

SSPA Newsletter August 2018



Substantial growth in turnover during the first half of the year – higher demand for structured products becomes established

This issue has been produced in the heat of the summer, and following an exciting world cup. Because the association is continuously developing – in line with the adage “standing still means taking a step backwards” – and strives to keep its members and sector representatives informed and to provide them with “food for thought”. For the first time, the SSPA invited an extended audience to attend its InfoTalk and to hear an introductory talk by an external keynote speaker on the topic of pension funds. This event was



a great and very popular success. From a regulatory perspective, while structured products can already be used by pension funds in the “alternatives” field, this is put into practice only tentatively. This despite the fact that the occupational pension provisioning limits set out in BVV2 can be exceeded – 44 percent of pension funds already do this, although not necessarily with structured products. In the last newsletter we addressed the progress of the SSPA’s pension fund initiative, which is specifically designed to make it easier to use this instrument. We are now saving this goodie for after the summer break, and will be keeping you up to date on the subject of cost transparency.

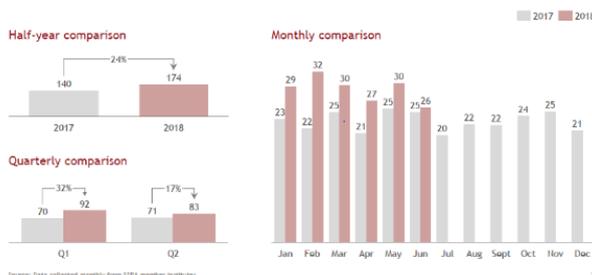
The present update outlines plans for the International Structured Products Forum in September in Lucerne, and also informs you about the challenging regulatory environment when it comes to MiFID etc. We hope you enjoy reading this issue, wish you a relaxing summer season and are looking forward to seeing you again and producing our next issue in the autumn!

Georg von Wattenwyl, SSPA Chairman

Growth amounted significantly to 24% in H1 compared to previous year – total turnover for Q2 is CHF 83 bn

Turnover of Swiss structured products recorded by the largest SVSP members again rose substantially in the second quarter of 2018 with 17% – over the first half-year 2018, growth amounted to 24% compared to the first half-year 2017. Yield optimisation products (48%) were in particular demand as well as leverage products (22%) and participation products (17%). More than half of all products (54%) are based on equities, 29% on foreign exchange. The most important currencies for structured products were USD, EUR and CHF, accounting for 84% of the total.

Overall turnover development of structured products in 2017 and 2018
 Turnover in respective time frame in bn CHF



Most important developments in the second quarter of 2018:

- Total turnover of CHF 83 bn is CHF 12 bn higher than in Q2 2017 (CHF 71 bn); growth rate compared to the previous year is 17%. Over the first half-year 2018, growth amounted to 24% compared to the first half-year 2017.
- With 48%, yield enhancement products account for nearly half of the total turnover in Q2 2018, declining from 58% in Q2 2017; seeing a turnover growth of 82% compared to Q2 2017, leverage products constitute the second-largest product group with 22% of total turnover in Q2 2018. The share of participation products increased to 17% in Q2 2018 (Q2 2017: 14%). Capital protection products make up 11% in Q2 2018 (turnover growing by 15% compared to Q2 2017). Again, leverage products represent the vast majority (92%) of all structured products transactions.
- With 54%, Equity products represent the largest portion of total turnover in Q2 2018, growing by 31% compared to previous year; the share of Foreign Exchange products on the other hand decreased from 34% to 29% compared to previous year. Despite a nominal turnover growth of 4% compared to Q2 2017, the share of Fixed Income products decreased to 11% (previous year: 12%).
- Non-listed products constitute about 62% of turnover in Q2 2018; although nominally increasing by 3% from CHF 50 bn to CHF 51 bn compared to Q2 2017, the turnover share decreased by 9 percentage points.
- The primary market decreased nominally from CHF 47 bn in Q2 2017 to CHF 45 bn and lost 12 percentage points of turnover share (54%) compared to the previous year due to strong growth of the secondary market (CHF 38 bn relative to CHF 24 bn in Q2 2017).
- The secondary market comprised around 98% of all transactions in Q2 2018, with the number of transactions growing by 108% compared to Q2 2017.
- USD is again the predominant currency in Q2 2018 with a share of 38% (previous year: 42%). The share of EUR slightly increased by 3 percentage points to 32%, while CHF loses share reaching 14% (previous year: 18%).

The positive figures for the second quarter underpin the general trend towards increased demand for structured products in the first half of 2018. Innovative products are used in the portfolio context both in Switzerland and abroad to achieve optimum overall performance depending on the portfolio's orientation and in order to be at the same time able to react quickly to market trends.

Update legal & regulations

Status FIDLEG/FINIG

On 15 June 2018, the day following the opening FIFA World Cup match, the Council of States and the National Council passed the Swiss Financial Services Act (Finanzdienstleistungsgesetz – “FIDLEG”) and the Swiss Financial Institution Act (Finanzinstitutsgesetz – “FINIG”). During the course of the consultations, Parliament took some teeth out of the proposals and thus greatly improved the Federal Council's proposal and worked out a good compromise for sustainable investor protection. The new financial market legislation introduces cross-sectoral rules for the provision of financial services and the distribution of financial instruments. The content of the rules is based on EU regulations, with adjustments being made in key areas to reflect specific Swiss circumstances.

The law requires financial service providers to provide clients with appropriate information and advice, and introduces uniform rules on prospectus requirements. In addition, a Key Information Document (KID) must now be submitted for certain financial instruments offered to private clients. The KID is intended to enable well-founded investment decisions to be made, facilitating a real comparison of different financial instruments in a simple and understandable way. The association contributed towards two working groups headed by the State Secretariat for International Finance SIF – on the topics of execution provisions on prospectus law and the key investor information document – and in particular significantly influenced the structure of the KID. Rules governing its content, scope, design and language are set out in the FIDLEV (ordinance associated with the FIDLEG). For Switzerland, it is crucial that a workable solution is found, establishing a genuine alternative to the PRIIP KID, and moving away from the integral adoption of PRIIPs regulations. The association is keen to see the PRIIP KID as well as the German KID accepted as a foreign document of equal value, enabling it to be used in Switzerland in place of a KID. FIDLEV consultations are due to begin at the end of October 2018. The association will be closely involved here, and will make corresponding contributions. In addition, we shall address the specific implementation of the new regulation in working group meetings. The FIDLEG is expected to come into force on 1 January 2020.

PRIIPs – misleading performance scenarios and cost descriptions in KIDs

Since 1 January 2018, manufacturers of packaged investment products – in particular structured products – have had to prepare a package information leaflet in the form of a standardised key information document (KID): up to three pages long, containing essential features, enabling comparisons to be made with other products. Problems with the performance scenarios and cost breakdowns became apparent only shortly after the introduction of the KID. In particular in the case of products with short maturities and leverage products, the required annualisation produces performance scenarios that are incomprehensible and ultimately misleading. At the EUSIPA level, a working group has been set up to analyse the problems and to develop proposed solutions, as well as to hold discussions with the ESMA. The European Securities and Markets Authority (ESMA) has conceded that there is considerable need for action when it comes to calculating performance scenarios, and ESMA has drawn up a Q&A to dispense with annualisation for maturities of less than one year. The EU Commission will shortly approve the Q&A to waive annualisation, which will at least greatly ameliorate the problem. There are other difficulties that also need to be solved, however. One possible solution would be to amend the RTS (Level II). The EU Commission currently views this as politically highly contentious, though. In the short term, it is planning to approach the issue by exercising a broad interpretation of Q&As. Within this context, it should be noted that the supervisory authorities are apparently themselves working on

an explanation of performance scenarios. This explanation is designed to draw the attention of investors to the problems associated with performance scenarios and cost breakdowns. The EUSIPA working group is also discussing this matter, and will report on the result of these discussions in good time.

Product intervention within the EU

Across Europe since the beginning of January, all national as well as the three European supervisory authorities have had the opportunity to take product intervention measures. On 22 May 2018 the European Securities and Markets Authority (ESMA) established two measures to protect small investors. On the one hand, with effect from 2 July 2018 binary options may no longer be offered and sold to small investors, while on the other the offer and sale of contracts for differences (CFDs) to small investors will be greatly restricted after 1 August 2018. These product intervention measures are applicable for a period of 3 months. Once this period has passed, they will be reviewed by the ESMA and, insofar as this is necessary to protect investors, will be extended by a further 3 months. It would seem that these measures were triggered by aggressive marketing practices used by providers based in Cyprus. Small investors in the EU were being offered highly speculative products with opaque information. The intervention concerning “binary options” very problematic, to the extent that it is not precisely clear which products are affected by the ban on sales. The measure addresses products with a very short maturity and fixed pay-off, which are not suitable for hedging purposes, but that serve primarily speculative purposes instead. Unfortunately, products that are securitised or traded on a stock exchange are not explicitly excluded from the scope of application of the ESMA measure. From the perspective of issuers, it is recommended that in the case of products affected by the sales ban, small investors should be defined as a negative target market.

Product intervention is also an issue at Germany’s Federal Financial Supervisory Authority (“BaFin”). BaFin is examining the notice periods for open-end products, and is planning to conduct a market enquiry into worst-of products.

SVSP InfoTalk reloaded - external keynote speaker

A fresh start in May – or in April in the case of the SSPA’s revamped InfoTalk. This quarterly get-together, including a sector update, offered an expanded range of participants the opportunity to receive up-to-date information about structured products, while at the same time obtaining insights from an external keynote speaker into the current asset allocation of Swiss pension funds. Dr Ueli Mettler, Partner at c-alm and Chairman of the SWIC (Swiss Association of Pension Fund Consultants) explained that pension funds continue to face huge challenges on account of the low-interest environment – because it so difficult to generate returns. While pension funds are bound in their investment options by Articles 50 to 57 of the Ordinance on Occupational Old Age, Survivors' and Disability Pension Plans, BVV2, the limits specified therein are not binding and can easily be exceeded, according to Mettler. This is also true in accordance with Article 50 sec 4 BVV2 – according to a Swisscanto survey, 44 percent of pension funds are already making use of this. Credit Suisse data also shows that investments are gradually being shifted from bonds to investment classes with higher anticipated returns. He personally considers the use of structured products in pension funds to be perfectly admissible from a regulatory perspective, as they provide access to an expanded investment universe, to a lower tax burden or lower costs. In short: Mettler supports the use of structured products in pension funds, as they

provide investors with investment instruments that entail a lower credit risk than other vehicles. The SSPA was right to enter into in dialogue with the OAC.

“Trends in Wealth Management” - International Structured Products Forum 2018 – 5 and 6 September at the Grand Hotel National in Lucerne

The sector’s traditional meeting will take place this year in Lucerne at the beginning of September. Together with SIX Structured Products Exchange AG, the SSPA is making increasing use of this event as a platform for exchanging opinions and holding discussions for the structured products industry. The ninth International Structured Products Forum is dedicated not just to general industry trends but also to current and future changes, challenges and opportunities, especially in the asset management field.



In his keynote speech under the motto “Trends in Wealth Management”, Frédéric Lamotte, Global Chief Investment Officer at Indosuez Wealth Management, will be addressing various aspects and trends in the field of asset management, and discussing “Quo vadis?” with Swiss and non-domestic representatives of the structured products sector. Global financial markets are of course an important trigger for developments in wealth management. Christian Gattiker, Head of Research at Julius Baer, will be outlining his assessment of the market in his speech. He will also discuss the effect of digitalisation, big data and artificial intelligence on markets and their development, and what impact the increased interaction of data and mental labour can have.

We are in the middle of far-reaching changes, perhaps even a revolution in the fintec sector – as Michael Hartweg, co-founder of Leonteq and Evolute, one of the highest-profile fintech specialists in Switzerland will be explaining, citing practical examples, providing insights into his extensive experience. The structured products sector is also responding to the new operating environment – we are looking forward to the insights and input of our structured products experts.

The proven and popular “Legal & Regulatory Workshop” on regulatory changes and challenges will again be held this year under the stewardship of SSPA Head Legal & Regulations Daniel Häberli. This year’s situation analysis will be looking “across the border” to Italy – ACEPI (Italian Association of Certificates and Investment Products) will be providing an update on “prodotti strutturati” and explaining the current state of the Italian market, along with its difficulties and particular attractions.

New member expands the sector association

With the admission of Meyerlustenberger Lachenal Ltd, the SSPA now has 35 members. Accession of the corporate law firm means the association has ten partners and has broadened its legal expertise.



Ülkü Cibik, Senior Associate at Meyerlustenberger Lachenal AG, commented on joining the SSPA as follows: “I am looking forward to being able to support the Association as well as our clients with our proven know-how and long-standing experience in the field of structured products.” Christoph Heiz, Senior Partner at Meyerlustenberger Lachenal AG, added: “As a leading business law firm, we have for many years advised our clients in the structured products field within an increasingly complex regulatory environment. We are planning to continue expanding our expertise in the coming years and are looking forward to actively contributing our experience and know-how to the Association.”

Save the date: Finanz und Wirtschaft Forum «Structured Products 2018»

On 14 November 2018 the first finance and business forum on the topic of structured products will be held at the Gottlieb Duttweiler Institute in Rüschlikon. The conference will be discussing key questions relating to structured products and deepening the latest investment trends in parallel group discussions between event partners. Details to follow!

