

Structured products: innovation and transparency in a difficult environment



The persistently difficult market environment is characterised by low yields and interest rates of between zero and negative. This has shaped the structured product sector for some time. Particularly during times when yields are low, transparency and costs play a greater role. The SSPA has set itself the objective of promoting this transparency. In order to clear up prejudice and conjecture, the Swiss Finance Institute has for the first time drawn up a comprehensive study on the Swiss market. Conclusion: structured products performed positively reasonable costs. We aim to inform you periodically about such current developments and trends as well as our Association's contribution with the SSPA Newsletter.

In the current interest rate environment, structured products represent an increasingly interesting way to secure attractive returns. The SSPA is keen to promote and publicise this potential by providing broad market support. The Association aims to further establish itself as an industry association, thereby boosting its attractiveness and effectiveness. With the new membership concept approved at the meeting of delegates in September, particular attention will be directed towards the buy-side, including banks, asset managers and B2B intermediaries and partners along the entire structured product output chain – in addition to issuers.

The simple, straightforward and comprehensive provision of know-how and information is the central focus of the work of the SSPA – right across all channels. For this reason the SSPA is carefully building up its social media activities: an active network on LinkedIn helps maintain contacts with the relevant points of contact; the Twitter account spreads topical information about the structured products sector. Use the networks & follow us – and become an active part of the SSPA community!

At the beginning of September, the International Structured Products Forum 2015 in Lucerne presented opportunities for the personal exchange of information and dialogue with experts. Industry trends and developments within the Swiss and international environment were discussed, food for thought was provided and potential solutions were drawn up in workshops. The next opportunity for an industry meeting will be next February, when FINANZ'16 opens its doors in Zurich for the second time, under the motto "Expanding Horizons".

Georg von Wattenwyl, SSPA President

Meeting of delegates: new membership concept approved as well as training tool for relationship managers planned

On 24 September, SSPA convened a meeting of delegates and presented the activities from the previous year as well as providing an outlook for 2016. All motions were accepted by all 18 members. Including a new membership concept that aims to establish a broader-based industry association by carefully widening the admission criteria.

As a broad-based industry association that covers the entire output chain, the SSPA is keen to represent the entire industry and to strengthen the financial market as a whole. Particular focus is now being directed towards the buy-side, including banks, asset managers and B2B-intermediaries. Membership of the SSPA is intended as a "seal of quality" that provides added value.

Simulation tool for relationship managers

In future, relationship managers (RMs) will be kept even more effectively informed about the opportunities and advantages of structured products as investment products. A tailor-made tool will help RMs understand how structured products work in customer portfolios and systematically explain the advantages of mixing in these products. It enables different sample portfolios and different market scenarios to be vividly simulated, showcasing the huge potential presented by the systematic deployment of structured products. The launch is slated for Q1.

International Structured Products Forum 2015



The popular and traditional meeting of the sector was held this year on 2 and 3 September, with Lucerne again serving as the venue. The occasion was used increasingly this year as an opinion and communication platform. In consultation and close collaboration with the event organizer SIX Structured Products, SSPA actively helped to plan the program and organised workshops and top-notch speakers.

Dr. Michael Loretan (member of FINMA's Executive Board) opened the Forum with a keynote address on the current regulatory landscape in Switzerland and the challenges and changes in the industry. The address was followed by a round of questions with SSPA Vice-Chairman Philipp Rickenbacher. Dr. Thomas Deigendesch (CEO of Jung von Matt, which specialises in market launches/brand identity) set the audience thinking with his speech entitled "The recovery of public confidence – Food for thoughts to overcome the crisis of investors' confidence". To be able to generate image and confidence, the entire chain of brand experience must be able to be experienced consistently – including structured products.

Possible solutions to current issues were discussed and ironed out at workshops. The association will be implementing the defined approaches as part of its work. The participants actively discussed, among other topics, how relationship managers can be persuaded to use structured products and how demand by retail investors for these structured products can be increased.

EUSIPA Secretary General Thomas Wulf cast a look at the European environment in his speech "Inside Brussels", explaining in detail pan-European developments and trends. The lawyer panel consisting of Christian Vollmuth (DDV Deutscher Derivate Verband), Dr. Gregor Evenkamp (Clifford Chance LLP), Enrico Friz (Walder Wyss Ltd) and Andrew Sulston (Allen & Overy LLP) shone a light on regulatory aspects in the sector and provided an update of current issues.

Next September will see another "International Structured Products Forum". Details on this event will be made available at the appropriate time. It would be well worthwhile to make a note of this event in your calendar.

First comprehensive Swiss study on structured products: Facts instead of presumptions



There has been a great deal of speculation and conjecture about the performance, the costs as well as the investment opportunities for structured products – the first academic study on the Swiss market is now casting light on the topic and is debunking preconceptions. The SSPA commissioned the Swiss Finance Institute to draw up a study to clarify the performance, the costs and the investment opportunities for structured products. Structured products performed positively, during the period covered by the study, at reasonable costs.

The performance of 20,000 products was analysed for the period 2008 to 2014 with due account taken of the financial crisis and the European debt crisis. To draw conclusions about the costs of structured products, the researchers examined 7,275 products from 2012 to 2015. The analysis revealed that these products achieved returns of between 5 % and 15 % p.a. under normal market conditions. The results showed total expense ratios (TERs) for structured products of between 0.3 % and 1.7 % p.a., including net margins and production and distribution fees.

Performance: During the 2012–2014 period around 80 % or more structured products generated positive returns, with average median returns of between 5 % and 15 % p.a. under normal market conditions.

Costs: According to the study, the costs incurred by investors in conjunction with issues of the most popular structured products per product category were between 0.3 % and 1.7 % p.a. The costs, expressed as the total expense ratio (TER)¹, correspond to the sum of the net margins as well as all production and distribution fees. The rounded off average median TERs for the period from April 2012 to April 2015 were:

Product category	Tracker certificates	Capital protection certificates	Bonus certificates	Discount certificates	Barrier reverse convertibles
Median TER	0.3% p. a.	0.6% p. a.	1% p. a.	1.4% p. a.	1.7% p. a.

Investments: Swiss investors showed great interest in barrier reverse convertibles on equities, tracker certificates and capital protection certificates. The study encompasses case studies that focus not just on possible yield expectations, but also show that investor views drive any decision to invest or not to invest. The Swiss National Bank's decision to abandon the minimum exchange rate against the euro in January, and the announcement at the beginning of the year that quantitative easing would be implemented within the Eurozone, made it possible to realise investments – such as for example high dividend EUR equities – with a discount of 15 % or barrier reverse convertibles with low barriers and a coupon of 1 % to 2 %.

Georg von Wattenwyl, SSPA Chairman: "With this study, a further milestone has been reached in terms of the transparency and clarity of structured products – qualities which the SSPA has sought to promote for years. The academic study demonstrates that structured products are efficient investment options."

¹ The authors call the difference between the issue price and the market compliant price of the components the total expense ratio (TER). This means investors are effectively informed about the cost of structured products in a manner that enables comparisons to be drawn with the key performance figures of other products. This key performance figure does not, however, correspond to the anticipated issuer margin or the sum of the issuer margins, including the distribution and structuring fees. The anticipated issuer proceeds (profit) is lower, and can be determined only when the product matures. This is because it is only then that many of the cost components can be definitively determined; these may even prove to be higher than the TER reported in this study. The issuers need to pay all of the costs of the structuring (personnel, technology, know-how), of documentation (brochures), of (in-house) funding, of training and advising the investors, of distribution (advertising, sales representatives), of the stockmarket listing, of secondary market prices etc. from the TER reported in this study.

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Preis von

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Strukturierte Produkte: Besser als ihr Ruf?

Seit der Plausibilisierung komplexer Wirtschaftssysteme und der Produktion von schwerelastigen Wirtschaftsgütern und einem breiteren Kauf-Kreis. Steht vorrangig das Abrechnungsproblem. In der Folgezeit wird das Abrechnungsproblem gelöst.

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Positive in patients; false-negative in children

Die Vorleser hat die Absicht, fest, dass die Prozentzahl nicht mit der Produktivitätsprobleme: von positiver Renditeverfall und mit der Medikamenten herstellen (1) und 2) Prozent. Diese Positionierung geht abwärts, da die Zahl von 1000 bis 1000 - in den folgenden positiven Renditeverfall.

1000 ist in einem halbschrittigen mit anderen Renditeverfall, besonders erfolgreich von 1000 bis 1000 mit Renditeverfall von 1000 bis 1000 in Prozent.

Nicht besser als ein 100

In Bezug auf die Kosten stellen die Vorleser fest, dass die Produktivitätsprobleme entstehen, die sich während der Sitzung, nicht nur als Produktivitätsprobleme und die Kosten (Total Expense Ratio) für die produktivsten Produktivitätsprobleme zwischen 1000 und 1000 Prozent pro 100. Nicht werden Renditeverfall zwischen 1000 und 1000 Renditeverfall.

Nicht immer als ein FFF

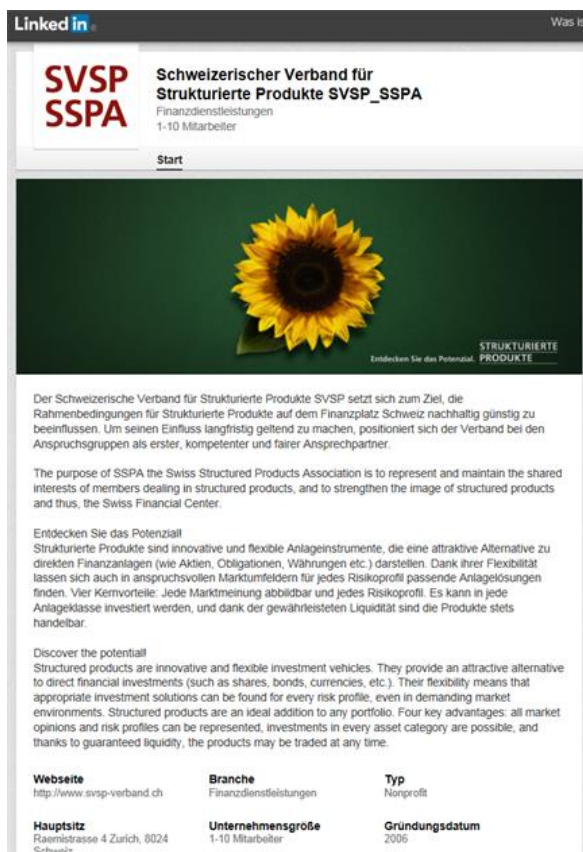
In Bezug auf die Kosten stellen die Vorleser fest, dass die Produktionskosten gegenüber der wachstumsstärkenden Wirkung nicht mehr als Pseudo-oder gar FFP sind. Die Kosten (Total Expense Ratio) für die produktiven Produktion liegen zwischen 0,12 und 0,17 Prozent pro Jahr. Dabei werden Marktwerte zwischen 2000 und 2009 gewählt.

Going social media: LinkedIn & Twitter activities launched

SSPA is breaking new ground with the expansion of its social media activities at LinkedIn and Twitter. Key information and topical developments relating to structured products are now also being distributed using social networks. Keep up-to-date with the latest developments and current issues in the structured products sector, data and facts – follow the SSPA on Twitter and network with LinkedIn.



Curious about what the SSPA tweets? Follow us here!



What's happening in the SSPA community? Find out here!

ITG RFQ-hub, Smarthouse Media, Bloomberg and Banque Pictet & Cie SA new SSPA members

The admission of ITG RFQ-hub, an independent electronic multi-dealer platform for global exchange-traded and over-the-counter (OTC) products, and Smarthouse Media, a globally active full-service supplier of online finance applications, as well as of Bloomberg, a global business and financial information and news leader, and Banque Pictet & Cie SA, one of Europe's leading independent wealth and asset managers, mark an initial step toward sectoral representation that is as broad as possible. ITG RFQ-hub joined SSPA on August 1, Smarthouse Media, Bloomberg and Banque Pictet & Cie SA joined on 1 October.

Jonathan LLamas, Senior Structured Products Business Developer at ITG RFQ-hub, explained the motives for joining the SVSP as follows: "Our platform aims to streamline transactional operating channels that meet regulatory requirements and at the same time generate innovative market research data through statistical measurements. By joining the SVSP, ITG RFQ-hub is underscoring our commitment to Switzerland as a financial centre. At the same time, we are looking forward to benefiting from the services of the Association."

Andreas Grunwald, Managing Director at Smarthouse Media, had this to say about joining SSPA: "In recent years, Smarthouse Media has established itself with its innovative and technologically mature concepts as a successful service provider in the structured products segment. With this membership as a partner in the industry association, we want to do our part for the successful further development of the Swiss market. At the same time, this step underscores our commitment to structured products and to Switzerland as a financial centre."

Jose Ribas, Global Head of Derivatives at Bloomberg, about the SSPA membership: "We provide data, news and analytics to decision makers in industries beyond finance. The Structured Products market players use our solutions across the entire front to back workflow including structuring, trading, pricing, risk, collateral, reporting and treasury. Our membership of the industry association underscores our commitment to structured products and to Switzerland as a financial centre, and we are delighted to participate to the successful further development of the Swiss market."

Julien Christin-Benoit, Head of Structured Products at Banque Pictet & Cie SA, commented on the decision to join the SVSP as follows: "By developing bespoke solutions for our clients, we appreciate Structured Products as innovative investment opportunities with a promising performance potential at reasonable costs. Consequently, our SSPA membership underlines our long term commitment to the Swiss structured products market."

FINANZ'16 – “Expanding Horizons”



On 3 and 4 February 2016, FINANZ'16 is being held for the second time at Zurich's Kongresshaus as a joint financial fair for funds and structured products. It is establishing itself as the largest communication and information platform for investors in Switzerland.

The new fair format offers institutional and private investors the opportunity to hold discussions with experts on a complete range of cutting-edge and innovative investment products. Under the slogan “Expanding Horizons”, the numerous challenges currently facing the financial industry will be discussed with speakers from Switzerland and abroad.

Persistently low interest rates mean that many financial services professional see a dearth of investment opportunities. For this reason, new approaches need to be found to grow dormant capital, without thereby taking excessive risks. Swiss financial market professionals are also facing other changes, for example in the form of amended financial market legislation . Other financial services providers are struggling with digitalisation, which is constantly advancing and offering additional ways of maintaining constant, simpler or more secure contact with clients. In view of these challenges, various financial sector figures would be well-advised to broaden their horizons.

Make a note of the date at the end of February 2016. We are looking forward to meeting you at the Association's fair stand in the Kongresshaus in Zurich.