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Topic 1: Hybrids

Stop and read this module before you go any further.

An investment in a hybrid is not the same as an investment in a bond.

Hybrid securities combine the features of debt securities and equity securities and their terms are often far more complex than simple bonds.

The hybrids securities available for trading on the ASX market are evolving all the time. This makes it especially important that you do your due diligence before investing.

If you are thinking about investing in hybrids, you are probably an income seeking investor. You should be familiar with the basics of fixed interest investments - review our [bonds course](#) and our [Australian Government bonds course](#) - but you also need to understand the extra features and risks involved with hybrids.

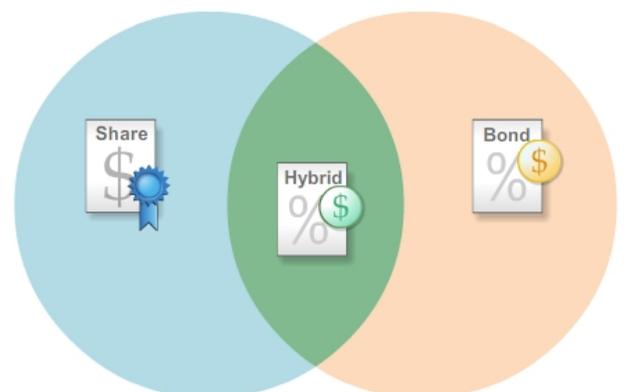
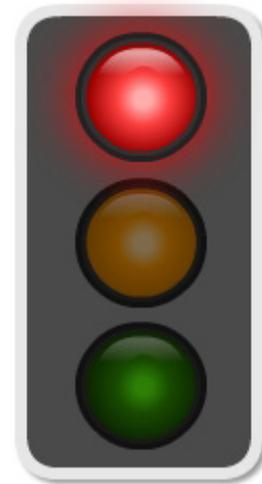
The term "hybrid" describes securities which combine debt and equity features.

Like debt instruments, hybrids usually have a defined rate of income and many hybrids have a maturity date when their face value is returned. It is important to understand the terms of the particular hybrid you are considering, as some hybrids have discretionary interest payments, which may be deferred (but accumulate and be paid later) or not paid at all.

Some hybrids pay franked dividends in a similar way to ordinary shares. Some hybrids also have an option to convert to shares, while others will automatically convert into shares on particular dates or if certain prescribed events occur.

Hybrids traded on ASX can be bought and sold in the same way as shares traded on ASX.

STOP



Be mindful of these points when reviewing the hybrid market:

- Hybrids have more risk than regular bonds because of their equity component.
- They are also more complex because of the combination of debt and equity features.
- Hybrids are not standardised - they can have widely varying terms. Therefore investors really need to read and understand a security's information document before investing.

Before you go any further, check your knowledge with the quiz on [ASIC's Money Smart website](#). It will take you 5 minutes.

Module 2 in this course goes into the detail of hybrids. This is material you should be familiar with before you start investing in hybrids.

The central location of hybrid information on the ASX website is the [hybrid product page](#).

The ASX website has a useful brochure "[Understanding hybrid securities](#)" (PDF).

If your existing broker is not active in the hybrid market, you may need to [find a specialist broker](#) in this area.

Debt	✓
Equity	✓
Standardised	✗
Not Standardised	✓
Complex	✓
Simple	✗