

SSPA Newsletter November 2016



Happy Birthday SVSP – the industry association celebrates its 10th anniversary

With its 10th anniversary on 4 April 2016 the association reached a milestone in its history: it gives us great pride to look back over the achievements of the past decade. At an anniversary event held on 2 November we celebrated the first decade and thanked our members as well as all associates for their trust and support – this was a varied & successful event.



The current Newsletter contains impressions of the evening. We are looking forward to the next ten years of the SSPA!

Our attention lies inter alia on actively broadening the coverage of the association and boosting the representation of the entire output chain. In addition to issuers and the stock exchange, association members also include distribution partners, technology service providers as well as other partners, and we are delighted that the association is continuing to grow and now has 27 members from all parts of Switzerland.

We are also focusing on the possible use of structured products in pension funds – a topic that is being increasingly raised in the current environment with its dearth of investment opportunities. We aim to contribute proactively to the discussion as an association and industry, highlighting strategies that can be used by pension funds to deploy structured products, and detailing how these offer additional value within a portfolio context.

The Association also contributes actively towards regulatory topics – in recent months the SSPA assessed the new regulatory requirement in great detail, discussed possible industry solutions with its members and informed them in the Newsletter about the current situation regarding FIDLEG/FINIG, PRIIPs as well as 871(m), which is set to come into force on 1 January 2017.

Georg von Wattenwyl, SSPA Chairman

Happy Birthday SSPA – over 350 guests celebrate the 10th anniversary of the industry association



The SSPA was founded ten years ago for the purpose of representing the collective interest of issuers. With the aim of proactively shaping operating conditions for structured products in Switzerland's financial centre, it has continued to develop into a comprehensive industry association, and has established itself as a valued interlocutor for all issues concerning the industry. The SSPA marked its 10th anniversary in a befitting manner in the company of over 350 members, industry insiders, journalists, affiliates and representatives of non-domestic structured products associations in the Aura in Zurich until the early hours of the morning.

In his address, Herbert Scheidt, the new Chairman of the Swiss Bankers Association, praised the SSPA as an innovative association that had also mastered difficult times. The association has even set international standards with the Swiss Derivative Map and Cosi products. In view of these achievements, the SSPA is a standard-bearer for the Swiss financial centre. Herbert Scheidt wished the association and the industry many further successful years, and underscored his congratulations with a fabulous birthday cake and an impressive fireworks display.



The current and former Chairmen Georg von Wattenwyl, Daniel Sandmeier and Roger Studer presented a witty review of their tenures, provided the presenter Annina Campell and the guests with interesting anecdotes, and supplied fascinating insights into 10 years of the association's wide-ranging activities. The spellbinding and at times incredible body control of the internationally celebrated contortionist Nina Burri rounded off the unforgettable anniversary event. Click through impressions of the 10th anniversary party:



International Structured Products Forum Lucerne 2016 – international cutting-edge sector meeting

The established meeting of the sector was held this year on 7 and 8 September, with Lucerne again serving as the venue. 85 participants from Switzerland and abroad used the event to exchange views and opinions. With an attractive and varied programme, SIX Structured Products and SSPA supplied "food for thoughts" within a market environment that is characterised by political and regulatory uncertainties.

In the current persistently low interest environment, structured products could become an increasingly interesting investment vehicle for pension funds. For this reason, their deployment was discussed in detail by the inaugural panel comprising Sebastian Frehner (National Councillor, Canton of Basel), Marco Bagutti (Occupational Pension Contingency Fund) and Dr Vera Kupper Staub (Federal Supervisory Commission for Occupational Provisioning). SSPA Chairman Georg von Wattenwyl hosted the interesting debate, which addressed amongst other things the possibility of using structured products to implement the 2020 pension and retirement reform. Pension funds can already use structured products as alternative investments. At present, they are deployed only very sparingly. For this reason, the sector needs to make new proposals to promote the broad deployment of structured products in the field of retirement provisioning. The association will be addressing this topic intensively in future.



There were topical keynote speeches. Jörg Bode (Leoteq Securities Ltd.) addressed the issue of the extent to which FinTech and digitalisation are revolutionising the financial sector, while Alain Bigar (Leoteq Securities Ltd.), examined which regulatory innovations and changes are likely to be brought about by 871 (m).



A number of workshops enabled participants to discuss topical issues and projects. They were able, for example, to test the new SSPA app – the SP Portfolio Optimizer – which will be officially launched at the beginning of 2017. The results of a survey conducted amongst 190 investors and 57 client advisors on the image and in particular the name "structured products" were discussed with participants. The study

showed, inter alia, that the name had positive connotations and is considered dynamic and innovative by structured product investors. The Lawyers Workshop examined current regulatory aspects of the sector, and provided an update on topical questions such as PRIIPs regulation, as well as the most important aspects and possible solutions for the new Ordinance 871 (m) of the American IRS.

EUSIPA Secretary General Thomas Wulf cast a look at the European environment in his speech "Inside Brussels", examining pan-European developments and trends. Zak de Mariveles (UK Structured Products Association) focused on current events in Great Britain, and took a humorous look at the sometimes significant differences between the structured products fields on both sides of the English Channel.

Next September will see another "International Structured Products Forum". Details will be made available at the appropriate time. At any rate, 6 & 7 September 2017 should be noted in your diaries.

Update Legal & Regulations

FIDLEG/FINIG

On 3 November 2016, the Swiss Council of Estates Committee for Economic Affairs and Taxes [Wirtschaft und Abgaben Kommission – "WAK"] completed its consultations on the Swiss Financial Services Act ["FIDLEG"] and the Swiss Financial Institution Act ["FINIG"] and published the white paper with the proposed amendments. Fortunately, a large proportion of the amendments that the industry wanted to see were adopted. The Swiss Council of States will discuss the proposed legislation during the winter session, and is likely to approve the proposed amendments. It is our assumption that the National Council's WAK will discuss the proposed legislation during the first quarter of 2017. Parallel to this, work will begin on the associated FIDLEG/FINIG ordinances.

PRIIPs

On 9 November 2016, the EU Commission proposed delaying the introduction of PRIIPs by 12 months, to the new date of 1 January 2018. While the deferral has yet to be approved by the EU Parliament and European Council, this is likely to be just a formality, as both the Parliament as well as the large majority of member states spoke out in favour of a delay. The Association is continuing its work in relation to PRIIPs in the various working groups.

Hearing on the draft FINMA Circulars in the field of securities trading

On 9 November 2016, within the imposed deadline, the Association issued its response to the draft FINMA Circulars "Securities Journal" ["Effektenjournal"], "Securities Transaction Reporting Obligation" ["Meldepflicht Effetengeschäfte"] and "Organised Trading Systems" ["Organisierte Handelssysteme"]. In this conjunction, the industry called in particular for greater detail about the reporting obligations and the applicability of the rules governing organised trading systems to the field of structured products.

871(m)

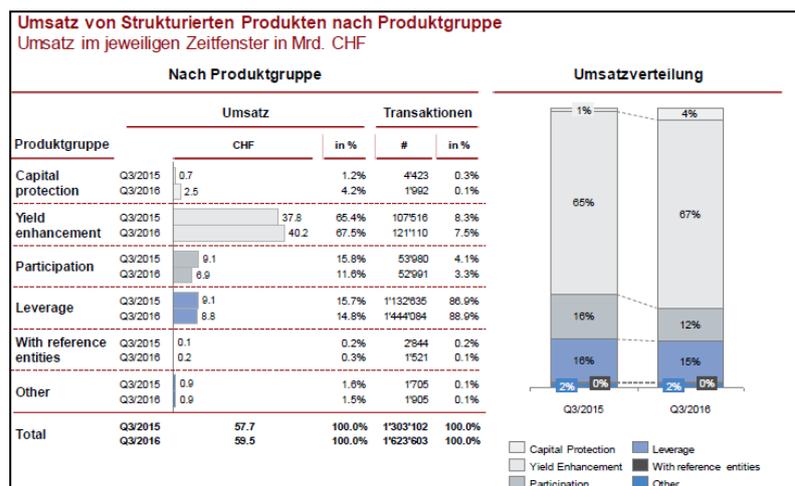
A US regulation that has become known under the pseudonym 871(m) is set to come into force on 1 January 2017. This will introduce a withholding tax on so-called "dividend equivalent payments". The tax relates to dividend-linked revenues that non-US investors generate by investing in certain financial instruments relating to US equities (certain qualified indices are excluded). Certain structured products will also be subject to the new US tax, irrespective of where the issuer is domiciled, where the structured products are sold, and what laws these are governed by. It is still unclear whether the enactment of parts of these regulations will be delayed by 12 months, or for which financial instruments (most probably only Delta 1 products) the rules will be applicable from 1 January 2017. In recent months, the SSPA has been assessing the new regulatory requirements in detail, and has been discussing possible industry solutions with its members. A memorandum is currently being drawn up, showing the legal situation and possible solutions regarding 871(m).

Q3 sales slightly below the figure for the previous year – consistently high demand for yield-optimisation products

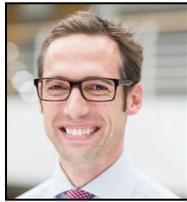
Statistics on the value added generated by the issuers of structured products in Switzerland has been published quarterly since the beginning of 2016. The products are traded nationally and internationally, and the statistics take account of listed as well as unlisted structured products. This provides a comprehensive overview of the Swiss market.

Important insights (Q3 2016):

- At around CHF 53.7 billion, in year-on-year terms total quarterly turnover were 2.9% below the figure for Q3 2015.
- There were only minor year-on-year shifts in product groups as a percentage of the total: Once again, yield-optimisation products accounted for the lion's share at 65%, followed by leverage products (16%). Despite a relative year-on-year decline of 24%, participation products formed the third largest category with a share of 13%.
- Compared to the previous year, capital protection products recorded relative growth of 262%, whereby sales remained stable relative to Q2 2016.
- Currencies and equities remain the most frequently used underlying assets. In the case of currencies, the previous year's figure of 41% has now risen to 46%, meaning that this now represents the largest single investment class. Relative to the previous year, the ratio of equities fell from 48% to 42%. Fixed income increased by more than 127% relative to Q3 2015, boosting its relative share of the total to 6%.
- Unlisted products accounted for 71%, representing a large majority of Swiss structured products. This corresponds to a 2% rise relative to Q3 2015.
- Around two-thirds of sales (65%) are generated in the primary market, while transactions are almost exclusively executed on the secondary market (nearly 96%).
- CHF, EUR and USD serve as the main currencies for Swiss structured products, comprising 86% of sales: Following its strong rise relative to the previous year (30%), the EUR is now the principal currency, accounting for 35%, along with the USD (likewise 35%). In year-on-year terms, the CHF's share declined from 19% to 16%.



Adrian Steinherr new SSPA Committee Member – Georg von Wattenwyl and Thomas Schmidlin re-elected



At their September meeting, SSPA delegates elected Adrian Steinherr, Co-Head Equity Derivatives Sales Switzerland and Head Equity Derivatives Sales Trading Switzerland, UBS, to the Committee. He is succeeding Patrick Grob, UBS, who decided not to put himself up for re-election due to his new responsibility for Capital Markets & Banking Products at UBS Wealth Management.

Thanks to his long-standing activities in the structured products business, Adrian Steinherr has wide-ranging knowledge of the sector. Before working for UBS, he was Head of Structured Product Sales for Switzerland and Israel at Citigroup.

Delegates confirmed the existing Committee members Georg von Wattenwyl and Thomas Schmidlin for a further two years. The function of Georg von Wattenwyl as Chairman and of Philipp Rickenbacher as Deputy Chairman were also confirmed.

swissQuant and NKF new SSPA members

The inclusion of swissQuant and NKF in the summer as new partner members represents a further step in towards ensuring the broadest-possible industry representation.

Nathaniel Zollinger, Head of Derivatives Applications at swissQuant, on the SSPA membership: "Well-founded financial decisions require reliable analyses, precise forecasts and the continuous adjustment of strategic options. We model dynamic systems in order to simulate a broad pallet of complex scenarios – including to support the SSPA's call for stronger know-how transfers. This means our membership underscores our commitment to structured products. We are delighted to be part of the successful continued development of the sector."

Luca Bianchi, Senior Associate at Niederer Kraft & Frey, responded as follows on the decision to join the SSPA: "As a firm of law consultants, we are very active in the structured products sector. Membership of the SSPA enables us to work not merely for our clients. We are also able to contribute our experience and wide-ranging insights as a partner, benefiting the industry association, strengthening our involvement in the Swiss financial centre and advancing the entire structured products industry."

FINANZ'17 – "Creative Concepts"

The third FINANZ'17 will be held on 1 & 2 February 2017 at Kongresshaus in Zurich – this is the joint financial fair for investment funds and structured products – motto: "Creative Concepts".



In the current volatile environment, investors are searching for new opportunities and "creative concepts" to generate a reasonable performance and yield, while at the same time exposing themselves to minimal risks, in the era of negative interest and unsettled markets. Make a note of the date at the beginning of February 2017. We are looking forward to meeting you at the Association's fair stand in the Kongresshaus in Zurich.