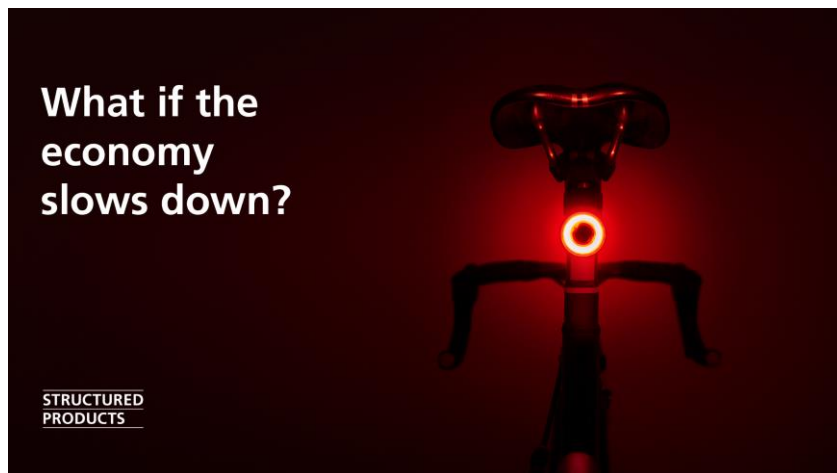


SSPA Newsletter February 2020



Turnover rise 6% in 2019 — Board complete with new Chairman and Board member

Since the last Newsletter, we are pleased to announce that a milestone has been reached and that personnel changes have been realised at Board level. As the new Chairman, I would like to thank our members and my fellow Board members for the trust they have placed in me and I look forward to assuming the SSPA chairmanship and, together with the Board members, representing and developing the interests of the structured products industry. I am also delighted that Thomas Wicki from UBS has joined our Board, enabling us to focus fully on the challenges that 2020 will bring.



As an Association, we have set ourselves the goal for 2020 of raising the profile of the interesting investment opportunities presented by structured products, and of making these more comprehensible to investors within a demanding market environment. In particular, this also includes pension fund representatives, for whom structured products have been easier to invest in since November. It was then that the wide-ranging SSPA cost transparency concept was recognised by the Occupational Pension Supervisory Commission (OPSC) after years of detailed preparation. This means a structured product is considered cost-transparent if the agreed cost information is made available to Swiss pension funds. The current SSPA Value Creation Report also supports this. We see a 6% increase in turnover for 2019 and are optimistic about the prospects for the current year. In the persistent low interest rate environment, yield enhancement products in particular are used to generate income and strengthen the investment portfolio.

In the current Newsletter we provide you with a review of this year's financial fair, encouraging turnover figures for 2019 and details about the cost transparency concept. In addition, we also update you on regulatory changes and would like to organise another InfoTalk in French-speaking Switzerland this year to give the community there a platform for food for thought, exchange and networking.

We hope you enjoy reading these pages!

Markus Pfister, SSPA Chairman

Markus Pfister takes over as Chairman & Thomas Wicki (UBS) becomes new member of the Board

At the end of October the SSPA Board elected Markus Pfister (Vontobel) as its new Chairman. Markus Pfister takes over as Chairman from Adrian Steinherr (UBS), who has left the bank to pursue new career opportunities.

Markus Pfister has worked in the field of derivatives and structured products in a variety of management positions for over 20 years, the last 15 years at Vontobel. Since the start of this year Markus Pfister has been Head Structured Products at Vontobel.



In order to fill the vacancy as quickly as possible, the SSPA Board elected Thomas Wicki (UBS) as a new Board member by cooptation on 13 December 2019. Thomas Wicki has in-depth knowledge of the structured products sector and has long-standing experience of institutional clients. With his broad range of professional skills and experience, Thomas Wicki ideally complements the expertise of the SSPA Board. He has worked for around 19 years in a variety of management positions at UBS in the field of structured products. He is currently responsible, as Head Equity Derivatives Sales Switzerland, for the overall activities of UBS involving structured products in Switzerland with Retail and Institutional Clients. Thomas Wicki was responsible, inter alia, for introducing Equity Investors, the electronic UBS platform for the design of bespoke structured products. In addition, Thomas Wicki has been involved for over 15 years on the industrial clients side of the business, and will be able to contribute his know-how to the work of the Board.

OPSC recognises the SSPA transparency concept for structured products

Swiss pension funds can now invest more easily in structured products

The comprehensive SSPA cost-transparency concept fulfils the requirements of the Directive “W-02/2103 Statement of Asset Management Costs” and was approved by the Occupational Pension Supervisory Commission (OPSC) in Berne on 21 November 2019. This means a structured product is considered cost-transparent if the agreed cost information is made available to Swiss pension funds. The SSPA welcomes this breakthrough in the transparency discussion with the OPSC. The use of structured products offers pension funds additional opportunities for performance and risk management to administer Swiss pension assets.

Structured products were previously regarded by many pension funds as not cost-transparent and therefore unattractive investment products. With its “Guidelines for Calculating and Disclosing the Cost of Structured Products”, the SSPA has been able to meet these concerns and now fulfils the OPSC’s cost criteria for the use of investment products in the occupational pensions field. These guidelines for issuers of structured products will enable pension funds to enter the cost of structured products in their operating accounts.

Comprehensive cost transparency thanks to daily updates of cost information by issuers

The revised guidelines are based on the calculation and disclosure of product costs pursuant to a European Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs Regulation). This

lays down the requirements for the calculation and presentation of the costs of structured products offered to Swiss pension funds. Essentially, a distinction is drawn between the categories of “one-off costs”, “recurring costs” and “ancillary costs”.

Issuers who offer structured product to pension funds undertake to make a current PRIIPS KID available to the pension fund when a structured product is bought. In addition, the issuer provides cost information, updated on a daily basis, on the SSPA website. This can be accessed by the pension fund free of charge. The criteria for the total cost indicator in the basic information document of a structured product and the presentation of the costs on the SSPA website constitute a comprehensive and unique disclosure to investors.



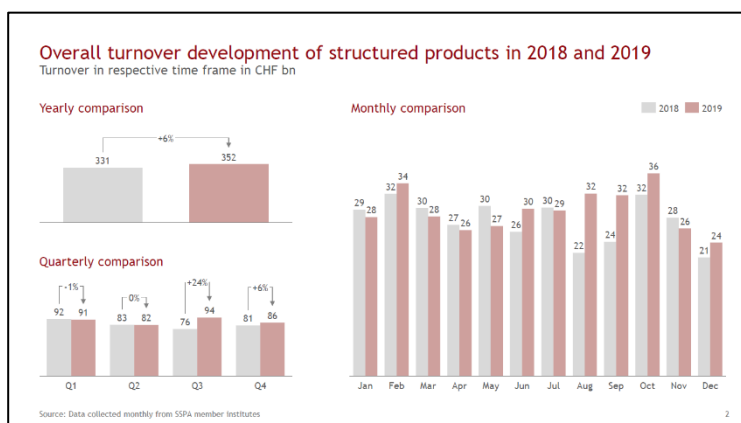
Structured products increasingly offering solutions to pension funds

Thanks to the recognised cost concept, the SSPA is now expecting the constructive exchange between issuers of structured products and Swiss pension funds to intensify further. This represents a further milestone in the efforts of our Association to improve transparency. The recognised concept enables issuers to meet the needs of pension funds as effectively as possible. In the current low-interest environment, we aim to use structured products to contribute towards long-term investment performance and the protection of Swiss pension assets. In future, pension fund managers and advisors will be even better informed about the possibilities and advantages of structured products.

Click here for the Guidelines on the Calculation and Disclosure of Structured Products and Explanations: <https://www.svsp-verband.ch/media/#section-guidelines>

Increase of 6% relative to 2018 – turnover in 2019 totalled CHF 352 billion

Turnover of Swiss structured products recorded by the largest SSPA members continued to rise in 2019. At CHF 352 billion, annual turnover was 6% or CHF 21 billion above the figure for the previous year. Compared to the same quarter of the previous year, turnover in Q4 2019 also rose 6% to reach CHF 86 billion. Yield enhancement products remain the most popular investment category (48%) and have increased slightly in year-on-year terms (2018): 46%). Equity (54%) and Foreign Exchange (26%) remained the predominant asset classes in 2019. Un-listed products continued to represent the great majority of sales, accounting for 63% (2018: 62%). The most important currencies, accounting for 88% of sales volume, are USD, EUR and CHF. Within the persistently low interest rate environment, yield enhancement products in particular are used to generate income and strengthen the investment portfolio.



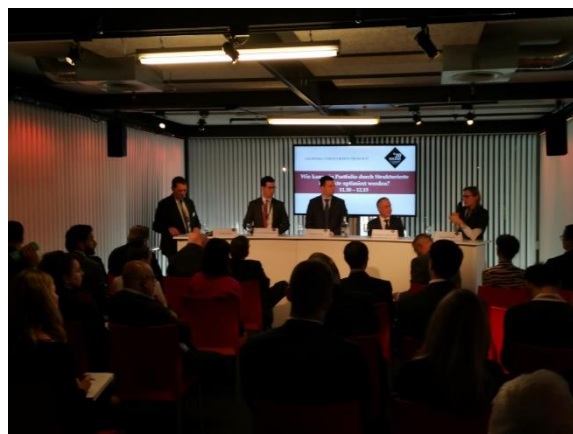
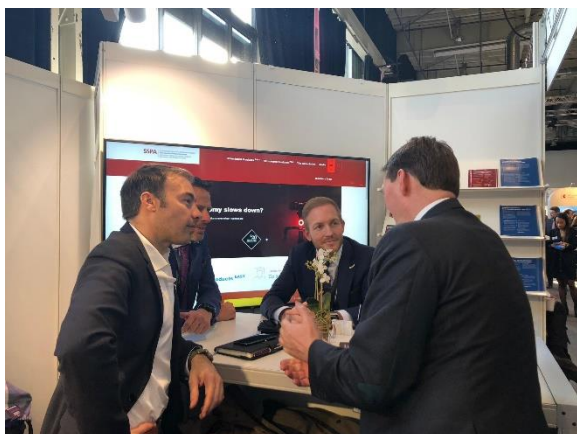
Finanz'20 - "Traditional values in a digital world"



The 22nd instalment of Switzerland's biggest financial fair closed its doors on 22 January. With over 170 national and international exhibitors and 3800 visitors, the fair attracted the Swiss financial sector with various panel discussions and key note speeches on modern money market theory, sustainable investments, the investment environment for pension funds, digitalisation and new technologies within the financial world. A rise of 20% relative to the previous year, and a new record.

Asset managers, private bankers, real estate investors as well as representatives of family offices and pension funds not only sought personal exchanges with the exhibitors, but also actively attended the varied supporting programme. A large number of round table discussions, specialist panels and expert talks were held under the fair's motto "Traditional values in a digital world". The SSPA also made an active contribution to the supporting programme with two panels: During the specialist panel chaired by André Buck (SIX) "How can a portfolio be optimised by structured products?", Irene Brunner (BNP Paribas), Giuseppe Caltabiano (UBP), Manuel Dürr (Leonteq) and Curdin Summermatter (ZKB) discussed attractive deployment opportunities for generating returns. Dominique Böhler (Société Générale), Heiko Geiger (Vontobel), Raimund Müller (UBS) and Sven Württemberger (DWS) debated whether ETFs and structured products should be seen as rivals or instead more as ideal complements to each other. Conclusion: it's all in the mix, and as a preventive measure in case the economy slows. The SSPA distributed bicycle lamps and tasty brain food amongst visitors to the fair.

Finanz'21 and Immo'21 are set to be staged in the new venue of Hall 550 in Zürich Oerlikon.





SIX Information – publication of term sheet information

As the National Numbering Agency, SIX Financial Information is responsible for assigning and allocating securities numbers and ISINs on the Swiss and Liechtenstein markets as well as Belgian securities identification numbers and ISINs on the Belgian market. National identification numbers as well as the ISIN ensure (unique) identification and are listed in the term sheets and issue prospectuses. Various issuers often distribute “provisional / indicative” term sheets, which usually contain provisional identification numbers, in order to sound out the response of the market. Depending on the level of demand, the internal issuing process will continue and the issue will be legally executed.

Only issuers (or contractually obliged third parties) send term sheets to Connexor

This “indicative” term sheet information often reaches competitors, who enter it in their systems at this early stage and consequently distribute it before publication at SIX Financial Information (SFI). Investors who are required to subscribe and settle such “indicative” issues during this preliminary phase have therefore contacted SFI and complained about the “overdue” publication of the term sheet information in SFI systems. They require the reference data from SFI in order to process the transaction in a timely manner.

SFI will no longer be opening instruments on behalf of third parties

Various banks have subsequently asked SFI to open such instruments and to publish the data, even at the request of third parties. If SFI were to allow third party openings in the Swiss market, the data would not be “issuer approved”, which is not contractually regulated (liability issues). In addition, the automated distribution of product event data would be severely impaired. This could also give rise to the situation where a security number reserved in advance by the issuer can no longer be used because another security number has already been assigned on the basis of a request from a third party.

SIX therefore considers it useful to require issuers to transmit term sheet information to SIX via CONNEXOR-IBT before or at the latest at the same time as the “indicative” market publication, so that publication in SIX products can take place in a timely manner.

Update legal & regulations

Status FIDLEG/FINIG

Date on which these are set to come into force, and transitional provisions

As previously announced at the beginning of November 2019, the Swiss Financial Services Act (Finanzdienstleistungsgesetz – “FIDLEG”) and the Financial Institution Act (Finanzinstitutsgesetz – “FINIG”) as well as their executing ordinances came into force on 1 January 2020. It is apparent that certain proposed amendments to the draft regulations have been adopted. These were introduced on the basis of feedback received from the financial sector during the consultation procedure on the draft FIDLEV. These amendments are broadly in line with the SSPA proposals and are intended to provide clarity and legal certainty in practice.

The main changes include in particular the extension of important transitional periods, which in most cases now amount to two years. An extension of the transitional period to two years was introduced as a result of the consultation procedure for, amongst other things, client segmentation, the required knowledge of client advisors, rules of conduct, organisational obligations and the basic information sheet (BIS). Following the positioning and efforts of the industry and the Association, a compromise has been reached on the obligation to publish a prospectus: a de facto nine-month transitional period is now applicable. In the case of securities offered to the public or approved for trading on a securities exchange after the FIDLEG has come into force, there is a transitional period of six months from the date of FINMA’s approval of a receiving body– however an approved FIDLEG prospectus must be published from 1 October 2020 at the earliest. Based on the assumption that SIX Exchange Regulation and BX Swiss will be approved by FINMA as receiving bodies by the end of March 2020, 1 October 2020 will be the starting date for the FIDLEG prospectus. A transitional period of two years applies to securities for which a public offer has been made or approval for trading was been applied for before the FIDLEG entered into force. The principal aspect when it comes to transitional periods is that, unlike the obligations explained above, no specific transitional period has been indicated for the provisions on advertising. This means the new rules on advertising (advertising has to be recognisable as such or be labelled accordingly) probably already need to be complied with today.

FIDLEG prospectus

Probably the most important innovation for issuers and distributors of structured products is the transition from the liberal regime of the Collective Investment Schemes Act (Kollektivanlagengesetz – “KAG”) – which only required a simplified prospectus for the distribution of structured products – to the general, product-neutral prospectus requirement for securities pursuant to the FIDLEG. Anyone making a public offer to purchase structured products in Switzerland or applying for structured products to be admitted for trading on a securities exchange are now required to publish an approved prospectus in advance. In respect of content and structure, the regulations establish clear and detailed guidelines. It is essentially the case that prospectuses need to be submitted to a receiving body approved by FINMA for review and approval prior to publication and subsequently deposited with the

same receiving body. FIDLEG however also provides for numerous exemptions from the prospectus requirement.

No receiving body has been approved by FINMA to date. However, it is likely that the SIX Exchange Regulation AG and BX Swiss AG, which submitted a corresponding application last year, will be approved as prospectus auditors during the 1st quarter of 2020.

Basic information sheet (BIS)

Irrespective of the obligation to publish a prospectus, a BIS now also needs to be prepared and made available in advance if a structured product is offered to private clients. This is a document modelled after the PRIIPs KID that is familiar to us from the EU. It contains an outline of the most important product information and is designed to present this in language that is easy to understand for all private clients. Due to the fundamental equivalence of the BIS/PRIIPs KID concepts, PRIIPs KIDs are recognised in Switzerland as equivalent documents and may be used in place of a BIS. This applies irrespective of whether the product in question is also to be offered in the EU. FIDLEG and FIDLEV also contain clear requirements regarding the content and structure of information in respect of the BIS.

With regard to the requirements for the provision of the BIS, the provisions on the financial service provider's duty to provide information need to be observed, whereby the latest FIDLEV amendments have also made important clarifications in this respect. Within this context, it is particularly important to clarify the necessary procedure for execution-only transactions. In these cases, a BIS only needs to be presented if a BIS actually exists. This is the case if the BIS can be provided at a reasonable cost. It is also worth mentioning the provision which establishes that, even in the case of execution-only transactions, the BIS can be made available to private clients with their consent only after the transaction has been concluded.

The aforementioned changes in the final version of the Ordinance last autumn also extended the BIS transitional period. When it comes to structured products, this means, as mentioned above, that for two years after the FIDLEG comes into force, product manufacturers may continue to produce a simplified prospectus within the meaning of the (old) KAG instead of a BIS.

The current SSPA work is intended to help ease the transition to BIS. The “Legal & Regulation” working group is preparing a template for the creation of standardised BISs.

Advertising

In the field of advertising, the new statutory provisions also establish significant innovations. This means financial service providers and other providers of structured products may continue to produce and publish appropriate advertising material, although such documents must now comply with clear new requirements. These are the clear recognisability and/or designation of the advertising material as such, the reference to the prospectus and BIS as well as to the relevant source of these documents, and the correspondence of the information with the details set out in the prospectus and BIS.

It is to be welcomed that the Ordinance clarifies the question of what qualifies as advertising within the meaning of the FIDLEG. The term covers any communication addressed to investors that aims to draw attention to specific financial services or financial instruments. The breadth of the term is qualified by a negative catalogue in which it is stated that certain information is not in itself deemed to

constitute advertising (e.g. reports on issuers, transactions or industry media reports). The unconvincing and problematic ban on advertising unauthorised financial instruments or financial instruments that do not correspond to the client profile has been removed from the wording of the Ordinance.

Status of AMC principles / recommendations

AMC recommendations prepared by the “Legal & Regulation” working group were finalised and presented to the Board of the SSPA for approval in December 2019. The Board has now approved these and decided that they are to come into force on 1 April 2020. This means issuers have sufficient time to familiarise themselves with the AMC recommendations and to implement them accordingly. The AMC recommendations are published on the SSPA website.

The AMC 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.

Inter alia, the AMC advisor should confirm in writing that he uses an established control system to monitor the performance of the AMCs. He moreover undertakes to disclose to the investor the key data of the pursued investment strategy, taking particular account of the following elements:

- Which investment categories and financial instruments are permitted to be integral parts of the investment strategy;
- Whether the prospective strategy includes leverage;
- Who decides on the composition and restructuring of the underlying security, and how often the underlying security may be restructured;
- Where the current composition of the underlying security can be retrieved, or from whom it can be obtained;
- Whether significant investment restrictions exist;
- Whether diversification rules exist;
- Fees

The specified fees must be reported transparently and in a comprehensible manner. The multiple compensation of the AMC advisor, so-called double-dipping, is not permissible. The separation of responsibilities between the AMC advisor and the issuer must be clearly defined and disclosed to the investor.

Status of the SSPA sample distribution agreement

The project pursued by the “Legal & Regulation” working group to develop a model distribution agreement for the financial sector and SSPA members is continuing to make progress. The sample distribution agreement is being prepared initially in the English language. Ultimately, though, it will be made available in German as well as in English. The aim is to ensure a fair balance of interests between the issuer and the distributor – for this reason the template is to be formulated in the most neutral possible manner. SSPA members may use the sample agreement on a voluntary basis, and may also tailor this to meet their individual needs. A broad application will be beneficial, however, in order to establish a market standard.

Review of the Finanz und Wirtschaft Forum “Structured Products 2019”

During the second Finanz und Wirtschaft Forum on Structured Products at the Gottlieb Duttweiler Institute, investors discussed key issues relating to structured products and explored the latest investment trends in greater depth. For example, Prof. Dr. Marc Oliver Rieger, Banking and Finance University of Trier, spoke on “Structured products – the icing on the cake”. A panel consisting of Conrad Bruggisser (Credit Suisse AG), André Buck (SIX), Nicolas Peter (Aquila AG) and Martin Roth (Manor Pension Fund) closely examined the various possibilities of using structured products in portfolios. Further panels and group discussions offered opportunities for an exchange of ideas and provided new insights.



“Expert View” – Women in Finance – or not?

A look at the structured products sector by Irene Brunner, BNP Paribas (Suisse) SA



Numerous studies have examined the matter and reach the same conclusion: Companies with a well-diversified workforce and balance between men and women are on average more innovative and also achieve better results when compared to their less diversified peers. This topic was made eligible for investment several years ago. Structured products focusing on companies that perform well in terms of diversity criteria are already available from some issuers. But what about market participants themselves?

A precise analysis of the status quo of many Swiss banks and financial service providers is sobering. Women in middle and senior management are few and far between. This does not mean, however, that nothing is being done to tackle the problem. While many companies have

indeed recognised the topic of diversity as strategically important, there is still often a lack of practical implementation. Even with a comprehensive diversity programme, the measures will not have the desired effect overnight. The goal is usually to establish a higher proportion of women in lower management, which over time will then spread through middle to senior and top management. According to the Advance & HSG Gender Intelligence Report of 2019, an important criterion for success here is to eliminate “unconscious bias”, i.e. the unconscious bias that ensures that men are better rated for promotions and staff appraisals.

You only know how big a problem is once you have quantified it, in other words when you stop talking about it and start measuring it. The BNP Paribas Group, for example, has set itself a target of 25% women on its Executive Committees and over 30% in senior management positions. The Bank is also partnering the UN campaign “HeForShe”, which promotes gender equality around the world by endeavouring to mobilise men to work for this cause.

Two out of six members of the Board of the SSPA are women. This suggests we should be more innovative and achieve better results than other associations that are worse positioned in this respect. I personally hope, above all, that we can set an example and show young (female) talent within the industry that anything is possible!

Further information about HeForShe is available under <https://www.heforshe.org/en>.

A self-test on the topic of “unconscious bias” can be retrieved under the following link: http://genderiq.pwc.com/story_html5.html

Coming events – SSPA goes Romandy – InfoTalk in Geneva

The SSPA has not only set itself the goal of representing the entire value chain from issuers, buy-side and partners to markets, but also of raising its profile throughout Switzerland. For this reason, the next traditional InfoTalk will be held on 07 April in Geneva. We look forward to presenting the Association’s activities in detail, but also to interesting insights from our keynote speaker – we don’t want to spoil the surprise – as well as extensive networking, for which there will be plenty of opportunities over drinks and snacks.