SVSP Schweizerischer Verband für Strukturierte Produkte
Swiss Structured Products Association
Associazione Svizzera per prodotti strutturati
Association Suisse Produits Structurés

SSPA Newsletter March 2017

Launch of «SP Portfolio Optimizer» – SSPA sets new industry standard

SSPA marked its tenth anniversary – and remains in fine fettle. We have warm memories of our anniversary event in November, and look back at a successful year 2016 for the Association. The Swiss structured products sector also enjoyed a strong year, despite the difficult environment. The industry's turnover, at around CHF 226 billion, was slightly below the result of CHF 231 billion rec-orded in the previous year. 2016 saw particular demand for the capital protection (+3%), yield en-hancement (+3%) and leverage (+2%) product groups. Amongst asset classes, there was a shift away from equities (-6%) to currencies (+3%), while fixed income doubled from 4% in 2015 to 8% in 2016.

Having celebrated the first SSPA decade with numerous party guests, the Association is now starting its next decade with renewed élan. We are determined to drive the Swiss financial centre and the structured products industry forward, to provide impulses and to set industry standards – for exam-ple with our newly-launched structured products app, the "SP Portfolio Optimizer". This provides support for the search for yield in the current difficult environment, and shows in a simple and easy-to-understand manner what added value the inclusion of structured products in a portfolio can gen-erate. In this conjunction, we deliberately focus on the use of structured products within the portfo-lio context, and address investment advisors, asset managers and private investors, in order further to improve broader understanding and transparency concerning structured products.

Now with over 30 members, the Association is successively broadening its appeal across German-speaking, French-speaking and Italian-speaking Switzerland. In addition, we are actively engaging in current discussions, such as for example on regulatory topics or yields in the pension fund segment, in order to underscore the opportunities presented by structured products. You will find further structured product news in the current Newsletter.

Georg von Wattenwyl, SSPA chairman

SSPA launches «SP Portfolio Optimizer» – an app that vividly shows how to make profitable use of structured products in a portfolio context

SSPA has developed in close collaboration with swissQuant a bespoke app – the "SP Portfolio Optimizer". This app provides relationship managers and investors with a simple and comprehensible tool to illustrate the added value of structured products in the portfolio.

In the current challenging environment with its negative interest rates and paltry returns, structured products can be used profitably in a portfolio context. The «SP Portfolio Optimizer» gives rela-tionship managers and private investors a new take on the big potential and the possibilities for systematic use of structured products in portfolios. They can then optimize their personal portfolio or that of their customers by adding structured products. The newly launched app makes it possible to simulate different model portfolios and various market scenarios. The «SP Portfolio Optimizer» is available for iPad and can be downloaded for free at the App Store.

SSPA wants to give client advisors, wealth managers and private investors a simple and comprehensible way to see for themselves the added value of structured products in their portfolio with the new app. After all, solid financial decisions require reliable analyses and precise forecasts that allow strategic options to be explored and profitably adjusted. The simulation of a broad range of complex scenarios enables the active transfer of expertise and underpins transparency of structured products. Thus, the association sets new standards.

Discover, how the «SP Portfolio Optimizer» works in its new video.

Download the app for iPad here for free.

FINANZ'17 – «Creative Concepts»

This year marked the 19th time that the largest Swiss financial fair opened its doors – FINANZ'17 took place on 1st and 2nd February 2017 at the Kongresshaus in Zurich. Over 100 exhibitors and numerous financial experts from Switzerland and abroad presented new trends in the funds and structured products industry as well as in real estate investments and attracted around 6300 visitors.

Under the trade fair motto «Creative Concepts», recipes were presented with which one can safe-guard or augment one's assets in times of low or even negative interest rates and challenging mar-kets. The numerous specialist lectures and round-table discussions – including on structured products – also attracted interest. SSPA Chairman Georg von Wattenwyl took part in the panel "Active versus Passive", and set out the potential and the ways in which structured products can be deployed. The brand-new «SP Portfolio Optimizer» was presented to the public at the open forum «How structured products enhance your portfolio – test the new SSPA app!». This was available for live-testing directly alongside the SSPA stand. The open forums «Structured Products as Portfolio Component» and «Ask the Structured Product Experts» provided additional opportunities to obtain information – along with personal discussions with experts at the SSPA stand.

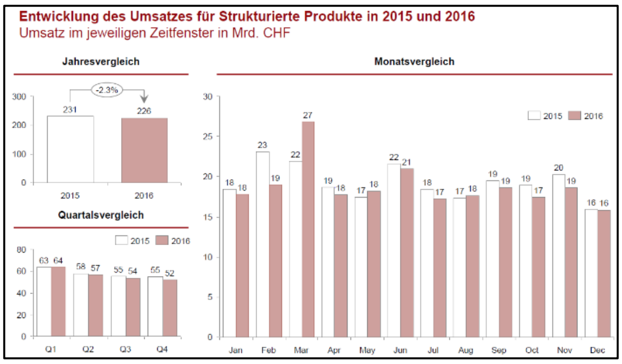
As Kongresshaus will be closing its doors this summer for a major three-year conversion and renovation, FINANZ'18 will take place in the new «Halle 622» in Zurich-Oerlikon from 31 January to 1 February 2018.

Get some impressions:

Value Creation Report of the SSPA: Q4 2016 turnover slightly below the figure for the previous year – consistently high demand for yield-optimisation products

In the fourth quarter of 2016, turnover of Swiss structured products reached CHF 51.9 billion. This means the value creation of the largest SSPA issuers fell by 5.9% relative to the previous year. Demand for yield optimisation products remained strong, accounting for about 61% of the total. 45% of all products are based on equity products, followed by currencies at 43%. Fixed income increased by more than 109% relative to Q4 2015, boosting its relative share of the total to 10%. Unlisted products accounted for around 71% of output.

2016 performance versus 2015:



- At around CHF 226 billion, in year-on-year terms total quarterly sales were 2% below the figure for the previous year of CHF 231 billion.
- In respect of the product groups, Capital Protection (+3%), Yield Enhancement (+3%) and Leverage (+2%) recorded year-on-year gains. This came above all at the expense of Participation (-7%).
- Amongst asset classes, there was a shift from equities (-6%) to currencies (+3%), while fixed income also doubled from 4% in 2015 to 8% in 2016.

Important insights (Q4 2016):

- At around CHF 53.7 billion, in year-on-year terms total quarterly sales were 5.9% below the figure for Q4 2015.
- There were shifts compared to the previous year in product groups as a percentage of the total: Once again, yield-optimisation products accounted for the lion's share at 61%, followed by leverage products (16%). Despite a relative year-on-year decline of 31%, participation products formed the third largest category with a share of 13%.
- Compared to the previous year, capital protection products recorded relative growth of 89%, corresponding to a rise of 86% relative to Q3 2016.
- Equities and foreign currencies remain the most frequently used underlying assets. Equities now account for the largest share of asset classes at 45%, whereby the respective figure for the previous year was 47%. Relative to the previous year, the ratio of currency products fell from 43% to 40%. Fixed income increased by more than 109% relative to Q4 2015, boosting its relative share of the total to 10%.
- Unlisted products accounted for 71%, representing a large majority of Swiss structured products. This corresponds to a 1% decline relative to Q4 2015.
- Around two-thirds of sales (65%) are generated on the primary market, while transactions are once again almost exclusively executed on the secondary market (nearly 96%).

- CHF, EUR and USD serve as the main currencies for Swiss structured products, comprising 85% of sales: Following a modest rise relative to the previous year (34%), the USD is now the principal currency, accounting for 36%. In year-on-year terms, EUR and CHF declined to 33% and 16% respectively.

«Structured Products go Pension Funds»: systematic use of structured products for an efficient portfolio

In turbulent times with negative interest rates and high volatility, investors in general – and pension funds in particular – face considerable challenges when it comes to generating yields. It is already the case today that 28% of all bonds in industrialised nations generate negative yields. This consequently means the yield crisis is leading to heightened pressure and is imposing greater demands on asset managers – the rigorous deployment of modern investment instruments such as structured products is an ideal way to supplement portfolios and generate yield.

For with a promise to pay, structured products provide more than just a promise to perform, and for this reason can help a pension fund to achieve a specific yield objective with a high degree of certainty. Typical pension fund asset allocations are currently distributed between equities, bonds, alternative investments and real estate. Yet structured investment solutions are deployed today – if at all – almost exclusively in the field of alternative investments. They are mostly deployed in order to obtain access to a specific underlying asset, such as for example a commodity. It is possible to take a step further, however, for their characteristics mean that structured products can also boost portfolio efficiency in liquid classes such as equities and bonds, through targeted alternative strategies. This may take the form of the targeted exploitation of risk premiums, or the use of solutions with payout profiles, with which certain market expectations and investment requirements can be profitably combined.

At present, structured products are deployed only very sparingly by pension funds. While investment guidelines for occupational pension provisioning («BVV2») essentially permit their deployment – their full potential is still not being used. For this reason, the SSPA has launched a transparency and information initiative, and is keen to engage in active dialogue with pension fund managers and public authorities, highlighting the move towards greater transparency & clarification as well as the various potential applications and products, in order to correct misconceptions. For the category «assets with non-transparent costs» in annual reports of pension funds is no longer an accurate description for structured products. In today's challenging environment, pension funds are more entitled than ever to expect the professional and efficient investment of money that has been entrusted to them – including or in particular when it comes to structured products.

Update Legal & Regulations

LSFin/LEFin

The Council of States was the first parliamentary body to debate the statutory instruments FIDLEG/FINIG in the end of 2016 – a minority drawn from the SP and CVP parties successfully argued for a statutory reversal of the burden of proof for prospectus and BIB liability. In the view of the SSPA, however, tightening the prospectus liability provision does not actually solve any problems: In the case of past claims for damages, the prospectuses were correct; the advice was wrong. For this reason, the SSPA is arguing that this should be corrected by the National Council. The Economic Commission of the National Council began its consultation – although the laws were originally planned to come into force on 1 January 2018, this is no longer realistic. FIDLEG and FINIG are likely to come into force on 1 July 2018, whereby FIDLEG is expected to be introduced in a number of stages.

PRIIPs & MIFID2

The EU PRIIPs Regulation – and with it the introduction of standard product information sheets (so-called «KID») for «packaged products» – will definitively come into force in January 2018, coinciding with the start of the MIFID2/MIFIR regulatory package. From the perspective of the industry, this is to be welcomed. The technical implementation provisions (so-called «RTS») have yet to be submitted. These were rejected by the EU parliament at the end of last year on the grounds that they need further revising, above all in respect of insurance products.

The planned enactment MIFID2 Directive also raises many detailed questions. The most obvious, at present, is the issue of how the target market for financial products marketed to private clients needs to be defined. Together with the European umbrella association EUSIPA and other national associations, the SSPA positioned itself here clearly at the beginning of January. The EUSIPA clearly stated that the definition of the target market should not cause distribution channels to be restricted. Even in the case of more complex products distributed only amongst a limited circle of investors, it still needs to be possible to order these products online on individual investor initiative.

Another sensitive issue is the interaction between MIFID2 and PRIIPs – for example the target market defined in accordance with MIFID2 needs to be specified in the PRIIPs-KID document. The industry will also need to ensure that the disclosure of costs pursuant to PRIIPs and MIFID2 is realised using uniform rules.

Section 871(m)

On 1 January 2017 a US regulation came (partially) into force known by the pseudonym 871(m), which will introduce a withholding tax on so-called dividend equivalent payments. The tax relates to dividend-dependent revenues that non-US investors generate by investing in certain financial instruments that relate to US equities (excluding certain qualified indices). Structured products are also subject to the new US tax, irrespective of where the issuer is domiciled, where the structured products are sold and which legal system these are governed by. As at 1 January 2017, only Delta 1 products are subject to the withholding tax pursuant to Section 871(m). For all other structured products that are covered by Section 871(m), the withholding tax applies from 1 January 2018. 2017 and 2018 have been designated «phase-in years», during which the IRS will take account of «good faith efforts» in respect of adherence to Section 871(m). The SSPA has been working closely on the new regulatory requirement for some time, and has also been addressing how this can be implemented. In this conjunction, the SSPA prepared a memorandum and circulated this amongst its members on 20 December 2016. This document sets out the legal situation, and makes recommendations in respect of implementation of Section 871(m). When it comes to implementation, however, a number of uncertainties remain. The topic remains on the SSPA's agenda, and the Association is determined to support its members here and to provide a forum for discussion.

Five new members for SSPA

The admission of five new members since the beginning of the year underpins the next step towards a broad-based sectoral association – the association newly counts 31 members.

Steve O'Hanlon, CEO at Numerix, explained the reason for joining SSPA as follows: «Our dominance in structured products technology speaks to how Numerix is looking to differentiate in the marketplace by bringing core and critical components together in a cross-asset infrastructure. As we are active in continuing to expand our business in Switzerland and other surrounding financial centres – these efforts are underscored by our membership in the association.»

Maurice Picard, CEO of Picard Angst, issued the following statement about joining the Association: «We aim to offer our clients tailored, innovative solutions. Particularly in the current environment, structured products offer interesting opportunities to take account of new requirements and market developments. As active solution providers, we are keen to help shape the Swiss financial centre, thereby contributing our know-how as effectively as possible. For this reason we are looking forward to conducting efficient dialogues within the SSPA, enabling the Association to continue setting industry standards.»

Matthias Courvoisier, partner at Baker McKenzie, on the decision to join the SSPA: «As a law firm, the structured products sector is a very important one for us in the Swiss business. Thus, membership of the SSPA enables us to actively engage in the Swiss financial centre and advancing the entire structured products industry – it also underpins our local commitment.»

Sylveline Besson, Global Head of Structured Products and OTC Derivatives at Indosuez Wealth Management, explained the SSPA membership as follows: «Structured products constitute an alternative to traditional investments and provide attractive solutions tailored to meet the specific expectations of our private clients. As an active designer and distributor of products not only in Switzerland, but also globally in major Wealth Management markets, we decided to join the SSPA to underscore our long term commitment to structured products and to contribute together with the SSPA to the development of our industry in Switzerland and outside its borders.»

Nicolas Walon, Head Financial Engineering at Bank J. Safra Sarasin Ltd, commented on the admission to the SSPA: «As a sustainable Swiss private bank, we offer dynamic and personalised services, and provide best-in-class solutions across the entire breadth of investment opportunities. Structured products and derivative solutions play an important role in our client offering. We are therefore delighted to join the SSPA, reaffirming our commitment to the industry as well as the Swiss financial centre.»

International Structured Products Forum on 6/7 September in Lucerne

The traditional meeting of the sector will take place this year in Lucerne at the beginning of September. Together with SIX Structured Products Exchange AG, the SSPA makes increasing use of this event as a platform for exchanging opinion and holding discussions. Programme details will be announced at a later date. At any rate, the dates 6/7 September 2017 need to be entered in your diaries.