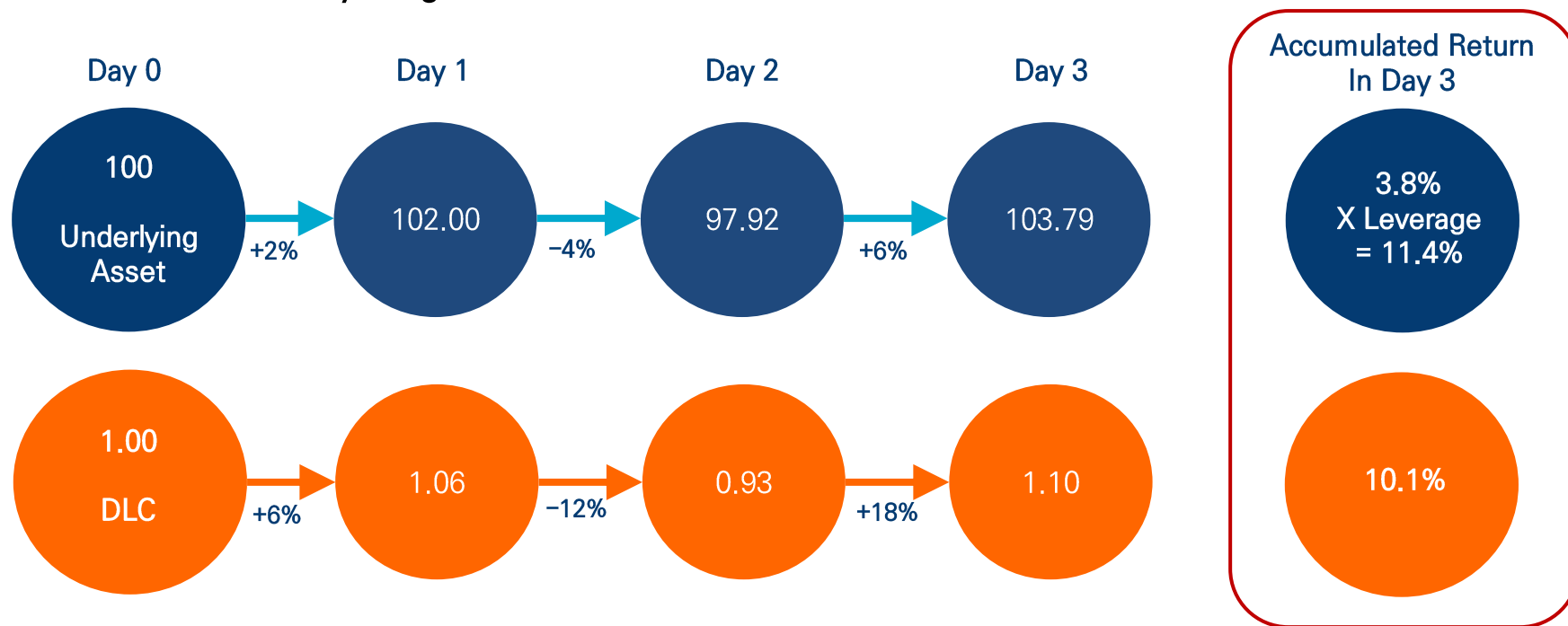
### Scenario 2 for 3x Daily Long DLC – Downward Market Trend



- ❑ If the investor holds a 3x Long DLC for 3 consecutive days and the underlying asset price decreases by 3% each day, the 3x Long DLC would fall less than 3 times the performance of the underlying asset.
- ❑ When the market trends downwards, a long DLC will have an accumulated return less than the fixed leverage

## 4-4. Compounding Effect during Volatile Market for a Long DLC

### Scenario 3 for 3x Daily Long DLC – Volatile Market



- ❑ If the investor holds a 3x Long DLC for 3 consecutive days and the underlying asset experiences volatile movement, the 3x Long DLC would return less than 3 times the performance of the underlying asset
- ❑ When the market is volatile, a long DLC will have an accumulated return less than the fixed leverage



## 5-1. What is the DLC Air Bag Mechanism?

- ❑ The air bag is a mechanism built into the DLC to limit losses in extreme market conditions
- ❑ All DLCs have a pre-set trigger air bag price level
- ❑ The air bag is triggered upon a predetermined percentage adverse movement of the underlying asset

### Typical Air Bag Trigger Level for each type of DLCs

(refer to listing documents for each DLC for actual level for each specific DLC)

	Type	Leverage	Air Bag Trigger
Index Underlying	Long	3x Daily Long	-20%
		5x Daily Long	-10%
		7x Daily Long	-10%
	Short	3x Daily Short	+20%
		5x Daily Short	+10%
		7x Daily Short	+10%
Stock Underlying	Long	5x Daily Long	-15%
	Short	5x Daily Short	+15%

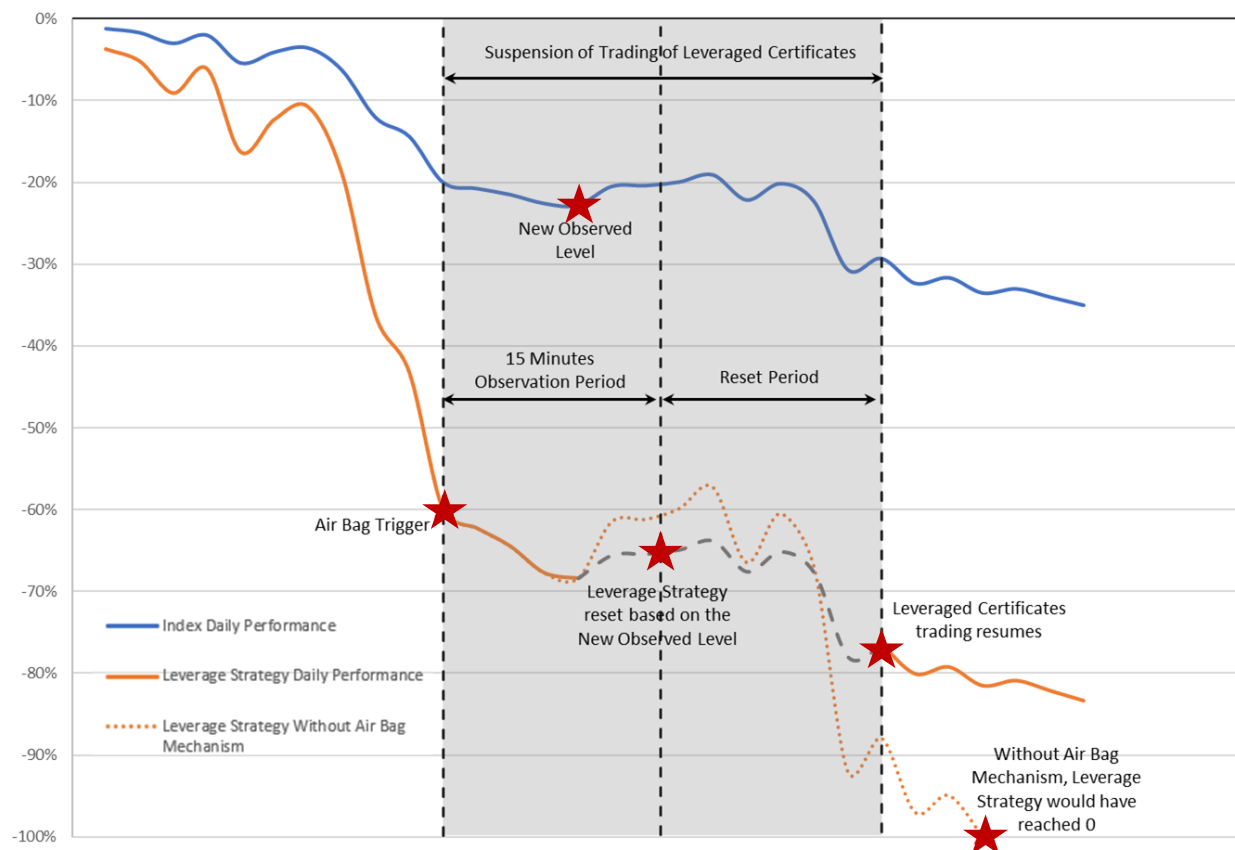
## 5-2. How is the Air Bag mechanism triggered?

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- ❑ The air bag mechanism is triggered if the underlying asset moves more than the air bag trigger level
- ❑ The air bag is triggered on an individual DLC basis
- ❑ We will publish an early warning announcement on Mirae Asset's website [dlc.miraeasset.hk](http://dlc.miraeasset.hk) once the underlying asset of our DLCs is near the air bag trigger level
- ❑ Upon air bag trigger, the following will occur:
  1. The issuer will request SGX to suspend trading in the relevant DLC for **30 minutes**
  2. A 15-minute observation period starts during which a new observed level (NOL) is determined
    1. The NOL is based on the **lowest** observed value of the underlying asset for a **long** DLC
    2. The NOL is based on the **highest** observed value of the underlying asset for the **short** DLC
  3. The performance of the DLC after the suspension will be based on the NOL
  4. For air bags on our DLCs, an announcement will be posted on our web site [dlc.miraeasset.hk](http://dlc.miraeasset.hk)

## 5-3. How does the Air Bag Mechanism protect a Long DLC investor?

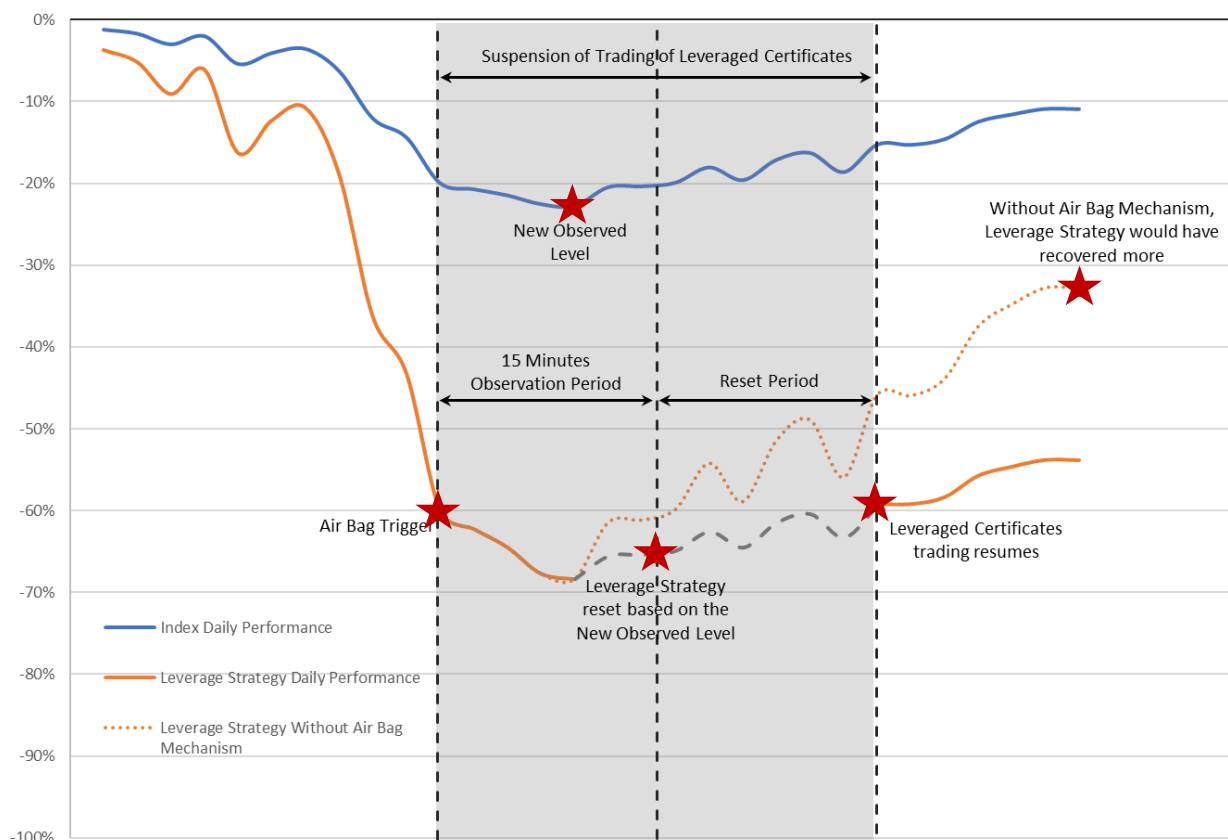
- ❑ The air bag mechanism protects investors from losses when the new observed level is higher than underlying level after the reset period ends when DLC trading resumes



**Air Bag Mechanism Illustration for 3x Daily Long DLC**

## 5-4. What happens if the price recovers during the Reset Period?

- If the underlying price recovers during the air bag reset period and reaches a level higher than the new observed level for a long DLC or reaches a lower level for a short DLC, trading will still resume at the new observed level



**Air Bag Mechanism Illustration for 3x Daily Long DLC**

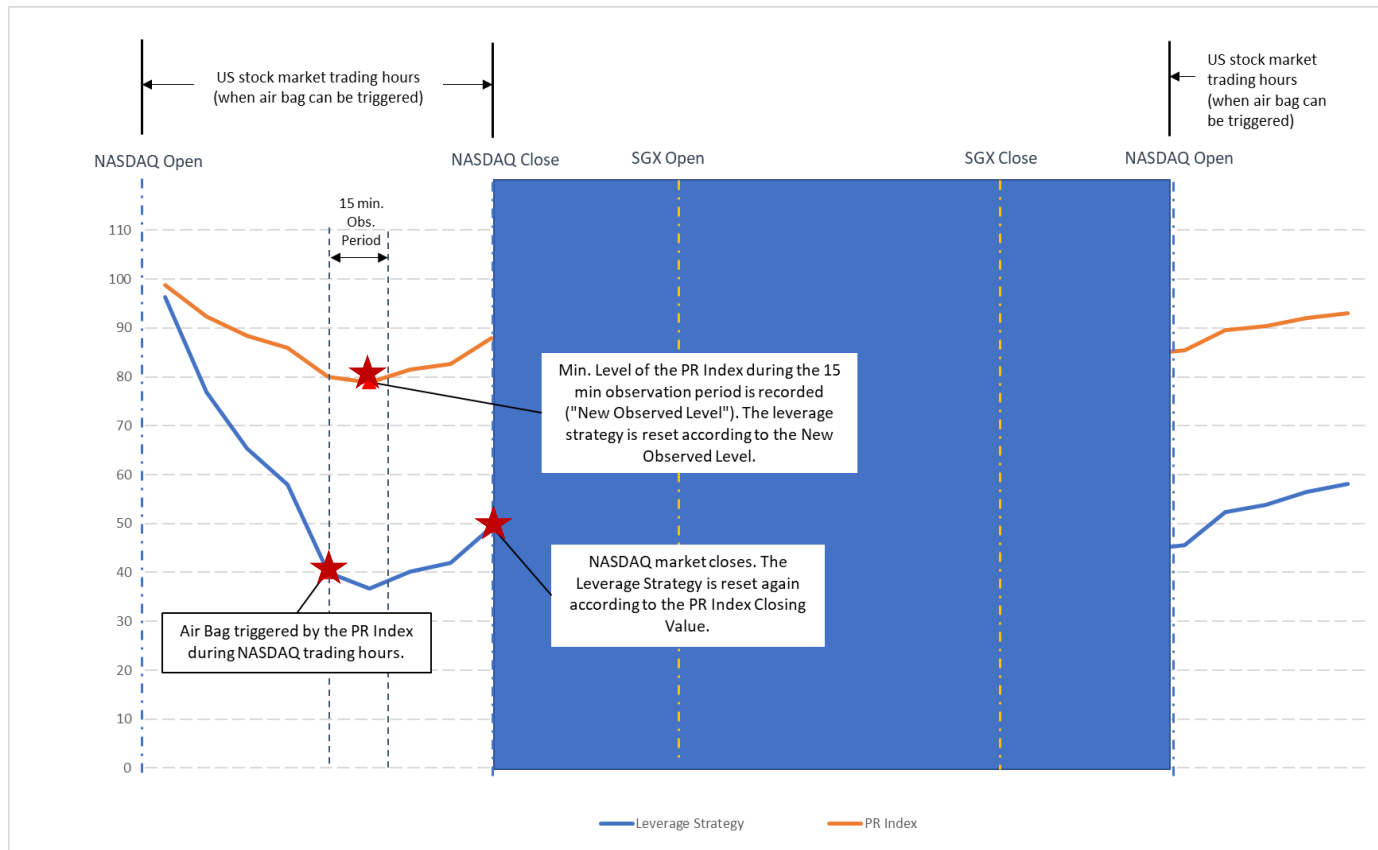
## 5-5. How does the Air Bag apply to US Index Underlyings?

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- ❑ The air bag mechanism applies to all DLCs, including DLCs with US index underlyings, such as Nasdaq-100 Index<sup>®</sup> and S&P 500<sup>®</sup> Index DLCs
- ❑ The air bag mechanism for US index DLCs is triggered if the underlying US index moves more than the air bag trigger level during US trading hours, which do not overlap with SGX trading hours
- ❑ The air bag mechanism can only be triggered when an underlying index or security is calculated or traded, therefore the air bag cannot be triggered for US Index DLCs during SGX trading hours
- ❑ Index futures price changes cannot trigger the air bag
- ❑ If the air bag is triggered during US trading hours, an announcement will be published on the SGXNet website before SGX opens for trading the next day, and the DLC performance will be based on the reference value determined at US market close

## 5-6. Example of Air Bag Mechanism for 3x Long Nasdaq-100<sup>®</sup> DLC

- ❑ The air bag mechanism can only be triggered during trading hours of the relevant stock exchange for the underlying and can therefore not be triggered during SGX trading hours for US index DLCs



### Air Bag Mechanism Illustration for 3x Daily Long DLC linked to Nasdaq-100 Index<sup>®</sup>

## 6. Which types of investors can trade DLCs?

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- ❑ DLCs are listed on SGX and can be traded through a stockbroker in a regular brokerage account
- ❑ DLCs are for investors who are willing to accept the risk of substantial losses up to the principal investment amount, possibly within a very short time frame
- ❑ Investors should have sufficient understanding of the product and should possess either a high level of knowledge or sufficient trading experience to properly evaluate and assess the product structure, associated risks, valuation, costs and expected returns



### SIP Qualification For Singapore Investors

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#### Singapore Investors

All investors in Singapore need to be Specified Investment Product (SIP) qualified before they invest in DLCs

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### Assessment For Korean Investors

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#### Korean Investors

Korean investors are allowed to trade DLCs through their broker's HTS and MTS after following specific process designed by each broker in Korea

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## 7-1. How does Market Making provide DLC order book liquidity?

- ❑ A Designated Market Maker (“DMM”) is required to provide competitive bid and offer quotations on a continuous basis, within the maximum spread, and for not less than the minimum quantity under the SGX-ST Trading Rules
- ❑ Mirae Asset acts as both issuer and DMM for its DLCs, which means that Mirae Asset provides a price for each product with a bid/offer spread on the SGX Order Book
- ❑ **Market Making Requirements**

DLC Price	Maximum Bid and Offer Spread
When the best bid price of DLC is US\$10 and below	10 ticks or US\$0.20 whichever is greater
When the best bid price of DLC is above US\$10	5% of the best bid price of DLC
Minimum Quantity subject to Bid and Offer Spread	10,000 DLCs

- ❑ **Trading Hours**

Underlying Asset	Trading Hours (SST/Singapore Standard Time UTC+08:00)
US Underlying Indices / Stocks	09:00 to 12:00 and 13:00 to 17:00
HSI / HSCEI / HSTECH / HK Stocks	09:30 to 12:00 and 13:00 to 16:00



## 7-2. Conditions when quotations may not be provided

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- ❑ Investors should note that quotations may be not provided under certain circumstances, including but not limited to the following situations:
  - The DLCs are valueless
  - The DLCs are sold out
  - Trading in the underlying asset, hedge or underlying index is suspended or limited for any reason
  - The issuer or the DMM faces technical problems affecting the ability of the DMM
  - The stock market experiences exceptional price movement and volatility
- ❑ Please refer to the relevant listing documents for more details
- ❑ If we are unable to make bid and offer quotations, we will immediately make a public announcement on our website [dlc.miraeasset.hk](http://dlc.miraeasset.hk)
- ❑ An announcement will be also made available on SGX website, [www.sgx.com/securities/company-announcements](http://www.sgx.com/securities/company-announcements)

## 8. What are the Costs and Fees of trading DLCs?

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- ❑ The daily DLC performance is not exactly equal to the leverage factor multiplied by the underlying asset's daily performance due to various costs and fees
- ❑ Costs of holding DLCs overnight can be calculated using a standard formula
- ❑ Details of costs and fees for each DLC can be found on our website and in relevant listing documents

**01** Brokerage Fee

**02** SGX Trading Fee

**03** Bid/Ask Spread

**04** Management Fee

**05** Gap Premium

**06** Funding Cost

**07** Stock Borrowing Costs  
(for Short DLC only)

**08** Rebalancing Fee

- ❖ When investors trade in and out of a DLC, even if DLCs are not held overnight, they need to pay applicable brokerage fees brokers, SGX trading fees and spread on bid and ask prices. Investors may consult with their broker for details of brokerage fees
- ❖ The difference between the buy price and sell price of a DLC is known as the Bid-Ask spread. The wider the spread, the greater the costs of selling back a DLC before expiry

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### These costs and fees only apply when a DLC is held overnight:

- ❖ A management fee is charged in the same way as an issuer would charge in a managed fund. The management fee is charged daily and deducted from the DLC price at a pro-rated rate per day
  - ❖ A gap premium is a hedging cost embedded in the price of the product to limit the investor's risk from extreme market movements overnight
  - ❖ The funding cost and stock borrowing cost for short DLCs are the cost of funding the product replication strategy and the rebalancing cost is one incurred following execution cost due to the product replication strategy
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## 9. How does product expiry work for DLCs?

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- ❑ DLCs have a limited life with a maximum term of 3 years
- ❑ Investors holding DLCs on the expiry date do not have to deliver an exercise notice or instruct their brokers to exercise their DLC
- ❑ DLCs are automatically exercised by the issuer on the expiry date (or if the expiry date is not a business day, the immediately preceding business day) and the final exercised value of the DLCs is calculated and automatically paid to investors
- ❑ The cash settlement amount after deducting expenses is deposited into the investor's bank account based on the records maintained by the CDP

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# End of Document

[dlc@miraeasset.hk](mailto:dlc@miraeasset.hk) | [dlc.miraeasset.hk](http://dlc.miraeasset.hk)

