SSPA Newsletter October 2019

2019 meeting of delegates – new President elected, Committee confirmed

Following a hopefully relaxing and recuperative summer break, the activities of the sector have been picking up speed once again and things have certainly been happening. Within the Association we too are entering the fourth quarter full of élan and with new (old) heads. Our distinguished Georg von Wattenwyl, who served on the Committee for 10 years, since 2014 as President, has been elected Chairman of the Swiss Chamber of Commerce in Singapore. He will therefore now be concentrating on this new task and functions for Vontobel in Asia. We thank Georg for his commitment and dedication, and wish him every success in his future career.

In my capacity as the new President, I thank our members and my colleagues on the Committee for the confidence they have shown in me. I am looking forward to heading the SSPA as a broadly-recognised industry association. Together with my Committee team members, I shall represent and continue to develop the interests of the structured product industry. We laid excellent foundations for this at this year's meeting of delegates. Over the next few months we are planning to generate added value for the industry with a fresh look&feel, a new website as well as tailored tools. In addition, we are looking to launch an awareness campaign, underscoring the potential of structured products in a bear market: what do we have to do to enable investors to leverage the added value of structured products over more traditional financial instruments such as equities with aplomb, i.e. even in falling markets? The last time we encountered an environment of this nature, structured products did not get the recognition they properly deserved.

The present Newsletter also looks back at this year's legendary International Structured Forum, which celebrated its 10th anniversary in style with a dinner at the Bürgenstock. We also explain what to expect at the FuW Structured Products Forum in November and provide an update on important developments within the regulatory field.

We hope you enjoy reading these pages!

Adrian Steinherr, President of the SSPA

Adrian Steinherr elected as President and Markus Pfister as new member of the Committee

At its 2019 meeting of delegates, the SSPA elected Adrian Steinherr (UBS, previously Vice President) as its President and Markus Pfister (Vontobel) as a new Committee member. They are assuming the responsibilities of Georg von Wattenwyl, who has stepped down. The following individuals were confirmed in office for a further two years: Valentin Vonder Mühll (Deputy Chairman, Banque Pictet & Cie SA), David Schmid (Leonteq Securities AG), Sylveline Besson (CA Indosuez Wealth Management) as well as Irene Brunner (BNP Paribas).

Adrian Steinherr has been a SSPA Committee member since 2016. He succeeds Georg von Wattenwyl, who spent 10 years on the Committee of the SSPA, since 2014 as President. He will in future be concentrating on the tasks and functions he performs for Vontobel and as Chairman of the Swiss Chamber of Commerce in Singapore.

Markus Pfister, Vontobel, has been newly elected to the SSPA Committee. He has worked in the derivatives and structured products field for over 20 years, since 1 January 2019 as Chief Operating Officer of Vontobel's Investment Banking Unit. Pfister heads the SSPA Risk Commission, and has already provided support in a wide variety of projects. The delegates confirmed the previous Committee members David Schmid (Leonteq Securities AG), Sylveline Besson (CA Indosuez Wealth Management) and Valentin Vonder Mühll (Banque Pictet & Cie SA) in office for two further years. Valentin Vonder Mühll has been appointed as the new Deputy Chairman. Irene Brunner (BNP Paribas), who succeeded Thomas Schmidlin (previously Credit Suisse) in June, was formally confirmed in office.

New member expands the industry association

With the admission of the brokers Evooq in October, the SSPA has now grown to 44 members.

Cedric Ullmo, CEO of Evooq, is pleased to have the opportunity to help shape the industry: "With our comprehensive digital platform for independent asset managers and banks, covering all key steps of the investment process, we are pursuing the same goals as the association. With the help of client profiling, product and risk evaluation according to FIDLEG, portfolio optimization, campaign management, monitoring and reporting, we want to enable our clients to easily and transparently integrate structured products into their portfolio. We are pleased to bring our digital expertise to the SSPA."

10th International Structured Products Forum 2019 – "Engagement with Wealth Management", 3/4 September 2019 in Lucerne

Once a year the (inter)national structured products world comes to Lucerne – this year it marked the 10th anniversary of the traditional industry meeting with a record-breaking 100 participants. Under the motto "Engagement with Wealth Management" discussions at the event jointly organised by SIX & SSPA addressed inter alia future changes, challenges and opportunities in the asset management field, along with the opportunities these present for structured products.

Félix Roudier (Chair sub-NWG Derivatives & Capital Markets, Credit Suisse) & Mischa Imhof (Senior Sales Manager Indices, SIX) provided insights into the SARON and LIBOR world – "Are You Ready for SARON? The Impact of the Transition from LIBOR to SARON". As key takeaways they declared: "SARON is a robuster solution for CHF reference interest rates than LIBOR" and "Product providers & banks now need to begin the switch".

Following this, Luigi Vignola, Head Markets at Julius Baer, provided insights into in-house opportunities for banks to deploy structured products on the wealth management side – where there remains considerable untapped potential. The development of the sector and the contribution that the SSPA makes to the increased use of structured products in the field of wealth management was also described by Georg von Wattenwyl, SSPA President, in his welcome speech that introduced the afternoon workshops.

In his workshop "Retail Market – Getting Ready for 2020", Dominique Böhler (Head Public Distribution Structured Products and ETFs Switzerland, Commerzbank) presented SSPA's new working group "Retail" as well as various investor types who need to be covered and taken account of in the retail field – in small groups, participants then discussed "ground fruits, low-hanging fruits, bulk of fruits and sweet fruits". The results will continue to be addressed by the Retail working group.

"Emphasising Structured Products in Wealth Management" – the buy-side workshop with input from Sylveline Besson (Global Head of Structured Products and OTC Derivatives, CA Indosuez Wealth Management, SSPA Committee) and Willi Bucher (Products and Sales ZB, Raiffeisen) kicked off with an interactive questionnaire on relevant topics in the field of wealth management. 61% are of the opinion that structured products will continue to grow in the coming decade, on account of lower entry levels, heightened volatility, the PUSH of AMCs or as alternatives to equities and bonds in the difficult market environment. The product name harmonisation project was also presented. This is currently being driven forward in the "Buy Side" working group.

Under a cloudless sky, participants were transported by catamaran and funicular railway to the Bürgenstock to hear the keynote speech by Prof. Dr. Aymo Brunetti (Professor, Department of Economics of University Berne) – "The Swiss Financial Centre in Challenging Times". His summary: "To remain successful, continuous adjustments are required. Potential challenges (or opportunities) appear: increasing focus on sustainable finance, potential competition from tech companies entering the financial sector as well as digital currencies and the growth of shadow banking."

Following a breathtaking sunset and fine dinner, participants made their way back down from the mountain. The next day they were able to hear the "Lawyer's Update on Swiss and European Topics" presented by Daniel Häberli (Partner, Homburger AG and Head Legal & Regulation SSPA) and Henning Bergmann (CEO & Member of the Board of Directors, German Derivatives Association). The lecture "Opportunities and challenges in Actively Managed Certificates" by Rico Blaser (CEO, vestr AG) and Stefan Wagner (Global Head of Business Development, vestr AG) demonstrated the potential of AMCs. Thomas Wulf (Secretary General, EUSIPA) and Nicholas Soerensen (Secretary General, Luxembourg Structured Investment Products Association) then provided insights into the Brussels bubble as well as into the Luxembourg market, which recently announced the establishment of a further structured products association in the form of LUXSIPA.

The event was barely over before attention began turning to the next– the 11th International Structured Products Forum will be held on 1 and 2 September 2020 at the Grand Hotel National in Lucerne.










Update legal & regulations

FIDLEG/FINIG progress – coming up to the finishing line

Date on which this is set to come into force, and transitional provisions

The Swiss Federal Department of Finance (FDF) is set to propose to the Federal Council that the Financial Services Act (Finanzdienstleistungsgesetz – “FIDLEG") and the Financial Institutions Act (Finanzinstitutsgesetz – “FINIG”) and their implementing ordinances should into force on 1 January 2020. The corresponding Federal Council resolution is expected to be approved on 6 November 2019.

On 9 September 2019, the State Secretariat for International Financial Matters (SIF) announced the planned transitional periods. In most cases, these amount to two years. This should give issuers sufficient time to prepare for the switch to the new regime.

Key changes to the Financial Services Ordinance

To give the sector greater planning security, in its communication of 9 September 2019 the FDF set out the key changes to the draft ordinances that were included in response to numerous statements submitted by the financial sector during the course of hearings on the FIDLEG and FINIG ordinances. The definitive wording of the ordinances is, however, still subject to approval by the Swiss Federal Council on 6 November 2019.

The draft ordinances have met with broad approval. Nevertheless, a number of clarifications and amendments have been made to the wording of the ordinance. In particular, the following significant material changes to the consultation draft are worth mentioning:

General

- The definition of the term “financial services”, insofar as this encompasses the purchase & sale of financial instruments, has been amended in response to diverging opinions. In particular, the term “brokering” has been deleted. It will be possible to assess the extent to which this amendment creates clarity about which activities associated with the purchase and sale of financial instruments qualify as financial services only once the definitive wording of the ordinance becomes available.

Code of conduct

- Particularly worthy of mention is the clarification relating to the provision of the Basic Information Sheet (BIB) for “execution only” transactions. This was one of the key issues raised in consultation submissions by the SSPA and other participants. The new Art. 11 Para. 2 FIDLEV now states that a BIB is deemed to exist in connection with “execution only” transactions and must therefore be made available to the client if it can be found at reasonable cost. This means the SIF has taken the concerns of the SSPA into account, although unfortunately has not used the wording proposed by the SSPA. The SSPA will interpret the provisions of the new ordinance within the context of the “FIDLEG Q&A”, thereby expressing the shared understanding of SSPA members of this provision.

- The new Art. 11 Para. 3 FIDLEV includes a provision stating that in the case of “execution only” transactions the BIB may be made available to private clients, with their consent, after the transaction has been concluded. This is a sensible exemption from the principle that the BIB must be made available before the completion of an acquisition or sales transaction. This provision was one of the concerns raised by the SSPA during the consultation on the Financial Services Ordinance.

Advertising

- The SIF has also taken the SSPA's proposal on board with regard to the provisions on advertising and has removed the proposed ban on the advertising of unauthorised financial instruments or of financial instruments that do not correspond to the client profile from the wording of the Ordinance (Art. 95 Para. 3 FIDLEV).

Coming into force / transitional provisions

- Once the FIDLEG and FINIG have come into force on 1 January 2020, a number of provisions are to be accorded longer transitional periods than had originally been included in the draft. In relation to client segmentation (Art. 103 FIDLEV), the required know-how of client advisors (Art. 104 FIDLEV), the code of conduct (Art. 105 FIDLEV), the organisational obligations pursuant to Art. 21 to 27 FIDLEG (Art. 106 FIDLEV) and the BIB (Art. 110 FIDLEV), the transitional period has been raised to two years.
- The extension of the transitional period for the BIB, which will make it possible for a simplified prospectus to be prepared for structured products instead of a BIB until 1 January 2022 is particularly important in this conjunction. Following consultation with the SIF, though, it remains the case that only a BIB or a simplified prospectus may be prepared. This restriction does not apply, however, to the preparation of a PRIIPs KID, that is to say, a PRIIPs KID can always be prepared alongside a BIB or simplified prospectus.
- In its communication of 9 September 2019, the EFD did not mention the transitional period for the prospectus. The draft of the Financial Services Ordinance makes provision for a six-month transitional period, commencing on the date of the approval by the first inspection authority. The SSPA is keen to see this relatively short deadline extended, and is holding discussions with the SIF on this matter.

The SSPA FIDLEG Q&A and product matrix

The "Legal & Regulation" working group is continuing to work on the "FIDLEG Q&A" working paper. The working paper will be supplemented and updated on an ongoing basis. It is designed to help SSPA members interpret and implement the new regulations. The "FIDLEG Q&A" will be made available on the SSPA website accordingly.

In addition, a new "product matrix" is to be created as an appendix to the working paper. This will serve as a practical guide to compliance with the new regulations concerning product documentation. The appendix will, inter alia, enable provide users with an overview of the documents that need to be supplied in connection with the respective offer of structured products.

The SSPA sample basic information sheet

The "BIB-Template" sub-working group has prepared a preliminary draft of the sample basic information sheet. Various paragraphs of the BIB are to be standardised. The central paragraph is "What risks exist and what could I receive in return?"

Status of AMC principles / recommendations

Based on principles developed and approved by the Committee, the "AMC" sub-working group has prepared a document containing recommendations for issuers of actively managed certificates (AMCs), and has submitted this to the Committee for approval. The recommendations are currently being finalised, and are expected to be approved by 1 January 2020.

These recommendations establish minimum requirements for the appointment of the person who is to manage the AMC and for transparency with regard to the investment strategy, its implementation and the associated costs. These minimum requirements are considered recommendations and establish guidelines to protect investors and strengthen the reputation of the sector.

SSPA sample sales agreement

The "Legal & Regulation" working group's latest project is the development of a sample sales agreement for the financial sector and SSPA Members. The template will be available in German and English. It will be formulated as neutrally as possible, in order to offer a fair distribution of interests between issuers and distributors. SSPA members may use the sample agreement on a voluntary basis, and may also tailor this to meet their individual needs.

Finanz und Wirtschaft Forum "Structured Products 2019" 19 November

The second Finanz und Wirtschaft Forum on Structured Products will be held at the Gottlieb Duttweiler Institute in Rüschlikon in November. The conference will be discussing key questions relating to structured products, and will take an in-depth look at the latest investment trends. Following last year's successful launch, we will be building on this success – the SSPA is partnering the event and will again be making a significant contribution to the content of the event.

In the difficult zero interest policy environment, investors are looking for ways to boost returns, without exposing themselves to excessive risks. It is precisely here that structured products offer a good range of investment solutions that can be flexibly structured. Those entering new investment segments for the first time will want to gather experience first, without bearing the full risk from the outset. Capital protection certificates with a maximum loss of 5%, which relate to emerging market currencies or commodities, offer a good approach.

The Forum will also address the choice between equity and credit risks: Conservative barrier products with coupons that relate to equity indices and have a large risk buffer are a suitable alternative to bonds. Another alternative are credit linked notes on reference debtors, which provide slightly higher returns. On 19 November 2019, you will be able to find out personally what to look out for when using structured products and how portfolios can be improved in the current low-interest environment.

"Expert View" – sustainability: both a challenge and an opportunity

Current overview of the structured products industry by Adrian Steinherr, UBS

The topic of sustainability is shaping public debate like no other. Politicians, scientists, business leaders and consumers are struggling with the question of how to master the enormous ecological and social challenges. In 2015 the United Nations (UN) supported by 193 countries approved "Agenda 2030" for sustainable development. This is designed to end poverty, while simultaneously combating climate change and injustice.

According to UN figures, annual investments of five to seven trillion US dollars will be needed to achieve the 17 social development goals (SDG) by 2030. This estimate alone demonstrates that the financial sector will be closely involved. When it comes to safeguarding resources and opportunities for future generations, it has a key role to play. On the one hand, this applies to the allocation of outside capital. Banks can support this process of change, for example by no longer funding coal-fired power stations.

At the same time, sustainability can and should become a central parameter for the asset management sector. The transformation is in progress, and investors are increasingly resorting to "ESG" for capital allocation. This refers to environmental, social and governance topics. The question is how these criteria can be effectively and rigorously realised in a portfolio. In the past, it was enough for investors to exclude controversial sectors, such as for example armaments or tobacco producers. Today portfolio management goes further. Companies need to satisfy the most stringent ESG standards before their shares or bonds can be considered for a sustainable investment.

Such approaches serve more than just a good conscience. ESG investments need to generate stable returns over different time horizons. Under no circumstances should investors have to "pay" for their principles by accepting a lower performance. To achieve this goal, information is essential, in addition to portfolio management expertise – high-quality and extensive data is required to distinguish ESG star performers from the broader masses. However, an exemplary sustainability strategy is not enough on its own. In future, long-term success will also be crucially dependent on a company's financial and operative strengths.

The Swiss market for structured products is taking this change into account. Sustainable investment solutions are increasingly being offered by issuers – whether through equity indices with ESG filters or with third parties who wish to finance specific projects. Our industry has in the past repeatedly demonstrated its ability to respond quickly and flexibly to a changing environment. To this extent, ESG offers a tremendous opportunity, as the segment is very likely to become increasingly important within the market for structured products. At any rate, I am certainly looking forward to a fascinating and fruitful discussion of appropriate and promising solutions.