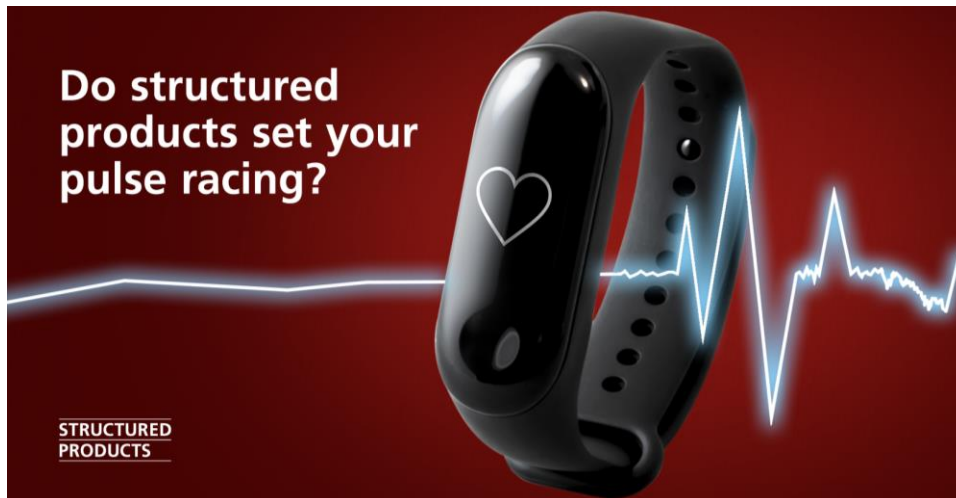


## SVSP Newsletter February 2019



### Strong demand for flexible deployment within portfolio context

Investors see structured products as an attractive component for securing returns within the portfolio context, including when market conditions are very volatile. Innovative products that make it possible to participate quickly in new market developments and trends contribute further towards this. In our capacity as an industry association, we work tirelessly to draw attention to this flexibility and product innovation, both within the sector as well as beyond. For example at the first Finanz und Wirtschaft forum “Structured Products 2018” in November or through our close involvement in Finanz’19. Structured product representatives were present at a total of three open forums and at a panel discussion, where they were able to share their specialist expertise with professional investors. The financial fair kicked off with the customary and well-attended press conference, at which the latest industry figures for the year 2018 as well as the plans and goals of the Association for the current year were communicated – with impressive reporting, as you can see for yourself during the course of the newsletter!



While the year is still young, the SSPA has already been able to welcome three further members. It now has a total of 39 members across all categories of issuers, the buy side, partners and markets. In the present update we look back at important industry events, provide an overview of the development of the sector in 2018 drawing upon the latest figures, and also update you on the challenging regulatory environment associated with MiFID, FinSA Ordinance & Co. We hope you enjoy reading these pages!

Georg von Wattenwyl, SSPA Chairman

## New members expand the industry association

With the admission of BX Swiss AG, Calebo Capital Partner and JP Morgan, the SSPA now has 39 members. With the accession of three new members the association extends its basis further and counts 18 issuers.



Harald Schnabel, CEO of BX Swiss AG: «We value the opportunity to work together with the structured products industry as an active partner, in order to respond promptly to client requirements and to give the Swiss market new impulses.» With our outstanding experiences in the Swiss market and our profound industry knowledge, we are convinced to support the association efficiently and to complete the market member section.»

Pascal Hildbrand, Managing Partner of Calebo Capital: «Agility, diversity and professional risk monitoring represent the basis for successful investment with structured products. We are looking forward to contributing our expertise and long-standing market experience to the Association, as well as to promoting a wider use of structured products.»



# J.P.Morgan

Nick Mihic, Head of Switzerland Markets and Co-Head Equity Derivatives Germany/Austria at J.P. Morgan: «The decision to join the Swiss Structured Product Association underscores our commitment to the Structured Products business. We look forward to an active exchange with the Association on product trends and innovation, market governance and investor protection.»

## Growth rate compared to 2017 at 20%

Turnover for Swiss structured products of the major SSPA members continued to strongly increase in 2018 and total turnover is with CHF 331 bn 20% or CHF 56 bn above the previous year's figure. The total quarterly turnover was also above the previous year's level and amounted in Q4 2018 to CHF 81 bn. Yield enhancement products continue to be the most popular investment category (46%), although their share was down on the previous year (57%). Equity (54%) and foreign exchange (27%) are still dominating the turnover. Non-listed products constitute about 62% of turnover in 2018 (2017: about 70%). With a total share of 84%, USD, EUR and CHF are still by far the major currencies used.

### Performance 2018 versus 2017:

- Compared to the previous year, turnover grew in Q4 2018 by 16% and amounted to CHF 81 bn.
- With 46%, yield enhancement products accounted for approximately half of total turnover in 2018, declining by 11 percentage points from 57% in 2017; leverage products constituted the second-largest product group with 22% of total turnover in 2018. Driven by a nominal turnover increase of 45% year-on-year, the share of participation products increased to 16% in 2018 compared to 13% in 2017. Capital protection products made up 14% of total turnover in 2018, representing an increase of 1 percentage point compared to 2017. Leverage products represented again the vast majority of all structured products transactions with a share of 92%.

- Despite nominally increasing by CHF 8 bn to CHF 183 bn, the primary market lost in 2018 9 percentage points of turnover share (from 64% to 55%) compared to previous year, due to nominal turnover growth of 49% of the secondary market (CHF 148 bn in 2018 relative to CHF 100 bn in 2017). The secondary market comprised around 98% of all transactions in 2018, with the number of transactions growing by 83% compared to 2017.

## Review Finanz'19 – «Navigating through challenging times»



Switzerland's biggest financial fair opened its doors at the end of January 2019 for the 21<sup>st</sup> time, and for the second time in Zurich's Oerlikon district, with a new record number of exhibitors. As last year, the sector's traditional get-together was aimed exclusively at asset managers, private bankers, family offices, pension funds and real estate specialists. Under the «Navigating through challenging times» motto, around 3100 visitors were able to exchange views and opinions with 165 national and international exhibitors on current investment opportunities. And notwithstanding the challenging environment, these remain attractive investment opportunities. In particular, audiences were keen to hear the former British Prime Minister Gordon Brown speak. The structured product panels also attracted a great many listeners.

Structured product representatives took part in three open forums and one panel discussion. For example, the topic of «Investment opportunities with structured products in volatile markets» was expertly discussed by Dominique Böhler (Commerzbank), Willi Bucher (Raiffeisen Switzerland), Manuel Dürr (Leonteq) and Heiko Geiger (Vontobel), chaired by André Buck (SIX). «Can a portfolio be optimised by structured products?» – was asked, and the answer was unequivocal. Provided they are skilfully selected, tactical and strategic exposures can indeed offer portfolios added value. This is because of the flexibility offered by structured products, concluded the panellists Irene Brunner (BNP Paribas), Guiseppe Caltabiano (UBP) and Roger Ganz (Clarus Capital). Representatives of the structured products and asset management industries jointly explored topics «outside the box» and threw light on the extent to which blockchain and crypto assets (could) revolutionise the financial sector. Jan Brzezek (Crypto Finance Group), Guido Bühler (SEBA Crypto), Valerio Roncone (SIX), Prof. Dr. Fabian Schär (University of Basel) along with Roger Studer (Vice President of the European Structured Investment Products Association (Eusipa) as well as Vontobel) discussed these issues, chaired by Werner Grundlehner from the NZZ newspaper.

### «Do structured products set your pulse racing?»

Colourful and chocolatey – «A portfolio has never been harmed by a little structure», announced expertly stacked m&ms with SSPA branding on posters – or the sporting approach taken at the SSPA stand. « Do structured products set your pulse racing?» asked another poster – precisely measurable with give-away fitness trackers, which were very popular amongst exhibitors and visitors alike.

Finanz'20 is scheduled to take place on 5 and 6 February 2020, once again at the StageOne venue in Zurich Oerlikon. [Click here for the Finanz'19 photo gallery:](#)





The annual press conference is traditionally the kick-off event that opens the finance fair. «Continuing structured products boom in Switzerland» was the headline at Finews.ch, while Cash.ch stated «Sales of Swiss structured products rose again in 2018» – NZZ and Allnews.ch also highlighted the Association’s institutional focus: «Structured products keen to attract institutional investors» and «Structured products in the regulatory jungle».

## Review Finanz und Wirtschaft Forum «Strukturierte Produkte 2018»

In mid-November 2018, the first Finanz und Wirtschaft Forum on structured products was held at the Gottlieb Duttweiler Institute in Rüschlikon. The conference discussed key questions linked to structured products, and examined the latest investment trends in depth. At the Finanz und Wirtschaft Forum, investors learnt not just how new technologies can be deployed in order to assess how effectively a product fits into their portfolio, but also deepened their expertise directly in parallel group discussions between the partners. Switzerland is a pioneer here: it has the world's largest market for structured products, and also exports to Asia. Competition between the providers, the automated production of standard certificates as well as markets for bespoke products ensure transparency, reduce costs and mean tailored investment solutions. As an event partner, the SSPA played a key role in shaping the content, while Julius Baer, Lucerne Cantonal Bank, Vontobel and Zurich Cantonal Bank played a leading role in group discussions.



In his keynote speech, Dr Aleksander Berentsen, Dean of the Faculty of Business and Economics of the University of Basel, identified Bitcoin as a possible component of a diversified portfolio, as the correlation with other assets is low. On the podium, Jürg Brupbacher, President of the Investment Committee of the Pension Fund of the City of Olten and founder & Managing Director of JBV Vermögensverwaltung AG; André Buck, Global Head Sales Securities & Exchanges SIX then held discussions with Prof. Dr. Maurice Pederghana, CIO of Zugerberg Finanz and Lecturer at the Zug Institute for Financial Services together with Maurice Picard, Picard Angst AG, on the effect of structured products on portfolios.

### Will there soon be cost transparency for structured products?

«If structured products were considered cost-transparent, would they then be more cost-transparent than investment funds?» asked Philippe Béguelin from the magazine Finanz und Wirtschaft of Vera Kupper Staub, Vice Chair of the Occupational Pension Supervisory Commission (Oberaufsichtskommission Berufliche Vorsorge – OAK BV) in an interview. The answer was in the affirmative. The Association is currently working hard to achieve this cost transparency.



Julius Baer, Lucerne Cantonal Bank, Vontobel and Zurich Cantonal Bank then presented select group discussions on the topics: «10 years following the collapse of Lehman – structured products from a treasury department perspective in the year 2018 – what has changed?», «Structured products within a portfolio context: Added value or merely apocryphal value?», «Topic investments: Swiss equities – expertise is the foundation of success» and «Use of structured products in fixed-income portfolios».

On the pulse of tome, Florian Müller-Reiter, Partner and Head Derivatives Technologies at swissQuant, explained how digitalisation in the investment process with structured products can get portfolios into shape. This was followed by a discussion chaired by Dr Thomas Hauser, Managing Partner at Dr. Pirmin Hotz Vermögensverwaltungen AG, and SSPA Chairman Georg von Wattenwyl, speaking for and against structured products. Oswald Grübel, former CEO of Credit Suisse and UBS, summarised the structured products day with anecdotes from his active career, and concluded «structured products are there to generate returns». And that is certainly what they do – for the innovative and flexible investment instruments mean that new prospects and appropriate investment solutions can be found even in challenging market environments.

## Review of SSPA Christmas InfoTalk and Get Together

The structured products sector ended the year in a customary convivial atmosphere at the last 2018 InfoTalk in Zurich – food for thought on blockchain technology in banking, combined with culinary delights of a more prosaic nature! For «we stand on the brink of a technological revolution» predicted keynote speaker Simon Tobler, Member of the Board of Management and Head of Trading at Crypto Broker AG. Bitcoin along with new technologies play a pioneering role here, and are also attractive on account of the low correlation with other investment classes. This was underscored by the expanding offers of institutional operators, such as for example Morgan Stanley, Goldman Sachs, Fidelity and many others. Bitcoin is no longer in its infancy, and is securing a place for itself on the worldwide investment floor – including in Switzerland.



SSPA Chairman Georg von Wattenwyl then addressed the continued growth in the number of members recorded in 2018, as well as the goals for 2019, such as for example further measures in the field of cost transparency or involvement in the field of wealth management, before the approximately 40-strong audience relocated to the Almodo Bar for Christmas drinks.

## Update Legal & Regulations

### Status FinSA/FinIA

The Swiss Financial Services Act (FinSA) and the Swiss Financial Institutions Act (FinIA) were passed by Parliament on 15 June 2018. The associated draft ordinances prepared by the State Secretariat for International Finance (SIF) were submitted to the Federal Council, which completed its hearings of the wording of the ordinances on 6 February 2019. The SSPA prepared a statement and presented this to the Federal Department of Finance for assessment. In its view, the draft FinSA Ordinance submitted to the hearing is positive – including the specific provisions to improve legal security for an attractive Swiss financial centre. In certain areas, however, changes need to be made. The key issues are:

- Art. 11 of the draft FinSA Ordinance specifies in excessive detail when a key investor information document is deemed to be available at the financial services provider, and when this is to be made available to an “execution only” client on an exceptional basis. The decisive factor is that this financial services provider should not be obliged to conduct follow-up investigations.
- Art. 63 of the draft FinSA Ordinance aims to establish that the investor is entitled to withdraw his subscription or purchase commitment. This right of withdrawal is granted in place of an extension of the offer period, if pursuant to Art. 56 FinSA a prospectus supplement needs to be prepared because a new circumstance has occurred before the conclusion of the public offering or the opening of trading which could have a material effect on the valuation of the securities offered. The proposed amendments are essentially in line with EU regulations, whereby this establishes only the right of withdrawal or revocation, but not the right to extend the offer.



- The duration of the transitional periods is important, because the final versions of the FinSA and FinIA ordinances are likely to be published only towards the end of 2019. In order to give issuers sufficient time to prepare for the transition to the FinSA regime – this applies in particular to the prospectus and the key investor information document – all transitional periods need to be extended from one to two years. Alternatively, of course, the date on which the FinSA and FinIA come into force could be postponed by one year. This is unlikely to be politically opportune, however.
- Lastly, the transitional regime for structured products with reference to the prospectus and the key investor information document needs to be clarified with the effect that during the transitional period, in the case of a public offering of structured products, no issue prospectus pursuant to the Swiss Code of Obligations needs to be prepared, but that instead a simplified prospectus must continue to be prepared.

Further aspects were taken up not merely by the SSPA, but also by other circles involved in the hearing. Topics discussed were the concept of financial services (no extension to include the brokering of financial instruments), advertising (no ban on advertising) and the exception of making the key investor information document available to absentees in advance when providing advice (no restriction to technical impossibility).

The SIF will evaluate the hearings and will submit revised draft ordinances to the Economic Commissions of both Councils for consultation (planned for the summer of 2019). Approval by the Federal Council is scheduled for the autumn of 2019, while the legislation is set to come into force on 1 January 2020.

In addition to a FinSA Q&A, the SSPA is planning to develop standards for certain sections of the key investor information document and basic prospectus.

### **ESA consultation concerning PRIIPs RTS adjustments**

At the beginning of February, the European Supervisory Authorities (ESA) published their final report on the consultation concerning adjustments to PRIIPs RTS. Conclusion: it is too soon to make material amendments to PRIIPs RTS. Instead, implementation of PRIIPs regulations will continue to be pursued in 2019, and the statements gathered during the course of the consultation will continue to be analysed.

### **Product intervention in the EU**

The European Securities and Markets Authority (“ESMA”) has extended its temporary ban on binary options and contracts for differences (“CFDs”) for small investors by a further three months from 02 October 2018 and 01 November 2018 respectively. At the national level, the Financial Conduct Authority (FCA) and BaFin, amongst others, are preparing themselves for the end of ESMA’s product intervention measures. Both authorities have launched or held consultation processes on the planned restrictions. While BaFin is sticking closely to ESMA’s product intervention measures, the FCA seems to be going further. The EUSIPA has prepared a document that addresses the central concerns of the structured products industry in conjunction with the planned national intervention measures, and can be used by national associations within the context of consultation processes.