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Structured products industry benefits from favourable environment – increased use in portfolios

Following the summer break, the SSPA is entering into the final quarter in high spirits, and is benefiting from the favourable environment that has been boosting the sector since the start of the year. Persistently strong demand and the concept of a holistic consultancy approach that is becoming increasingly established within the industry, presenting clients with a bespoke holistic service package together with a corresponding portfolio, are playing into the hands of structured products. The portfolio context is becoming increasingly relevant – the Association is addressing these needs and providing information accordingly. The Association is also addressing the increased demand from the buy side. For example, this year's industry get-together in Lucerne was held under the motto "Trends in Wealth Management". Technological innovations and their profitable integration in the investment process was discussed at this event, along with how wealth management is responding to current challenges, and what part structured products (could) play within this context. Association members set the course for a further successful structured products year at the traditional delegates' meeting in September, where membership contributions were cut further on account of the rising number of members – setting a positive signal for the entire sector!



The present update also informs you about the first Finance and Business Forum "Structured Products 2018" that is scheduled to be held on 14 November at the Gottlieb Duttweiler Institute in Rüschlikon – another sector event is being established – and also update you on the challenging regulatory environment within the context of MiFID II & Co. We hope you enjoy reading these pages!

Georg von Wattenwyl, SSPA Chairman

Review of the 9th International Structured Products Forum 2018 – "Trends in Wealth Management"

The International structured products world holds its annual meeting in Lucerne. The 9th edition of this traditional sector meeting took place on 5 and 6 September with over 90 guests at Hotel National, offering an attractive platform for views and discussions. Under the motto "Trends in Wealth Management", SIX and SSPA took proper account of the increasing number of buy-side members and their specific requirements. In addition to general sector trends, challenges and opportunities, the sector specifically discussed the field of asset management.

«The perfect wedding»

In his keynote speech, Frédéric Lamotte, Global Chief Investment Officer at Indosuez Wealth Management, threw light on the interaction between structured products and wealth management. Benefit: the sector is no longer a "fine business." Things have changed since the crisis, regulators have made sure there is greater transparency, and clients understand the products better. He is firmly convinced that "the key to success is flexibility, simplicity." "100% human – 100% digital" is where the potential lies. This is because the human element will always be important in wealth management, in combination with technological advances. Despite considerable challenges at the regulatory level or when it comes to liquidity questions, he sees considerable potential in structured products for modern asset allocation within the wealth management field. This needs to be put to innovative use.



Disruptive Digitalisierung



The role played by digitalisation within the industry was addressed by Christian Gattiker, Chief Investment Strategist and Head of Research & Investment Solutions at Julius Bär. Following a market overview, he posed the question "Artificial, yes – but ignorance or intelligence?" – The increasing omnipresence of technology is redefining competitive advantages right across sectors, with big data as the key. The big players continue to dominate the field. "They are securing new sectors, such as for example digital trade and payment transactions, along with digital content such as e.g. video games or even cyber security," he complained. Gattiker underscored the disruptive character of digitalisation. At the same time, however, he advised caution when it came to the hype surrounding Bitcoin and Altcoin cryptocurrency prices. This is because these continue to be driven by speculation.

In the legal workshop, regulatory challenges were discussed from an international perspective, chaired by Daniel Häberli, Head of Legal & Regulations at the SSPA. Following this, structured product criteria in the wealth management field were identified by an interactive survey conducted by Committee members Thomas Schmidlin and Sylvaine Besson. Knowledge transfer and standardisation are crucial here – topics that the SSPA continually addresses.



We are in the middle of far-reaching changes, perhaps even a revolution in the finance sector – as Michael Hartweg, co-founder of Leonteq and Evoluta, one of the highest-profile fintech specialists in Switzerland explained, drawing upon the example of his wealth management platform. Personalisation is the centre of attention here, as it makes it possible to offer clients individualised and scalable portfolios. "A platform of this nature is a digital one-stop shop and responds directly to client requirements," declared Hartweg. This is a rising trend. In Europe, only about 26% offer robo advice in the private wealth management field. The respective figure in the USA is an even more paltry 15%.

"Inside Brussels" – EUSIPA Chairwoman Helke Arntor and General Secretary Thomas Wulf provided insights into a turbulent European financial environment, under the heading of "Trouble ahead". This is characterised by a looming Brexit as well as parliamentary and commission elections in 2019. They also explained how far we have come at the European level in respect of PRIIPs. At the individual country level, this year's broad assessment extended over the border to Italy – Dario Savio, ACEPI Chairman (Italian Association of Certificates and Investment Products) provided an update on "prodotti strutturati" in what in sales terms was the second-largest European market in 2017.

Photo gallery:



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Delegates Meeting 2018 – steady expansion of the industry association



The sector has continued to develop since the last Delegates Meeting in 2017. The Association also continued on its established path, has been able to acquire new members and by this means to broaden itself actively. This is in order to attract more issues, including buy side and partners as well as markets and to be able to adapt services to meet the changing needs of members and to offer guidance with increased working group services in line with legal & regulations and the buy-side.

New members in 2018 are Meyerlustenberger Lachenal and Luzerner Kantonalbank – the Association now has 36 members, including 16 issuers, 9 buy side members, 10 partners and 1 markets member.

Delegates confirmed Chairman Georg von Wattenwyl as well as the Committee members Thomas Schmidlin, Adrian Steinherr and Valentin Vonder Mühl in their offices. This means that on 1 October 2018 the Committee continued to comprise the following members: Georg von Wattenwyl (Chairman, Bank Vontobel), Thomas Schmidlin (Credit Suisse), Adrian Steinherr (UBS), Valentin Vonder Mühl (Pictet), Sylvaine Besson (CA Indosuez Wealth Management) and David Schmid (Leonteq).

Update Legal & Regulations

Status FIDLEG/FINIG

Enactment of the Swiss Financial Services Act (Finanzdienstleistungsgesetz – «FIDLEG») and Swiss Financial Institution Act (Finanzinstitutsgesetz – «FINIG») by the Council of States and the National Council on 15 June 2018 introduced the final core elements of modern Swiss financial market legislation – FIDLEG & FINIG introduce important changes to the distribution of financial products: Advice at the point-of-sale, prospectus specifications, introduction of a basic information sheet as well as prudential supervision of asset managers. FIDLEG is scheduled to come into force on 01 January 2020, whereby there will probably be a few transitional provisions with regard to the code of conduct and the obligation to publish a prospectus and basic information sheet, to ensure smooth implementation.

The wording of the associated FIDLEG and FINIG Ordinances was prepared by working groups headed by Switzerland's State Secretariat for International Finance (Staatssekretariat für internationale Finanzfragen – «SFI»). Following the departmental consultation phase, the draft Ordinances were submitted to the Federal Council. It has now begun to discuss the wording of the Ordinances. The consultation will last until 06 February 2019 and the Association will play an active part in this process. In addition, we will address the specific implementation of the new regulation in working group meetings and, inter alia, prepare a working paper with questions and answers on the topic of the FIDLEG.

PRIIPs – Bafin notes discrepancies between KIDs and the PRIIPs Regulation

Since 01 January 2018, manufacturers of packaged investment products – such as for example structured products – have had to prepare a package information leaflet in the form of a standardised key information document (in short: «KID»); up to three pages long, containing essential features, enabling comparisons to be made with other products. Ahead of its supervision of compliance with the provisions of the PRIIPs Ordinance, Bafin took stock of PRIIP manufacturers based in Germany and assessed tested several KIDs on a random basis. Within this context, Bafin became aware of a number of cross-institutional issues in which the KID does not comply with regulatory requirements. Bafin has reported these issues to the relevant German associations, including the German Derivatives Association (Deutsche Derivat Verband – «DDoV»). Bafin complained that the name of the issuer or the product was included in the title of the KID in addition to the words «basic information sheets». The title of the KID is only permitted to be «basic information sheets». Bafin also complained that under the heading «what type of product is involved», a tabular overview of the product is first provided, and only then a description in running text. However, the tabular overview should be included only after the prescribed running text. These two issues, as well as the other issues highlighted by Bafin, demonstrate that the KID needs to adhere strictly to the specifications and that there is little scope for flexibility.

Section 87(1m) – two-year delay in the recording of «non-delta-one products»

In its Notice 2018-72, the US Internal Revenue Service (IRS) reported that the applicability of the rules set out under the Sec. 87(1m) regime on «non-delta-one products» is to be delayed by two years to 01 January 2021. Without this delay, the withholding tax deduction under Sec. 87(1m) would also have to be performed for all «non-delta-one products» on US equities with effect from 01 January 2019. In addition to postponing the recording of «non-delta-one products», the IRS also extended the so-called «good faith efforts» approach to implementing and applying the Sec. 87(1m) regime. This consequently means the «good faith efforts» approach applies to «delta-one products» until 2020 and to «non-delta-one products» until 2021.

Product Intervention within the EU

The European Securities and Markets Authority («ESMA») has extended temporarily ban on binary options and contracts for differences («CFDs») for small investors by a further three months from 2 October 2018 and 1 November 2018 respectively. In this conjunction, it is very gratifying that ESMA has responded to the discussions with the relevant associations and explicitly excludes financial instruments from the ban on marketing binary options

– that have a minimum maturity upon issue of 90 days

– that are backed by a prospectus, and

– where the provider does not itself assume the market risks and only takes on transparent costs in advance.

Also excluded from the ban are binary options where the lower of the two pre-determined payout amounts is at least equal to the total payment (including commission, transaction fees and other related costs) made by a small investor for the binary option. The payout for this type of binary option must be such that small investors do not lose any money relative to their total investment (including commission, transaction fees and other related costs) in the product.

New member expands the sector association

With the admission of Luzerner Kantonalbank AG, the SSPA now has 36 members. With the membership of one of the largest cantonal banks in Switzerland, the association further expands its base and now has 16 issuers.



Luzerner Kantonalbank

Claudio Topatigh, Head of the Structured Products centre of expertise at LUKB, comments as follows on the affiliation to the SSPA: «We welcome the opportunity to highlight our ties to the branch by joining the Association and intend to make an active contribution to its work in future. Through our newly established centre of expertise, we keep our finger on the pulse of the markets, identify new trends and issue structured investment solutions on a very robust basis. This enables us to create sustainable added value for investors.

Finanz und Wirtschaft Forum "Structured Products 2018" – 14th November



On 14 November 2018 the first Finanz und Wirtschaft Forum on structured products will be held at the Gottlieb Duttweiler Institute in Rüschlikon. The conference will discuss key questions linked to structured products, and will examine the latest investment trends in depth. Successful portfolio integration – those who own shares & bonds and wish to buy a structured product need to know how the overall picture of the investments will change. In order to deploy

products in as targeted a manner as possible, transparency and product understanding are particularly crucial – not just the risk-return profile, but above all the impact on the portfolio as a whole. With the help of structured products, its characteristics can be tailored precisely to the needs of the individual investor.

At the Finanz und Wirtschaft Forum, investors learn not just how they can deploy new technologies in order to see how effectively a product fits into their portfolio, but can also deepen their know-how directly in parallel group discussions conducted between the partners. Switzerland is a pioneer: it has the world's largest market for structured products and also exports to Asia. Cooperation between the providers, the automated production of the standard certificates as well as markets for bespoke products ensure transparency, reduced costs and tailored investment solutions.

As an event partner, the SSPA has played a key role in shaping the content of the event and invites you to discover in person on 14 November what opportunities you have to optimise your portfolio with structured products. The detailed programme as well as registration information is available [here](#). SSPA Chairman Georg von Wattenwyl has provided a foretaste of the event in a [video message](#)



Speakers:

- Prof Dr Aleksander Berentsen, Dean of the Business Studies Faculty of the University of Basel
- Jürg Brupbacher, Chairman of the Investment Commission of the Pension Fund of the City of Olten and founder and managing director of JBV Vermögensverwaltung AG
- André Buck, Global Head Sales Securities & Exchanges SIX
- Oswald Grüberl, former CEO Credit Suisse and UBS
- Dr Thomas Hauser, Managing Partner
- Dr Pimmi Hotz, Vermögensverwaltungen AG
- Dr Vera Kupper Staub, Deputy Chair of the Supervisory Commission for Occupational Pensions OAK BV
- Florian Müller-Reiter, Partner and Head Derivatives Technologies SwissQuant
- Prof Dr Maurice Pedergnana, CIO Zugerberg Finanz and lecturer at the Institute for Financial Services Zug of the University of Lucerne
- Maurice Picard, CEO Picard Asset AG
- Georg von Wattenwyl, President of the Swiss Structured Products Association

The Structured Products Forum is aimed at investment-relevant decision-makers and client advisors from banks, asset management companies, family offices, insurers, pension funds and charitable foundations from Switzerland and Liechtenstein.

«Expert View» – Education and perception are key for the industry – focus on «SRIs»
Current overview of the structured products industry by Thomas Schmidlin, Credit Suisse

Looking back at this year's Lucerne forum I noticed the following key take-aways for us as a structured products industry: «Education (including Simplicity and Repetition), once again «Perception» and another «green», «finding a place in Asset Allocations». One additional interesting topic which was mentioned by Frédéric Lamotte (CIO Credit Agricole Indosuez) was «SRI». With no doubt, in CIO's offices and among their respective product offerings, Socially Responsible Investments (SRI) will gain more and more importance and the awareness around investors for mainly green and sustainable investment opportunities seems to raise fast. On top, I just read a statement of intent letter written by Patrick Odier, Senior Managing Partner of LODH. His keywords were: Sustainability is perhaps the greatest investment opportunity in modern history! Lately, I also had an interesting chat with a Senior Finance Campaigner of Greenpeace, Switzerland. Main discussion was if banks need to have a more stringent governance and filter process around their product offerings and investment processes including environmental and social responsibility criteria.

I am convinced, SRI will be the upcoming investment theme and it will be a major topic also within the Swiss Structured Products Association in the very near future.