

SRP Insight

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BUILDING BLOCKS FOR PORTFOLIO CONSTRUCTION



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Exclusive: GS rolls out sustainability programme, launches first positive impact note

The US investment bank is the latest manufacturer to develop a programme to use proceeds from structured products for social causes.

Goldman Sachs has issued its first structured product as a sustainability issuance following the launch of its inaugural vanilla sustainability benchmark bond on 12 February, for a size of US\$800m.

“We think the timing is right as sustainable investing has never been more important and we are excited to support economic growth in a sustainable and inclusive way,” Maryline Mertz, global head of origination across equities and FICC at Goldman Sachs’ Global Markets Division, told SRP.

The product, issued by Goldman Sachs International, is a five-year Phoenix Autocallable product linked to Tesla. It will be publically offered to retail in Italy from 25 February onwards for a period of just over six weeks.

The programme offers a great degree of flexibility and allows us to offer any payoff type or underlying.

Investors will receive their initial investment if the underlying closes above 100% of its initial strike level on any of the annual observation dates. If no early redemption is triggered at maturity the product will pay back the nominal to investors alongside a 12.5% memory coupon for each year elapsed providing that the Tesla share is above 50% of its initial level. If the level of Tesla is below 50% of its strike levels at maturity investors’ nominal will be eroded on a one delta basis.

Goldman Sachs is not new to ESG as it has issued products in the past linked to green or sustainable underlyings, but for the first time the proceeds will be used to support sustainability causes.

“

Demand for investments with a positive impact in society is up

“The programme offers a great degree of flexibility and allows us to offer any payoff type or underlying as long as proceeds comply with the sustainability issuance framework,” said Mertz. “This means that we can combine sustainable underlyings with a green bond or social bond and the use of proceeds with a positive impact.

“We have no restrictions from a technical point of view when it comes to the choice of underlyings, but we are looking to develop products linked to assets that match the demand coming from investors. We’re focused on responding to investors’ needs and appetite, and we see increasing demand across the world for investments that have a positive impact in society.”

The product has been passported to be offered in Italy with Deutsche Bank as the distributor. However, the US bank is seeking to offer this kind of products in other jurisdictions and work with other distributors to respond to investor demand.

POSITIVE IMPACT

Proceeds of the sustainability issuances will be used to invest in new assets on Goldman Sachs’ balance sheet in the

space of climate transition and inclusive growth, in compliance with Goldman Sachs Sustainability Issuance Framework.

Goldman Sachs has developed a process to track and control which assets meet Goldman Sachs’ eligibility requirements of the two areas of sustainability, climate transition and inclusive growth.

“One of the companies we’re working with in the climate transition space for which we have provided debt and equity financing is BlocPower,” said Mertz.

“This company is seeking to retrofit and upgrade old energy systems in buildings in urban areas – the company uses machine learning to analyse air quality and temperature in the buildings to assess if energy systems need to be upgraded or enhanced to reduce the green-house and gas emissions effect, as well as improve the quality of life of tenants.”

Another recent deal under the sustainability framework includes National Urban League, a civil rights organisation in Harlem for which it facilitated the financing to build a new multi-use facility which will be the organisation’s new headquarters.

Goldman has also partnered with Sustainalytics to obtain an independent review and validation “to have a second-party opinion on our Sustainability Issuance Framework which outlines our eligibility criteria to identify the assets for which the proceeds of our products will be used”, according to Mertz.

Goldman Sachs will also create reporting on annual basis where investors can see what assets are being funded with the proceeds of the issuances, and such report will be audited by external auditors.

BBVA adds to QIS range with a focus on governance

The Spanish bank has developed two new sustainable-centered indices with Solactive as it continues to build its Quantitative Investment Strategies (QIS) offering.

The two new custom indices, the Solactive BBVA ixS Global Inclusive Growth Index and the Solactive BBVA ixG Global Governance & Board Diversity Index, track the performance of high-growth global companies that comply with the United Nations Sustainable Development Goals and are also leading corporate governance efforts.

The Spanish bank will offer a complete range of products from delta 1 to options on risk control versions to its clients wrapped in the most efficient way for their interests, Pablo Suarez, head of quantitative investment strategies at BBVA, told SRP.

The Solactive BBVA ixS Global Inclusive Growth Index incorporates leading growing companies that are in line with the 17 Sustainable Development Goals within the UN's 2030 Agenda for Sustainable Development including, for example, zero hunger, quality education, and gender equality.

"Inclusive Growth is the capstone of global economic development, an output that is fairly distributed across society encourages entrepreneurship and boosts opportunities for everyone,"

said Suarez. "Investors are more and more willing to recognize this factor in companies' behaviour as customers around the world are already doing for many years.

The Solactive BBVA ixG Global Governance & Board Diversity Index focuses on companies' corporate governance, the G part of ESG. The index ranks companies by their overall corporate governance score, bestowing companies with a better score for diversity on their board with greater weight in the final index.

The Solactive BBVA ixG Global Governance & Board Diversity Index completes the sustainable angle by rewarding companies that implement best practices in the ruling and process that drive the company management.

"Diversity in Board outstands as one of the key pillars we identify as fostering this good governance," said Suarez.

The bank's objective is to bring "responsible and transparent investment opportunities to everyone through investable indices, hence all of our indices are wrapped into the industries'

standard investment vehicles allowing our clients to invest in the most convenient way", according to Juan Ramón Domínguez, head of structured equity product sales at BBVA.

"BBVA institutional clients have already at their disposal our QIS Indices through vehicles such as warrants, structured notes or mutual funds and OTC derivatives or Total Return Swaps," he said. "In addition, for each of our QIS indices we are offering at least one risk control and decrement version that optimizes the way to structure an investment product.

"Risk Control indices are designed to keep volatility and dividend parameters at predetermined levels and become the perfect underlying for investment products at mid and long term with some capital protection given the current market scenario of ultra low interest rates. This way, investors with risk aversion can still find very attractive investment opportunities on Growth and MaxNav kind of payoffs."

Timo Pfeiffer, chief markets officer at Solactive said the latest release marks the completion of "a very meaningful index range that gives investors the full spectrum of ESG investing".

BBVA established its QIS business in late 2020 in a move to offer investors broad access to ESG investing solutions. In total, the bank has developed five indices with Solactive besides the two new governance-tilted indices, global ESG leaders, including the Solactive BBVA Climate Action PAB Europe index, Solactive BBVA Climate Action CTB Europe index, and BBVA ixESG Global Leaders EUR Risk Control 6% Index.

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Inclusive Growth is the capstone of global economic development

Russian broker to develop ‘locally manufactured’ range

Otkritie Broker, part of Otkritie Financial Group, is seeking to capitalise on the success of its first locally manufactured structured bond.



The Russian brokerage firm launched on December 28 the first ever securitised version of a derivative contract which was manufactured in-house and sold OTC.

The one-year bond is based on a non-principal protected autocallable structure linked to a basket of Russian blue chips listed on the Moscow Stock Exchange including Gazprom (gas producer), Nor Nickel (mining), Sberbank (banking) and Moex (stock exchange), will pay a 16% per annum coupon paid quarterly if all underlying are above 75% of their initial strike.

The successful launch is a good foundation for the structured bond business development in 2021

“The structure is very basic, but it was the first time it appeared on the Russian market in the form of locally manufactured Russian structured bond,” Anton Plyasunov (pictured), head of Otkritie structured product factory, told SRP. “Moreover, it was the first time when issuance documentation described such structure in legal terms and secured the approval of the Bank of Russia.”

The product which was available for qualified investors only met the country’s financial regulatory authority preference for bonds as the preferred wrapper for structured products.

“We had only three days to market the product, but it was enough to collect the sum for the launch,” said Plyasunov. “The successful launch is a good foundation for the structured bond business development in 2021.”

Otkritie has issued such structures using the OTC derivative wrapper for some years already. “[This wrapper] used to be popular, [but] with security wrapper, we hope to reach a wider audience of investors who prefer a more transparent and regulated investment vehicle,” said Plyasunov, adding that the regulator prefers the use of structured bond as they are registered in accordance with the Bank of Russia rules.

The Russian legislation regarding structured bonds came into force a few years ago creating the legal environment for the equivalent of structured notes. Since then, large Russian investment houses have been experimenting with

new products issuing various types of structures wrapped as bonds.

According to Plyasunov, one of the most popular and successful investments in 2020 for Otkritie was another basic one-year autocallable structure with regular guaranteed coupons of 17% per annum every month. The product had conditional protection at 85% and was also linked to the performance of a basket of Russian blue chips familiar to every local investor including Gazprom, Lukoil (oil company), Polyus (gold mining) and Yandex (IT).

“We did a few issues of such structure and mostly they autocalled early,” said Plyasunov.

NEW REQUIREMENTS

Russian regulators will limit retail investors’ access to complex products on financial markets from October 2021.

The Central Bank of Russia (CBR) stated in a recent announcement that non-professional retail investors will be required to pass a test with questions about various financial instruments including repo transactions, marginal trading, transactions with financial derivatives and the purchase of structured bonds.

The new requirements will apply to those investors seeking to invest in complex investment products such as structured products, repurchase agreements or marginal trading on Russian stock and foreign currency markets.

According to the CBR, an increasing number of complex products including structured products is being actively marketed to individual customers. The Russian regulator is targeting financial intermediaries to restrict the sale of derivative and structured products to non-qualified investors.

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The regulator prefers the use of structured bonds

Eusipa calls for exemption from new Priips RTS

The European structured products trade body claims the new RTS will result in delivering conflicting KIDs on Category 1 and 3 structured products.



The European Structured Investment Products Association (Eusipa) is appealing to European regulators for structured products to be exempt from the redrafted version of the Priips Regulatory Technical Standards (RTS) finalised by the ESAs in early February as it 'does not meet the technical requirements across a broad range of packaged investment products'.

Although the European trade body continues to 'unreservedly' support to the ambition of the EU Priips regulation to establish an EU-wide standard for delivering correct, non-misleading and comparable product information to retail investors, it believes the implementation of the new RTS risks providing incorrect and inconsistent information in the key information documents (KIDs), especially for Category 1 and 3 structured products.

According to Heike Arbter, Eusipa chairwoman, the new RTS is technically insufficient as it would allow product manufacturers to apply individual methodologies and render many KIDs incorrect and incomparable at the point of sale.

"This will have a detrimental effect on the retail customers' understanding and willingness to invest," she said. "In addition, the uncertainty of yet another change to the RTS ruleset in the near term will deter many distributors from engaging with retail customers on future investment opportunities."

Category 1 Priips includes products where investors could lose more than the amount invested; are linked to underlying investments that are priced on a less regular basis than monthly; do not have an appropriate benchmark or proxy, or the appropriate benchmark or proxy is priced on a less regular basis than monthly.

Category 3 covers Priips whose values reflect the prices of underlying investments, but not as a constant multiple of the prices of those underlying investments, where at least two years of daily prices of the underlying assets, four years of weekly prices or five years of monthly prices, or where existing appropriate benchmarks or proxies are available, provided that such benchmarks or proxies fulfil the same criteria for the length and frequency of the price history.

"There isn't as great a regulatory gulf

between the industries as it may seem from the outside. Simply, the fund industry generally favours the new RTS as they bring the past performance component into the KID. This, therefore, is the condition on which they would let go of the Ucits KIID," Thomas Wulf (pictured), secretary general at Eusipa told SRP.

The same goes for the level playing field approach, which was intended to fulfil the ambition of having a comparable KID for all asset classes in packaged products.

While this ambition is rooted in a correct underlying assumption (that retail investors need comparability), the level 1 review might focus, among other things, on whether anything hampers the use of KIDs for comparing products in practice.

The trade body is also 'highly concerned' that the timeframe for implementing the new RTS by January 2022 will derail their successful rollout.

This is because the Level 1 review of the Priips Regulation scheduled to bring results in about 18-24 months from now 'will inevitably lead to yet more changes to the RTS ruleset, if not their complete overhaul'.

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There isn't as great a regulatory gulf between the industries as it may seem from the outside

As a result, Eusipa is urging the European Supervisory Authorities (ESAs) and the European Council (EC) to seek a constructive solution to the above constraints, aiming to safeguard the EU PRIIPs Regulation's initial purpose of 'providing technically correct information in a market-friendly format that enables investors to make informed investment decisions rather than confusing them'.

In order to address the current RTS shortcomings, the association representing the European structured products industry is proposing to apply the redrafted RTS to Category 2 UCITS funds only and to hold off with applying them to other products until the EU PRIIPs Regulation's Level 1 review has been finalised.

The European structured products trade body stressed its disagreement back on February 2020 with the general approach taken by the ESAs of seeking to change delegated legislation known as Level 2 without embedding this effort into the legally foreseen review of the

Level 1 text, on the basis that this could lead ultimately to the introduction of changes, which at a later stage would be revoked or amended again.

"The major objections for everyone else (including consumer/investor protection bodies) stem from the many foreseeable problems of introducing new RTS, which would have to be adapted once more following the forthcoming more fundamental Level 1 review," said Wulf. "This ultimately would mean not only changing data input and document-processing routines, but salesforce and customer re-education with all the attendant risks of being misunderstood and generally unclear, thereby risking even the few reputational gains made by fixing the major bugs of RTS 1."

According to Wulf, "starting from scratch in that context is an option that theoretically could be put on the table for the Level 1 review, though it would, in my eyes, require extensive consumer testing of new and innovative means of

delivering financial information to retail customers and finding out what really works best".

Eusipa's reaction comes on the heels of the draft RTS on amendments to the PRIIPs KID submitted by the ESAs to the EC earlier this month which was also rejected by the European Fund and Asset Management Association (Efama). The association said it fell short of conducting a proper Level 1 review which would help to 'settle the dilemma at the heart of the PRIIP KID' and 'create a fully homogenised retail investor document involving hugely diverging investment and insurance products while, at the same time, keeping the information both meaningful and not misleading'.

The position of Eusipa and Efama shows that the outstanding issues and differences of approach by the banking and funds industry remain, making the PRIIPs review a significant challenge for European regulators.

PRIIPs review goes ahead as Eiopa agrees on RTS changes

The European Supervisory Authorities (ESAs) - the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (Eiopa) and the European Securities and Markets Authority (Esma) - have submitted draft Regulatory Technical Standards (RTS) on amendments to the PRIIPs KID to the European Commission.

Following a request from the European Commission in December 2020, Eiopa's board of supervisors further analysed the draft RTS which has been adopted by a qualified majority of its board.

According to the letter sent by the ESAs to commissioner Mairead McGuinness last week, despite the reservations expressed by some national competent authorities at Eiopa's board, they supported the proposal based on the further details provided by the Commission in December 2020 on their approach to the broader review of the PRIIPs regulation.

In its letter to the ESAs of 18 December 2020, commissioner McGuinness confirmed that the review of the PRIIPs delegated regulation to facilitate the application of the PRIIPs framework to retail investment funds in order to end the exemption for UCITS funds to provide a PRIIPs KID which was initially set to lapse on 1 January 2021, had been extended by one year due to delays in the review.

However, the Commission urged the ESAs to submit an RTS to amend the KID within a six-week period. It also warned the regulators that the PRIIPs delegated regulation needed urgent amendments 'to ensure its appropriate application to retail investment funds, as of January 2022'. 'If the Commission does not adopt such amendments, the current methods would not be adjusted for such retail investment funds,' stated McGuinness' letter.

The Commission invited the ESAs to jointly submit draft amendments to the RTS, and in late January, wrote to Eiopa's chairman Gabriel Bernardino to remind the regulator that the review is one of its priorities.

CACIB rolls out green impact certificates in Italy

The new 'positive impact' certificates are offered in exclusivity to Crédit Agricole Italia networks.



Crédit Agricole CIB (CACIB) has launched a new green investment solution exclusively for the clients of Crédit Agricole Italia (CA Italia, CA Friuladria). This initiative is part of French group's commitment to sustainable development and attention to ESG issues.

The new five-year capital-protected impact green certificates (ISIN XS1784703610) are linked to the performance of the MSCI Europe Green Select 50 5% Decrement Index and are denominated in euro and have a maturity of five years. The certificates will pay an annual conditional coupons equal to 0.40% for the first four years if the underlying index doesn't lose more than 50% from its initial level and, upon maturity, they will return the capital invested alongside 100% participation on the positive performance of the MSCI Europe Green Select 50 5% Decrement Index. The product includes an 85% downside protection barrier.

"ESG awareness is definitely growing in the Italian market to such an extent that even the Italian Treasury is publicly discussing the possible issuance of a Green BTP," Carlo Galli (pictured), head of retail and private banking group for Italy, told SRP. "ESG investing is in a transition phase: from a niche, purely commercial feature of the product, it is

now becoming "mainstream" and it will be even more so once the ESG category will be fully integrated into the suitability questionnaire needed to provide investment advisory services. Investors now make the choice to be on, and invest in the sustainable side of finance and Crédit Agricole CIB, a leader in this field, can be their right partner.

"In Italy Crédit Agricole CIB has pioneered this segment launching the first Double Green Notes in 2018. Ever since several Green solutions were launched and the plan is to continue innovating within the Green/ESG domain along with a growing demand."

"We continue to see increasing traction across Europe for our ESG offering, not only in Italy and France, but also in the UK, Switzerland and Nordic countries where we witness an increased number of requests and transactions in that space from various types of investors. We have recently traded our first Index linked Green Note in a public offer format in the UK," said Gael Riboulet (pictured), global head of structuring and sales. "Crédit Agricole CIB has an established track record in green bonds and sustainable investing that our clients can benefit from when looking at structuring a sustainable equity linked product. Total invested amount in Crédit Agricole CIB equity linked green bonds has been more than multiplied by 3 over 2020. We expect this trend to continue over the coming months."

The MSCI index licenced to CACIB is composed of the 50 largest European companies that offer products and services with the greatest impact on the environment. The key themes considered by MSCI in its selection process include alternative energy, sustainable water, green building, pollution prevention and energy efficiency.

The funds raised by CACIB via the issue of green certificates will be used to support Crédit Agricole CIB's portfolio of green loans, comprising loans to businesses and projects that demonstrate superior ESG performance.

Businesses and projects eligible for the bank's green portfolio are 'exclusively dedicated to the transition towards a more environmentally friendly economy and act as a role model in terms of performance within their field'. The eligible sectors include renewable energies, energy efficiency, water and waste management, public transportation and others, according to the bank.

This is the second time the MSCI Europe Green Select 50 5% Decrement Index is made available to Italian investors following the launch in June 2020 of the Protected Catch Profit Autocall Certificates - MSCI Europe Select Green 50 5% Decrement Index, a six-year 95% protected autocall with a protected tracker payoff profile sold by the bank's subsidiary Banca Popolare FriulAdria.

CACIB, which became the number one structured product issuer in France in Q3 2020, has issued seven products in France linked to the MSCI index with an estimated value of €190m since the beginning of 2020, according to SRP data.

CACIB has a track record in green bonds and sustainable investing. It launched a range of green structured products including the first green investment solution for Italian investors under its Climate Action Green Notes programme in 2018.

The French bank marketed 38 products in Italy in 2020 with an estimated value of €180m.

Investec exits UK structured products market

The curtain has finally come down on Investec Structured Products in the UK after 15 years of activity.



Investec Bank will stop any further retail structured product plans in the UK retail market from April 2021. The next launch, which takes place from 15 February 2021 to 1 April 2021, will be Investec's last set of structured plans brought to market.

All existing plans, including all investments into Investec's range of

plans, are unaffected by the bank's decision, the Anglo-South African bank said in a statement.

Structured products are no longer the most efficient way for Investec to raise retail funding

All live products will continue to function as set out in the relevant product documentation, 'including clients' rights with regards to encashment' and the bank will continue to support them throughout their investment term over the coming years.

Investec's decision to cease offering new retail structured products is a reflection of its shift in focus to its core services for Financial Advisers: Discretionary Fund Management and Managed Portfolio Services on Platforms (MPS).

The bank told SRP in November 2020 that it remained committed to retail structured products despite the

move from the group's CEO Ruth Leas (pictured) to reduce its offering and de-risking its trading books over time. However, the decision is unrelated to the hedging losses reported in Q4, according to an Investec spokesperson.

"We've made this decision for commercial reasons," the spokesperson told SRP. "Investec is a highly liquid bank and structured products are no longer the most efficient way for Investec to raise retail funding given the efficiency of our other retail channels. Other factors in the structured products environment, such as persistently low interest rates, have also contributed to this decision.

"The decision relates to Investec's UK retail structured products business only, and it does not involve job losses."

This means that Investec's will remain active in the structured products market in South Africa, Ireland, the Nordics, and offshore.

Investec Bank: live products by market (outstanding)

Country	Number of products	Volume US\$m
UK	543	2,894.72
Sweden	219	700.16
Ireland	85	391.50
South Africa	71	927.62
Insitutional	10	23.56
Finland	8	7.29
Luxembourg	1	8.49
Grand Total	937	4,953.33

Source: [StructuredRetailProducts.com](https://www.structuredretailproducts.com)

FSCS FOCUS

Investec has been the main issuer and distributor of structured products in the UK since 2014 following its entry in 2008 and was a driving force behind the adoption of these products by the country's financial advisers although on a deposit format which stopped the structured note from gaining market share over the years.

"It's a shame in one sense because they have delivered great products for investors and advisers alike over the last 15 years or so, and they've dominated a small market," Clive Moore, MD at IDAD told SRP. "The negative side of that though (and no criticism of Investec's strategy) is that large swathes of the adviser market have never really got past the idea of a structured product being an FSCS-protected deposit."

Investec's exit could have a positive impact on the retail market and may help the market develop as advisers and investors "could take a more open-minded look at the wider structured products sector". But its very competitiveness - too many providers/ margins exceptionally tight - normally means there is little time or money to get the broad message out there and grow the sector, according to Moore.

"Investec's timing is good - market conditions pretty much preclude any sensible offers in terms of structured deposits, so there's unlikely to be an obvious replacement for this business

until medium term rates pick up and/or the concept of 95% capital-protected deposits takes off," he said.

"The latter is "presumably on someone's agenda at the PRA, based on all the chatter about negative interest rates, and it would be great for investors and advisers, allowing for a resurgence in structured deposits to try and deliver returns to the millions of investors for whom the choice often seems to be between earning nothing on their savings, or ending up in the clutches of "novelty bond" providers - think London Capital & Finance which went into administration in January 2020 - and losing most, or all of their money."

EUROPEAN FOOTPRINT

SRP data shows a 25% fall in Investec's issuance year-on-year (90 products YTD20 v 126 products in 2019) in the UK. The bank had been the main provider of structured products in the UK retail market since 2013.

Investec has over 540 live structures in the UK market worth an estimated £2.7 billion mainly linked to the FTSE 100 (511 products/US\$2.6 billion), Investec EVEN 30 Index (35 / US\$160.52m); Eurostoxx 50 (27 / US\$112.24m), and S&P 500 (21 / US\$73.35m).

The bank is also active in the Nordics and Ireland. Investec's first appearance in the Nordics was in Finland after striking local partnerships with distributors such as Wallstreet

Asset Management (now Korkia) and Garantum. It also has products listed on the Nasdaq Helsinki exchange.

In Sweden, Investec Bank is a top three issuer and has marketed over 100 products worth an estimated US\$255m in 2020 using domestic providers SIP Nordic and Strukturinvest as distributors. There are 219 live products in Sweden issued by Investec worth an estimated US\$137.6m

In Ireland, the bank is also the third most active provider with 12 products worth US\$28m launched in 2020 and has 85 live products worth an estimated US\$360m.

In 2020, Investec Structured Products partnered with UK asset manager Protean Capital to launch a new structured product fund targeted at UK retail investors. The VT Protean Capital ELDeR Fund provides investors with the benefits of the defined returns of structured products but in a unitised, open-ended Ucits format.

Most recently, the bank launched the UK's first retail ESG-linked deposit plan - the FTSE4Good 6 Year Deposit Plan 1 - a six-year fixed term deposit plan tied to the FTSE4Good UK 50.

The product was part of Investec's 100th launch, marking 12 years in which Investec has offered consistently available deposit plans and investment plans, with 1,175 matured products and no capital loss.



Structured products are no longer the most efficient way for Investec to raise retail funding

Exclusive: XP debuts commodities prop play via structured note

Brazilian investment firm XP Investimentos has launched a COE (certificate of structured operations) linked to a customised commodity global exchange-traded fund (ETF).

The structured note launched on 15 March 2021 and tracks the performance of the Solactive XP Indice de Commodities VT 15% (SOLXPCOM). The underlying is the firm's second customised index.

XP is the first Brazilian bank to debut such an index in the domestic market, while the theme was inspired by the potential theory of a new commodity cycle of which there are many interested investors, both retail and institutional, according to Bruno Giannecchini lead in structuring at XP.

The volatility control is a very simple, traditional, efficient mechanism

"This thesis, if proven correct, should benefit from a weaker dollar around the globe. That being said, the index as built, can fit in a capital protected product and it still provides good tracking of the movement of the commodity asset class," said Giannecchini.

The index features a target volatility of 15% annualized to be able to create efficiency in terms of allocation of the ETF and protection from high volatility scenarios in stress tests. The cap of volatility also allows the structure to fit into a capital protected COE.

"The volatility control is a very simple, traditional, efficient mechanism. The portfolio is rebalanced daily between the ETF and a cash component, based on the realized volatility of the portfolio," said Giannecchini.

XP launched its first custom index in 2020, the Solactive XP Indice de Acoes Americanas de Tecnologia VT 19% index (SOLXPTEC) which was based on

technology. However, the firm notes that the internal framework set-up dates back to the beginning of 2020.

"We have been building up and working closely with our QIS team," he said. "So, even if the first index was launched about three months ago, we have been working for over a year."

The use of proprietary indices suggest that end investors are becoming more sophisticated over time and the structured notes product side has been further developed in Brazil, according to Giannecchini.

"This combination made the final investor to seek different approaches, ideas and/or themes," he said. "After years of experience one of our conclusions is that we can offer those alternatives of investments via proprietary indexes, since we can build the index with some flexibility, according to the final investor demand and in a way that we can fit it into our capital protected structures."

DIVERSIFICATION

After the historic market crash which took place in March of 2020, XP rolled out a greater volume of COEs indexed to gold and silver for those who were aiming for diversification and hedge of their portfolios. The bank is still offering those gold based COEs on the platform as the demand keeps increasing.

"Regarding other mining materials, we do see demand but it's not very easy to set up the structures to put inside of a structure note, due to a lot of difficulties like the type of the products we need to use, liquidity and volatility, among other issues," said Giannecchini. "We had been

searching for something to use as an alternative, and we found the solution on this commodity index that we just launched."

Our flexibility to offer different ideas and products is what is bringing us to a whole new level. Last year proved to be a landmark for XP Investimentos and its parent firm Banco XP in terms of growing its footprint across the Brazilian market.

SRP data shows that Banco XP was the most prolific structured products issuer group in the Brazilian market during 2020 with 189 products worth BRL 3.2 billion (US\$562m).

This can be compared with its issuance of just four structured products in Q4 19 with BRL 25.7m in sales volume.

The issuer's most active quarter of 2020 was the third with over BRL 1 billion in sales and 78 products. Banco XP assumed the top ranking during the second quarter with 33 products valued at BRL 384 billion from third place in the previous quarter, having issued 23 products valued at BRL 203 billion.

"We believe that XPI is already one of the best solution providers of structured notes in Brazil," said Giannecchini. "We have been growing exponentially over the past few years and I think our flexibility to offer different ideas and products is what is bringing us to a whole new level. We also have big plans to expand our franchise globally, and to take that experience and level of services to another layer of customers worldwide."

The Covid-19 pandemic is thought to have acted as a catalyst for multiple investor trends such as thematic investments.

Structured annuity sales bounce back to ‘pre-pandemic’ levels

Registered index-linked annuity (Rilas) have emerged as the product of choice for retirement investors during the pandemic as fixed index annuities (FIAs) continued to suffer the impact of low interest rates.

Annuity sales in the fourth quarter of 2020 have reached levels recorded before the Covid-19 pandemic despite less than favourable economic conditions, according to the Secure Retirement Institute (SRI).

Registered index-linked annuity Rilas sales emerged as the breakout star of 2020 while FIAs were a casualty of the historically low interest rate environment.

Rila sales totalled US\$8.3 billion in the fourth quarter, a 68% jump from Q4 19 and 33% higher than the US\$6.3 billion recorded in Q3 20.

We’ve seen a continued rise in Rilas in the fourth quarter, as well as elevated fixed-rate deferred annuity sales

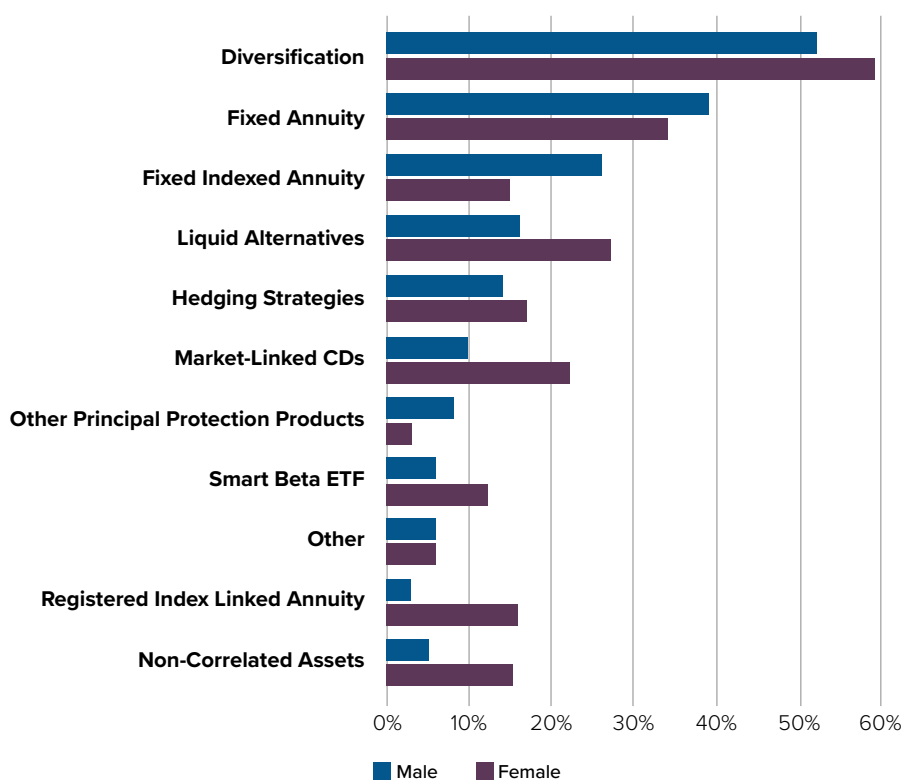
In 2020, total Rila sales were US\$24 billion, a 37% climb from 2019 sales and represented nearly a quarter of all variable annuity (VA) sales for the year.

FIA sales were US\$14.3 billion in Q4 20, a 15% fall compared with fourth quarter 2019 results. After record-breaking sales in 2019, FIA levels decreased by 24% to US\$55.7 billion in 2020.

Todd Giesing (pictured), director of annuity research at SRI, notes that even though economic factors haven’t improved significantly, interest rates are getting better despite still remaining low.

“We’ve seen a continued rise in Rilas in the fourth quarter, as well as elevated fixed-rate deferred annuity sales. Even though they are on the decline from their peak in the third quarter, they’re still significantly higher than what we’ve historically seen,” he said.

Which of the following solutions do you use to help you protect your assets against market risks?



Source: Nationwide

A recent survey looking into investor behaviour and gender specific preferences conducted by Nationwide found that while 16% of male clients would opt for a Rila to protect their assets, only three percent of female clients would choose the same product.

However, female clients formed the majority of those interested in a FIA (26%), compared to 15% of men.

While SRI does not currently collect gender specific information on investor

interests, Giesing notes that current economic conditions have made Rila products uniquely attractive to consumers seeking both downside protection and investment growth, drawing new manufacturers to the market.

“Instead of new entrants cannibalising market share from existing manufacturers, we saw strong sales growth for Rila products across the industry driving fourth quarter VA sales and overall industry sales to reach pre-pandemic levels,” he said.

Monex retains lead in Mexico despite challenging year

The financial group suffered a 31% fall in issuance and a 20% decrease in sales with 960 structured products valued at MXN 49.2 billion (US\$2.4 billion) during the fourth quarter of 2020, compared with 1,403 products in Q4 19 worth MXN 62.2 billion.

Despite the slowdown in activity which was felt across the market Monex continues to dominate the Mexican structured products market. It was able to maintain its top ranking for the entirety of 2020.

The most popular products at Monex in 2020 were wedding cakes and double no-touch (DNT) options with short maturities of one to two weeks while structured notes gained popularity, due to the decrease in interest rates in Mexico during the pandemic, according to Ricardo Guido, (pictured) director at Mexican bank Monex.

“The dual currency deposit still has a good market of people willing to take the FX risk in order to obtain a good return, especially in episodes of higher volatility as we have experienced in the last couple of weeks,” he said.

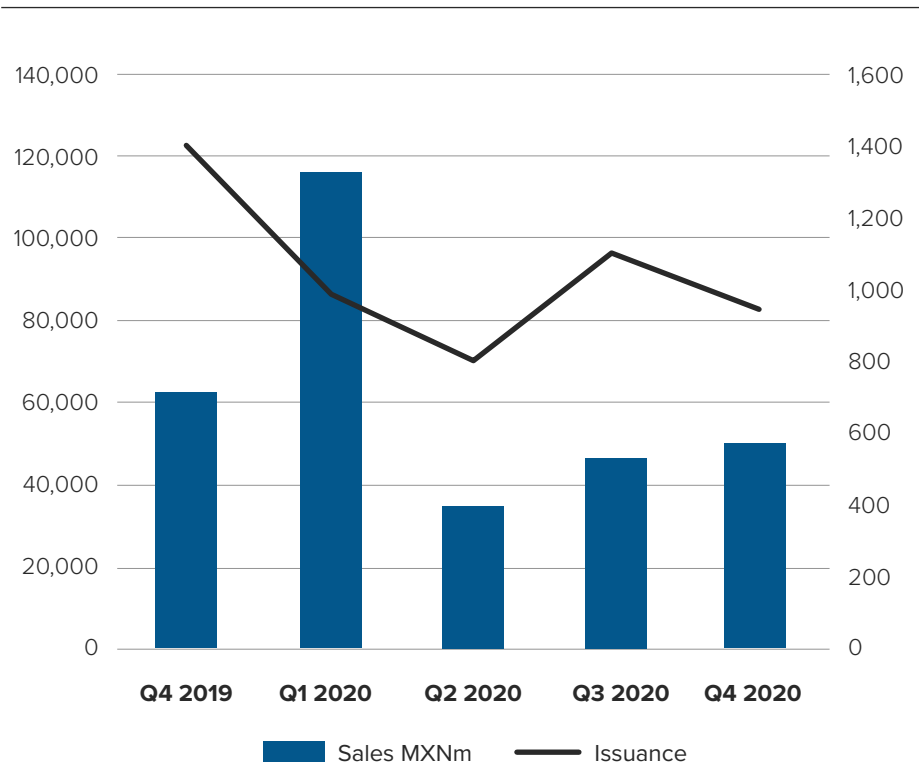
Capital-protected notes in USD have almost extinguished but the firm sees this environment as an opportunity to grab the attention of potential investors and expand its footprint.

“Monex has always been known as the FX house in the local market and our structured products have focused on this market,” said Guido. “Our issuing minimum amount is smaller than in other banks, giving smaller investors a chance to have something tailor made to their needs.”

SRP DATA

Monex’s product issuance fell during the first quarter of 2020 in comparison to the previous quarter although sales shot up to MXN116.5 billion (988 products), the highest figure during the year.

Monex: sales and issuance by quarter



Source: StructuredRetailProducts.com

Sales, however, crashed to MXN33.9 billion during the second quarter just as financial markets across the world had to contend with the Covid-19 pandemic.

Issuance did recover in the following quarter reaching a figure of 1,096 while sales began to improve standing at MXN45.8 billion at the end of Q3.

According to the SRP database, the number of structured products tied to the USD/MXN underlying grew by

US\$1.7 billion in 2020 reaching US\$12 billion from US\$10.3 billion.

In 2019, a total of 47 products valued at US\$110.4m were tied to TIE 28, compared to the following year where just one product was issued with a sales volume of US\$5m.

While issuance of the bank deposit certificates and structured bond wrappers both decreased, sales stayed strong at US\$7.2 billion and US\$4.8 billion, respectively.

NBC: callable income structures grow exponentially

The Canadian bank has introduced 'deeper' downside barriers as need for protection increases



The investment bank of National Bank of Canada (NBC) has reported an influx of autocallable contingent income products in the past year with optimal market and pricing conditions boosting monthly distributions.

According to Vincent Marquis (pictured), managing director at NBC, the firm shifted its offering towards income notes with deeper barriers, citing a significant investor need to which it adjusted accordingly.

"A lot of investors are comfortable with the type of barriers that we provide, and they like the fact that structured notes are defined payout investments. In terms of customisation, I think we are very flexible and are able to adapt quickly," he said, adding that clients' needs did not shift on a large scale even though there existed a stronger need for protection.

SRP data shows that a total 865 structured products were issued by NBC in 2020, worth about an estimated US\$685m.

The bank's most featured underlyings are all Canadian financials including CIBC, Bank of Nova Scotia, Bank of Montreal,

Royal Bank of Canada, and Toronto Dominion Bank.

"We saw many shorter-term to maturity notes of about two, three or four years, which is less common in Canada there are mostly plain vanilla underlyings on five-year terms, (and even seven-year terms)," said Marquis.

The bank sees an increasing demand for certain sectors, particularly banking which maintained a high profile in Canada, alongside the insurance, energy, telecommunications, and technology sectors.

The lion's share went to Google, Facebook and other technology stocks which were deployed via baskets on account of the bank not issuing as many single name notes.

"Canadians place a high level of trust in their financial institutions and it reflects on the stock market and on the demand for structured products," said Marquis.

Pre-Covid, markets were faring well with much optimism, as well as many products that were called and a sizeable turnover.

"When Covid hit, many structured products issuers stopped issuing especially in the principal-protected space," he said. "I believe that National Bank was the only firm to maintain issuance continuously in the Canadian market for the PPNs and market-linked GIC space."

VOLATILITY

Generally, volatility more than compensated for the decline in rates for the most popular non-principal protected products.

In terms of PPNs and GICs, rates acted as the main drivers, naturally leading to a

material drop in product investment terms. The significant and quick fall in rates may be what led some issuers to stop offering principal-protected products during the most volatile weeks of 2020.

"We never stopped although the recent low interest rate environment slightly diminished the variety of products that had been offered," he said.

As investors began to digest the shock of the first few weeks, the market started to rebound, and the demand for new issuance came roaring back with market conditions helping to improve pricing.

"We spend a lot of time educating clients as well, as during the low points of the market, outstanding series' of structured products also experienced a massive drop across the board, so we gained satisfaction in the thought that we prepared our clients well ahead of time for this kind of event," said Marquis. "Education is continuous and we will keep spending a lot of time doing that."

The bank still views capital protection as a prominent driver of issuance.

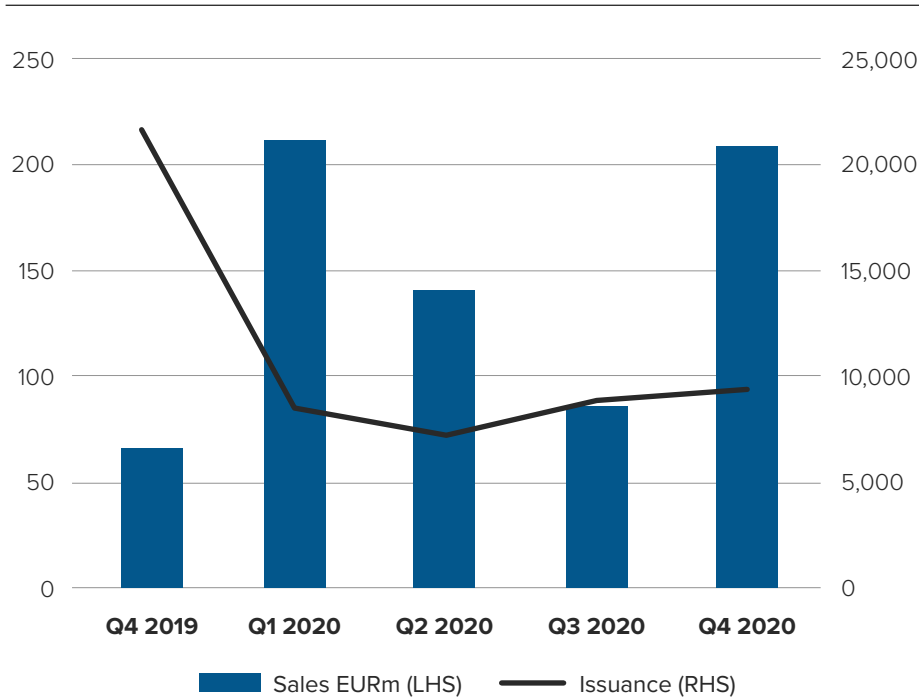
"We saw that PPNs and market-linked GICs kept their attractiveness versus fixed rate GICs," said Marquis. "This is why it is still a prominent driver of issuance for NBC. We are also in a historically low interest rate environment, so we will see if rates are likely to go up. Their elevation would be helpful for our principal-protected products."

With callable income structures projected to go on an upward trend in 2021, National Bank's clients appear to be nurturing a greater interest in value stocks amid the widespread vaccine rollouts, a trend that Marquis predicts will be the most significant this year.

Deutsche Bank halts US issuance

The German investment bank stopped issuing structured products in the US market during 2020.

Deutsche Bank: sales and issuance in Europe by quarter*



*Incl. flow and leverage products
Source: StructuredRetailProducts.com

Deutsche Bank has stopped new issuance of structured products in the US market with SRP data recording no activity throughout 2020 after three years of diminishing sales volumes. These reached a record low of US\$17.5m in 2019 compared to US\$618m in 2018, and US\$1.1 billion in 2017.

Deutsche Bank's chief executive officer, Christian Sewing (pictured), announced the sale of its equity derivatives book in a move to de-risk its balance sheet in 2019. Shortly after Goldman Sachs acquired Deutsche Bank's Asian equity derivatives portfolio while Barclays and Morgan Stanley took over the European and US trading books, respectively.

As part of the shift in its strategy, the German bank also transferred its global prime finance to BNP Paribas,

dismantled its Jaguar equities strats platform and the quantitative investment strategies (QIS) team.

In 2019, the German bank launched seven products in the US market tied to four underlyings including the S&P500 and iShares MSCI EAFE ETF (US\$3.7m).

Deutsche Bank's US issuance in 2018 consisted of 94 registered unlisted notes linked to a total of 52 underlyings, including the Eurostoxx 50 (US\$170.6m) and the Bloomberg Commodity Index (US\$25m), among others.

Popular distributors of products issued by the German bank included J.P. Morgan Chase (US\$165.8m), Incapital (US\$3.5m), Raymond James (US\$3.5m), Merrill Lynch (US\$62.8m), Bank Leumi (US\$2.5m), and UBS Financial Services (US\$26.7m).

In 2017, the bank issued 198 structured products in the US market.

EUROPE

In Europe, the bank rebounded during the fourth quarter of 2020 to issue 9,384 structured products worth €206.7m compared to 8,906 products worth €84.5m in the previous quarter.

The bank's structured product issuance in 2019 which included only four tranche products has fluctuated - having rolled out 21,423 products valued at €65.7m in Q4 19 - with its sales volumes more than doubling in the first quarter of 2020 to €209.6m on the back of 8,582 products.

Sales volumes hit their lowest levels of the year during the third quarter of 2020 while issuance remained steady, having increased from the second quarter's figure of 7,238 products.

INTERNATIONAL

In 2020, Deutsche bank issued 34,110 products across multiple regions including Germany (34,065/US\$78.2m), Austria (34,063/US\$46m), Belgium (14/US\$157.8m), Italy (10/US\$46.7m), and Spain (4/US\$289.2m).

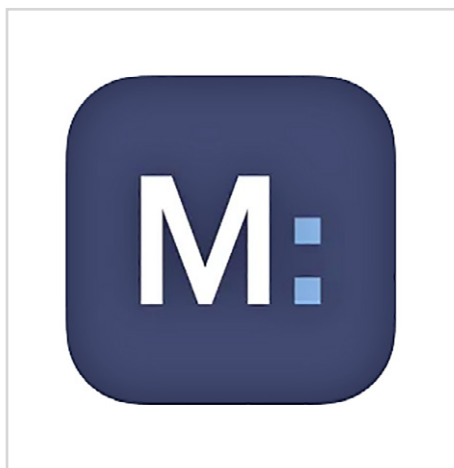
This can be compared with 2019 when the bank issued a total of 134,558 products across 13 regions, most of which overlap with the following year with Japan emerging as the stand-alone market for the Apac region (eight/US\$26.5m).

The majority of the products in 2020 are wrapped as warrants (20,329/US\$124.4m), medium-term notes (27/US\$215.3m), certificates (12/US\$220.3m) and leverage certificates (13,735/US\$82.6m).

The most popular underlying in 2020 was gold with a total of 5,878 products valued at US\$23.6m, compared to 2019 when the German blue-chip stock index DAX was the preferred underlying with 36,651 products worth US\$121.8m.

Goldman rolls-out Marcus Invest platform

The Canadian bank has introduced 'deeper' downside barriers as need for protection increases



Goldman Sachs has rolled out its robo-advisory platform Marcus Invest in the US to facilitate access to automated portfolios as part of the expansion of its Marcus retail consumer offering.

Investors will be able to open a Marcus Invest account for a minimum US\$1,000.

The digital platform which will be integrated into Goldman's existing Marcus app and website, offers a suite of exchange-traded funds (ETFs) based on the investors risk appetite and timeline. The platform will 'recommend a conservative, moderate, or growth portfolio (or somewhere in between)' and customise the investor's approach 'by selecting one of our Goldman Sachs investment strategies' to determine which ETFs the investor will be invested in.

The three strategies offered include Core, which concentrates on a mix of US and foreign stocks and bonds; Impact, for ESG investors; and Smart Beta, a selection that targets higher risk assets. Goldman will charge Marcus Invest clients an advisory

fee of 0.35% which will cover asset allocations and trade commissions.

The launch is part of the bank's expansion of its Marcus personal finance brand which was introduced in 2016 with a range of consumer banking services including high-yield savings accounts which can be accessed through the Goldman's app or web portal.

A Goldman Sachs spokesperson told SRP the robo-advisory platform will be launched in the UK later this year.

Marcus Invest does not allow users to buy and sell individual stocks in contrast to other digital investing apps like Robinhood and Webull Financial. It is meant to compete with digital investing robo-advisors like Betterment and Wealthfront.

Cboe Vest Gold target income tracker hits the market

First Trust has added to its suite of target outcome ETFs, with over US\$1.6bn in total net assets, with the FT Cboe Vest Gold Strategy Target Income ETF. Cboe Vest's flagship target income strategy will be used in conjunction with the FT Cboe Vest Gold Strategy Target Income exchange-traded fund (ETF). The product with the ticker 'IGLD' seeks to deliver participation in the price returns of the SPDR Gold Trust (GLD) and produce a consistent level of income that exceeds the income generated by an investment in one-month US Treasury securities by approximately 3.85% on an annual basis.

Cboe Vest, the asset manager partner of Cboe Global Markets, will manage and sub-advise the fund. According to the chief operational officer at Cboe Vest, Jeffery Chang, investing in gold as an asset class offers great diversification benefits as the large equity pullbacks have actually outperformed products such as investment grade bonds when it concerns hedging against downturns.

"We've seen record amounts of monetary and fiscal stimulus and this really spoke to a fear of inflation. Historically, when you look at gold, it has been a good inflation hedge so you would be able to retain its benefits," he said.

IGLD will invest its assets in short-term US Treasury securities, cash and cash equivalents and in the shares of a wholly owned subsidiary that holds FLEXible EXchange Options (FLEX Options), referencing the price performance of GLD. Through these investments, the fund will aim to provide returns linked to the performance of GLD. The fund will also seek to generate income through a sale of call options on GLD. Via this call selling strategy, a portion of the upside price return of GLD can be converted into current premium income.

Karan Sood, chief executive officer of Cboe Vest said: "For some investors, the biggest criticism to gold has been the lack of yield. IGLD seeks to change that. Investors are now able to potentially derive income from gold while still retaining participation in its growth potential."

J.P. Morgan debuts ESG index-linked structures in Asia

The US bank has issued its first ESG index-linked structured note to a private bank in Hong Kong in January and hedged an investment-linked policy (ILP) linked to the S&P ESG Global Macro Index in the second half of 2020.



Distributed by a large insurance company in Southeast Asia, the ILP deal marks J.P. Morgan's inaugural hedge providing service for an ESG-linked structured product in Asia. The US bank provided the hedge via a call option linked to the S&P ESG Global Macro Index, which was launched in October 2019.

Retail investors who have purchased the ILP will receive their investment in full plus a fixed coupon and an upside participation rate of 100% when the product with a tenor of almost 10 years matures.

"The interest to invest into ESG has finally picked up in Asia over the past couple of years," Sim Ee Cheah (pictured), head of Apac equity derivatives structuring at J.P. Morgan, told SRP. "We see more private banks and various distribution channel clients requesting tradable [structures] in the ESG index space."

The new structured note is tied to the performance of the MSCI China ESG Leaders 10/40 Index with a tenor of one year. The index, which consists of 139 large and mid-cap companies in China, is maintained on a daily basis to take into consideration the 10% and 40% concentration constraints on funds subject to the Ucits III directive.

Launched in November 2019, the MSCI China ESG Leaders 10/40 Index has delivered an annualised return of 0.99%, 54.33%, -26.82%, 30.88% and 42.29% from 2016 to 2020.

PARTNERSHIP

Although the ILP was launched to the market in 2020, Cheah and her team seeded the idea of co-developing ESG indices that cater to Asian investors with S&P Dow Jones Indices (S&P DJI) back in mid-2018.

"Multi-asset allocation in which the index can rotate between equity and fixed income based on quantitative signals is quite popular in Asia as a theme for long term investment," said Cheah, adding that decrement ESG equity indices are not widely used in Asia as seen in Europe.

"ESG is also a theme that is suitable for long term. Marrying both features fit well for our insurance company client."

Investor education plays a critical role in promoting ESG exposure in Asia where the theme remains at an early stage of development, especially in the derivatives space. The ILP product was launched alongside a three-minute motion graphic video on the index to help the insurance company's sales force educate their retail policy holders.

J.P. Morgan contributed ideas for the S&P ESG Global Macro Index design and has exclusivity on the index which is sponsored by S&P DJI. Many investors in Asia prefer indices developed by well-known index providers to those by investment banks.

The index, which features a rebalance of regional bonds and ESG-themed equities, has generated absolute returns of 5.44% annually, a volatility of 4.89% and downside protection during extreme market scenarios, based on back-tested performance from Aug 2010, to Dec 2020.

In 2020, it delivered an annualised return of 1.98% and an annualised volatility of 5.76% while the S&P 500 posted a 12.26% annualised return and 25.93% annualised volatility.

"Despite the tough performance for multi-asset products in general last year, the index had fully recovered towards the end of 2020 and has just recently reached its all-time high," said Cheah.

ESG ADOPTION

The structured note, which is tied to the MSCI China ESG Leaders 10/40 Index and issued for a private bank, in January has come as a proof of concept to continue promoting ESG-linked structures in Asia.

While ESG equity investing in Asia gains momentum led by asset owners, ESG derivative investors including private banks and retail clients are learning not to focus excessively on 'big outperformance' versus the benchmark.

J.P. Morgan has not yet issued any structured green bonds in Asia as the low interest rate environment has hampered

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The interest to invest into ESG has finally picked up in Asia over the past couple of years

efforts to package green bonds alongside ESG equity assets. Although the US bank is considering structured green bonds with proceeds used for sustainable projects, its main approach to ESG structured products is on investments linked to ESG indices. Cheah has seen increasing activities in ESG investing in Asia during the past two years, although it is still uncommon for investment banks to issue ESG index-linked structured products for retail investors.

“[ESG investing] is the right topic to focus on and I’m glad to see Asian

clients getting more engaged with it,” said Cheah. “I am very positive that ESG investing will grow in Asia.”

In the meantime, S&P DJI has also seen ‘strong demand’ for ESG indices from Asian asset owners and asset managers.

“The biggest pension funds in Asia such as Japan’s Government Pension Investment Fund have issued and deployed sizable passive ESG mandates,” said Tianyin Cheng, senior director, strategy indices at S&P DJI.

“Two key drivers of investing into ESG (in

Asia) are to improve returns and to add longer-term portfolio resilience.”

According to SRP data, J.P. Morgan has marketed five ESG products to date including a worst of autocall reverse convertible linked to a basket comprising the Eurostoxx 50, Stoxx Global ESG Leaders Select 50 EUR Index in Germany, three reverse convertible notes linked to the Stoxx Global ESG Leaders Select 50 EUR Index, and a capped call, enhanced tracker, protected tracker linked to the iShares ESG Aware MSCI USA ETF sold in the US market.

MSCI targets China’s smart economy

The index provider is targeting product providers seeking to offer exposure to companies that are at the forefront of the technology and innovation-led economy in China. MSCI has launched the MSCI China Tech 100 Index and the MSCI China A Onshore Tech 100 Index to meet the needs of international and domestic investors looking to invest in China.

The new indices have been developed to offer potential applications for institutional investors, and enable asset owners to issue mandates on themes or combination of themes related to China tech. The indices will also be targeted at product providers as an investment policy benchmark to guide strategic asset allocation, a transparent benchmark to measure performance of asset managers as well as to be used as the underlying index for products such as ETFs and mutual funds and enable banks to develop thematic structured products.

The launch comes in response to investor demand for solutions that are unconstrained by traditional industry classifications. The indices aim to represent the performance of growth-orientated, disruptive companies that are, through technology, transforming business models and how businesses interact with society.

With a methodology combining 27 technology sub-themes, the universe will include companies in the technology value chain from the information technology sector but also from other traditional industries. They are designed to include stocks from the consumer, communication services, healthcare and information technology sectors, which may see a rise in the number of companies as the smart economy grows. The target business activities or sub-themes can be expanded and evolved to reflect the development of technology innovation over time, according to the index provider.

MSCI reported in late November 2020 ‘tremendous opportunity’ to licence indices to broker-dealers and banks for the creation of OTC derivatives and structured products. This came shortly after the index provider partnered with Credit Suisse to launch the first ESG structured notes which incorporate an impact-aligned use of proceeds and an exposure to the MSCI ESG Rating Select Indices on either US or eurozone equities. There are over 5,000 live structures linked to MSCI underlyings aimed at retail investors across markets, according to SRP data.

SK DLS market drops after mis-selling scandal

The balance of derivatives-linked securities (DLS) in South Korea, which are not principal-protected, plunged to KRW12.7 trillion (US\$10 billion) as at the end of June 2020 from its record high of KRW18.4 trillion a year prior as a result of the mis-selling crisis.

South Korean investors continue to suffer damage from DLS with basic underlying assets like funds, urging the regulators to further identify risk factors and take countermeasures, stated the Financial Supervisory Service (FSS) in a report released on 10 February .

The watchdog aims to implement a series of new DLS-related regulatory guidelines in 2021, according to the report.

The DLS market is 'shrinking significantly' as risk factors emerged due to the crisis triggered derivative-linked funds (a type of DLS) tied to overseas interest rates in August 2019. As at end of June 2020, the DLS market accounted for about 12% of the total balance, which comprised equity-linked securities (ELS), equity-linked bonds (ELB), DLS and derivatives-linked bonds (DLB). Unlike ELS and DLS, ELB and DLB are principal-protected.

The balance of ELS, DLS and DLB fell by 6.9%, 31% and 19.5% to KRW52.7 trillion, KRW12.7 trillion and KRW17.7 trillion compared with June 2019, respectively. Meanwhile, only ELB posted a balance growth of 25.6% to KRW24.5 trillion.

BY UNDERLYING

Approximately 34.3% of the DLS balance, or KRW4.4 trillion, derived from credit DLS, which was the most favoured underlying asset class. However, that figure represented a 23.6% decrease year-on-year (YoY).

'The possibility of large-scale principal loss (for the credit-linked DLS) is lower because these DLS mainly target corporations with high credit ratings, such as state-owned institutions (for example, LH Corporation),' stated the report.

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New issuance is projected to largely decrease in the near future due to the restrictions of trust products sales on banks

In the meantime, the balance of ETF DLS contributed to 19.6% of the DLS market, or KRW2.5 trillion - a 36.9% decline YoY.

The most widely used underlyings in this segment were iShares ETFs followed by the NYSE-listed FTSE China 50 Index.

'New issuance is projected to largely decrease in the near future due to the restrictions of trust products sales on banks,' according to the report. 'The rules make it harder to market ETF-linked DLS.'

Under the new guidelines the Financial Services Commission (FSC) introduced in December 2019, banks are allowed to sell trusts, which invest in publicly offered DLS tracking five major stock indices - KOSPI 200, S&P 500, Eurostoxx 50, HSCEI and Nikkei 225.

The DLS where 20% or more of the assets are invested in derivatives and derivative-linked trusts are classified as 'complex' products, belonging to 'high-

risk financial investment products', under the rules. DLF was the third most popular DLS type by bringing KRW2.4 trillion, or 19% of the DLS market.

The DLF volume suffered a 17.8% drop YoY, with further decrease expected to continue after the German Heritage DLS and Gen2 DLS failed to sell underlying assets to meet repayment last year.

Additionally, interest rates and commodities underlyings accounted for 17.2% (KRW2.2 trillion) and 9.9% (KRW1.3 trillion) of the DLS market, respectively.

After the DLF crisis broke out in August 2019, interest rate-linked DLS realised a sales volume of KRW0.3 trillion, the majority of which was generated from institutional investors.

Issuance of commodity DLS is also set to go down significantly as South Korean regulators have tightened requirements for DLS public offerings after the DLF incident.

Hang Seng debuts hedged decrement play in South Korea

Hang Seng Indexes has launched its first hedged decrement index targeting structured product issuers in South Korea as Asian investors slowly embrace synthetic dividend underlyings.

The new HSCEI Futures KRW Hedged 3.4% Decrement Index (TR), marks the index provider's second decrement index following the launch of HSCEI NTR KRW-converted Daily Reset 3.25% Decrement ER Index in August 2019.

"[The index] serves as the basis for structured product issuers to design their products and allows for more competitive pricing of the products by removing sensitivity to expensive implied risk parameters such as quanto covariance," a spokesperson at Hang Seng Indexes told SRP.

Designed to track the KRW hedged return of the Hang Seng China Enterprises Futures Index, HSCEI Futures KRW Hedged 3.4% Decrement Index (TR) is calculated in South Korean Won and disseminated after trading hours on each trading day. An interest based on the one-month Hibor is added, reflecting the total return of a funded investment.

"We observe that decrement index has gained more popularity especially when the market has gone through times of higher uncertainty on future dividends like last year," said the spokesperson.

Hang Seng Indexes expects the index to be licensed to be used as the underlying of index-linked products, including futures and options.

CATCHING UP

There are 44 decrement index-linked products in Asia, mostly in South Korea, which are wrapped as equity-linked securities (ELS), equity-linked bonds (ELB), deferred purchase agreement, equity-linked investment (ELI), fund, derivative-linked securities (DLS) and investment certificate, according to SRP data. Shinhan

Investment is the most active issuer and distributor of decrement indices in Asia with 31 products linked to index baskets covering Kospi 200, S&P 500 KRW Hedged 2% Decrement Index ER, Euro iStoxx 50 KRW Hedged Decrement 3.5% ER, iSTOXX Europe Origin 100 Equal Weight Decrement 5% Index, Nikkei 225, Hang Seng China Enterprises Index and HSCEI KRW Hedged Index, SRP data shows.

Among them, only one struck in 2020 while 26 in 2019 and five in 2018. "Decrement index applies fixed dividend yield, so it lowers hedging cost and brings enhanced coupon yield compared with price index. And the fluctuation between price index and decrement index is not very wide," a spokesperson at Shinhan Investment told SRP.

"As the market volatility increased in 2020, the coupon yield of price index-linked ELS became satisfactory to retail clients. As a result, the demand for decrement index dropped," said the spokesperson.

The 31 products together raised US\$44.9m with the Shinhan ELS 17696 as the best-selling structure at KRW8.36 billion. This product was early redeemed last January returning 3.32% pa. There were additional five ELB and two ELS Shinhan Investment has withdrawn during subscription period for unknown reasons.

While majority of the issuance delivered returns of 3% to 4% pa. some returned just the capital invested. The best performing products was the Shinhan ELB 2144 which was linked to the Kospi 200, and iSTOXX Europe Origin 100 Equal Weight Decrement 5% Index and delivered 6.91% pa.

The South Korean issuer is not optimistic about the rising demand for decrement

index in the near term as most of its retail clients remain unfamiliar with the feature.

Mirae Asset Daewoo joined the decrement bandwagon in 2020 with three ELS tied to index baskets comprising the Kospi 200, S&P 500 KRW Hedged 2% Decrement Index ER and Nikkei 225 – these products are live and realised a total sales volume of KRW60 billion, according to SRP data.

The S&P 500 KRW Hedged 2% Decrement Index (ER) has been the most popular decrement underlying and is featured across 27 products since its debut in May 2019.

"While decrement feature is commonly used in Europe, we're seeing it being more and more adopted in Asia," Tianyin Cheng, senior director, strategy indices at S&P Dow Jones Indices, told SRP.

"The rationale for having a decrement feature is clear from a bank perspective because it's very challenging to structure an attractive product with high participation and good downside protection in the low interest rate environment."

Cheng noted that decrement index also aims to tackle another issue stemming from dividend risk, which can be problematic when companies simultaneously cut dividend out of expectation.

In Singapore, EFG International Finance (Guernsey) issued a six-year reverse convertible investment certificate for Leonteq Securities in March 2018, which was linked to the SPDR Dow Jones Industrial Average ETF, Euro iStoxx 50 Decrement 5% Index, S&P/ASX 200 Index and S&P/TSX 60 Index. The product sold SG\$70,000 and was early redeemed in September 2019 paying out 7.77% pa.

HSBC HK SAR & Taiwan issuance soars as focus shifts to Asia

The UK bank has raised its non-flow structured product issuance in the regions with significant activity in Hong Kong SAR and Taiwan.

HSBC has raised its non-flow structured product issuance by 64.4% and 7.3x to 2,506 and 517 products in Hong Kong SAR and Taiwan in 2020 year-on-year (YoY), respectively, as it plans to invest US\$4.3 billion in Asia over the next five years.

SRP data suggests that the bank's decision to move its structured products business from UK to Asia, announced in early 2020, is in process.

The UK bank announced today its plan to invest US\$3.5 billion in its wealth and personal banking (WPB) business as well as US\$0.8 billion in global banking and markets in Asia. It is also seeking to hire over 5,000 wealth roles in the next five years.

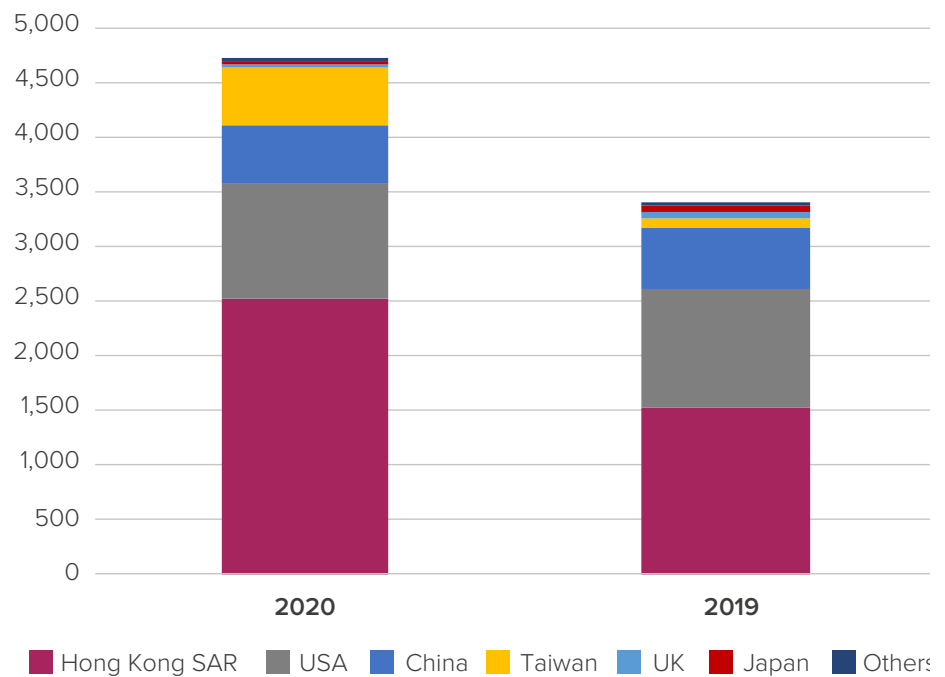
HSBC is expanding its distribution capabilities to target high net worth (HNW) and ultra-high net worth investors (UHNWIs) mainly in China, Hong Kong SAR and Singapore. Asia generates nearly half of the bank's US\$1.6 trillion wealth balances and 65% of the group's wealth revenues.

The new hires include relationship managers, investment counsellors and specialists to support the client group in Premier, Jade and private banking. They cover up to 3,000 wealth planners to scale a new mobile wealth planning service in China.

In Hong Kong SAR, the bank aims to capitalise on the Greater Bay Area's new 'wealth connect' scheme to provide HNWIs and UHNWIs a broader access to wealth products.

'We have a bold but achievable ambition, to be Asia's leading wealth management provider by 2025, supporting Asian, international and HSBC-connected

HSBC non-flow issuance by country 2020 vs 2019



Source: *StructuredRetailProducts.com*

clients, wherever their wealth is created, invested and managed,' said Nuno Matos, CEO of WPB.

HSBC Holdings reported a net profit of US\$6.1 billion in FY20 ended in December 2020, down 30% YoY, as its revenue fell by 10% to US\$50.4 billion mainly due to 'the progressive impact of lower interest rates across our global businesses, in part offset by higher revenue in global markets'.

ASIA

Hong Kong SAR remains the most active market in Asia for HSBC Bank where it has increased the issuance of listed warrants and callable bull/bear contracts (CBBCs) by 48.5% and 23%

to 288 and 2388 products in 2020 YoY, respectively. This is in addition to the 2,506 investment-linked equity (ELI), SRP data shows.

For the ELI, IPOs on the Hong Kong Stock Exchange quickly became the most featured underlyings in 2020 including Alibaba and JD.com. The two e-commerce giants' shares were linked to 374 and 167 products, respectively. Tencent (H shares) kept its runner-up position appearing in 230 ELI followed by NYSE-listed HSBC, which handed over its crown to Alibaba in 2020.

Tracker Fund of Hong Kong, NetEase (H shares) and Meituan Dianping made it into the top 10 underlying list in 2020

while China Merchants Bank (H shares), AIA and Industrial and Commercial Bank of China slipped down, according to SRP data.

Taiwan saw the most significant jump of non-flow products worldwide amid the market's overall scaleup, making the UK bank the second largest issuer after DBS Bank.

The 517 unlisted notes were linked to unspecified share baskets with knockout, snowball as the most common payoff. There were 34 reverse convertible notes and 13 notes had an accrual option.

For the issuance, 460 were distributed in-house while 56 by UBS and one by BNP Paribas. Most of the products had a tenor of less than six months with some products having investment terms of one month.

Meanwhile, HSBC China has issued and distributed 529 structured deposits with at least 90% of principal protection in 2020, down 6.2% YoY. New underlyings on the bank's offering included the HSBC Low Beta Factor ESG Europe Price Return Index, HSBC VantageZ Index (USD) Excess Return and the Allianz US Short Duration High Income Bond AT H2-EUR fund.

In the meantime, the UK bank cut down its issuance in Japan to 36 from 62 YoY, with the Nikkei 225 and S&P 500 remaining as the most popular underlyings, followed by shares of Fujitsu, Fast Retailing and Nidec in 2020, which replaced shares of Dmg Mori Seiki, Takeda and Sony. The unlisted notes were distributed by eight Japanese securities houses led by SBI Securities.

USA

In the US, HSBC Bank marketed 1,054 non-flow products worth US\$3.47 billion in 2020, down 24 or 2.2% YoY as an 18.3% increase of unlisted notes was offset by a 1.8x decline of certificates of deposit (CD).

The UK bank issued 52 CDs with a sales volume of US\$83m, which were

linked to 22 underlying assets led by shares such as Home Depot, Amazon, AT&T, JPMorgan Chase and McDonalds. The number of CD tied to the HSBC Vantage5 ER Index and S&P 500 - the most featured underlyings in 2019 - fell to nine and five, respectively.

Global headline indices such as the S&P 500, Russell 2000 and Dow Jones Industrial Average Index remained the most favoured underlyings featuring in 1002 unlisted notes worth US\$3.39 billion. In the meantime, the S&P 500 ESG Index stood out as a new underlying and was linked to 35 products in 2020.

EUROPE

HSBC shrunk its offering of leverage products and non-flow notes in Europe in 2020 where the latter posted an issuance in UK (42 products), France (three products), Germany (three products) and Austria (two products), SRP data shows.

As a leading issuer of structured products listed on Frankfurt Stock Exchange and Börse Stuttgart, HSBC Trinkaus & Burkhart has also reduced its issuance of close-end leverage products by 26.6% to 15,364 while increasing its offerings of open-end leverage products by 43% to 89,090 in 2020.

The majority of these products were made available in Switzerland where the two types experienced an issuance decline of 67% and 59.9% to 6,911 and 24,998, respectively, according to the data.

A bright spot was seen in the Austrian market, which saw the debut of 440 and 2,378 close-end and open-end leverage products, respectively – prior to 2020, the most recent leverage product SRP registers was launched in January 2014.

The German arm of HSBC also launched 36,616 flow notes listed on the bourses in 2020, up 34.2% YoY. Among them, the offerings available in the Swiss market dropped by 75.4% to 6,688 while those in Austria surged from 15 to 15,212, SRP data shows.

EQD bolster Nomura's wholesale biz

The wholesale business at the Japanese investment bank posted pre-tax income of JPY76.9 billion (US\$730m) in Q3 FY20/21 ended in December 2020, up 17% quarter-on-quarter (QoQ) or 78% year-on-year (YoY), as derivatives drive equities revenues growth.

The bank's quarterly income led to accumulated pre-tax income of JPY230.2 billion in the first nine months of FY20/21, a 1.8x increase YoY. Net revenue rose by one percent to JPY223.1 billion QoQ or up 20% YoY – 84% from global markets and 16% from investment banking.

The bank expanded its wealth management business beyond Asia ex-Japan with the launch of its International Wealth Management (IWM) unit in September 2020, which collaborates with the two divisions under wholesale to develop products for high-net-worth individuals including structured products.

Approximately 36.1% of the net revenue was derived from the Americas where 'equity derivatives had a good quarter and securitized products revenues grew significantly'. The Japanese market contributed to 29.6% of the net revenue - 'fixed income slowed QoQ while equities revenues increased driven by derivatives'. Asia ex-Japan and Emea represented 18.2% and 16.1%, respectively.

There are 80 live products distributed by subsidiaries of Nomura Holdings - led by Nomura Securities - in Japan (40), Germany (eight), US (six), Mexico (three), South Korea and UK (two each), and the Netherlands and Ireland (one each). The remaining 19 are for institutional investors, SRP data shows.

Indian regulator to introduce ‘accredited investors’ to support structured products

Sebi is seeking to introduce the concept of ‘accredited investors (AIs)’, which will bolster the issuance and innovation of structured products through a light regulatory framework.

The Securities and Exchange Board of India (Sebi) has launched a consultation paper to enable a framework for the issuance of these ‘new products’, which are to be offered exclusively to AIs, in addition to participation of AIs in existing products and services.

Many of these products may be suitable only for well-informed/well-advised investors

‘Jurisdictions around the globe have been witnessing a demand for tailor made investment products i.e. products designed to meet the specific investor(s)’s risk-return-holding period profile,’ stated Sebi in its consultation report released on 24 February.

‘Many of these products may be suitable only for well-informed/well-advised investors, with a relatively high capacity to take financial risks. One of the key requirements for a thriving market for such products is a light touch regulatory regime.’

According to the regulator of India’s securities and commodity market if such products are to be offered only to AIs, there is scope to consider regulating them with ‘minimal prudential norms’.

‘While such products may not be readily available in the Indian securities market at this juncture, putting in place the required enabling framework may lead to introduction of such products and thereby, innovation in and development of the securities market,’ stated the regulator.

BACKGROUND

One common measure in the Indian securities market is to stipulate a

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The introduction of the ‘AI’ concept will allow investors to access more investment products in addition to structured products

minimum investment threshold for each regulated product or service in order to protect investors from unsuitable investment products.

The introduction of the ‘AI’ concept will allow investors to access more investment products in addition to structured products due to ‘lower entry barriers such as minimum investment size’ and have ‘customized contractual arrangements with product/ service providers’.

An example is that a portfolio manager may manage a portfolio of less than the current required minimum capital of INR 50 Lacs when his/her client is an AI.

In the meantime, issuers of securities will benefit from better risk labelling or product classification and increased transparency. Reduced compliance is expected to lead to the ease innovation and the launch of financial product.

An illustration is that an alternative investment funds (AIF) in which all investors are AIs and each such investor has committed a minimum capital of INR70 Crore (or US\$10m or its equivalent in non- Indian Rupee, subject to contractual agreements with the investors, ‘may have flexibility’ in the current requirements under the SEBI (AIF) Regulations, 2012

A light touch regulatory framework for products/services means that AIs will bring ‘better channelization of regulatory resources for protection of investors other than AIs’, according to the paper.

To gain the accreditation, investors may apply to ‘accreditation agencies’, namely the market infrastructure institutions (MIIs), including stock exchanges and depositories or subsidiaries of MIIs. Once granted, the accreditation will be valid for a maximum period of one year.

Luma flexes its muscles, reports record volume of transactions

With well over US\$25 billion volume transacted on the platform in 2020, the US fintech is seeking to replicate its success in Europe as it targets the annuity space in its home market.

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2020 has been by far our best year [...] our growth was driven by a continued addition of new clients

As the firm gears up its plans to expand into Europe, SRP spoke to David Wood, MD, and Tim Bonacci (pictured), CEO at Luma Financial Technologies, about the platform’s performance in 2020, the drivers of technology adoption in the structured products market and the opportunities ahead in what continues to be a fragmented space.

“We have chosen Switzerland because we think it is very important to have a solid presence in this market initially as it is the centre for our target clients,” says Wood.

The team in Switzerland will focus on client servicing and business

development as the initial focus will be on having “a team on the ground working hand-in-hand with clients and looking for opportunities in other markets in the region”.

Financial technology has come out as one of the winners of the Covid pandemic and the lockdown across countries as it has been a key element to keep the market going and connect the different players. Has the pandemic accelerated automation and the adoption to technology to operate in the market? How would you rate 2020?

Tim Bonacci: Clearly the pandemic had an impact on how people operate.

There was a dip in the industry initially, but technology has helped market participants to remain active. For Luma, 2020 has been by far our best year. Our growth was driven by a continued addition of new clients but also by the increase in volume transacted by existing clients.

The increased efficiency of technology has helped Luma’s platform to grow from previous levels. We also hired a number of people to lead new initiatives such as our annuities business and Latam expansion.

In the second part of the year, we expanded into Latin America which has been a success so far – we have signed around 15 new clients over the

last five months or so which are in the process of going live. We continue to see momentum right into 2021.

The platform's market remains fragmented across markets, but the shift towards automation is now clear from all quarters. How can Luma capitalise on that?

David Wood: There's market fragmentation but based on my previous job and conversations I have had with technology firms and banks over the last nine months, there is now a clear shift towards automation. Everybody is investing in technology whether they're an issuer, a service provider or a private bank.

Previously, technology was part of the process of transformation of business whereas now it is a necessity to survive because of the way the world and the needs of the market have changed.

The fragmentation and the increasing adoption of technology present us with a good opportunity as we are looking to connect many different parts of the value chain. Luma has been successful in a very short time – not only has the platform been able to bring a number of issuers together which other platforms do, it has also filled gaps that other providers have not been able to do, to achieve a level of consistency across all issuers. Luma has effectively been able, in some areas, to help issuers to deliver a more efficient service, and for private banks to access and receive a balanced service across all their products.

What are areas of focus for your clients when it comes to deploying technology for their structured products activities?

Tim Bonacci: There are several areas where clients have an interest in making processes more efficient. Technology itself – the automation of processes around structured products - has been one of the main advances of the industry over the last few years. It has been proven that structured

products are good for end investors but one of the challenges was how efficiently can the product set be accessed and analysed to originate deals. Technology has solved some of those challenges and has also helped to increase adoption of the product set itself which is ongoing.

The fact that most people had to work from home in 2021 has also highlighted and leveraged the role of technology. Market participants were forced to use technology in their day-to-day lives.

What makes Luma different to other platforms out there?

David Wood: Being connected to some of the documentation automation providers has helped Luma to normalise that when other providers do not have that capability. The platform also offers independent analytical capabilities in life cycle management - issuers have struggled to bring high-quality consistent service across all products in terms of event notifications, barriers etc.

The history around platforms in the US market is very different to the European market but it is narrowing quite considerably - David Wood

For private banks and product distributors, it is very important to receive the same level of service irrespective of the issuer because you take some of that variability out. We are well positioned to capitalise on that but also to provide a higher quality front-to-back service where we can fill some of the fragmentation gaps.

The US market has more of a focus on calendar offering than customised click-and-trade. What are the main differences you see between the US and European markets when it comes to structured products platforms?

David Wood: The US market has its own particularities, but it is changing quickly. The history around platforms in the US market is very different to the

European market but it is narrowing quite considerably and the creation of bespoke products which has been the DNA of the European and Asian markets is now also part of the DNA of the US market.

In a practical sense, once you get into how you distribute the products to the private banks, the click-and-trade capability is not as critical and the main fundamental challenge is about the whole distribution process, the education of advisers, the alignment to the compliance process, the pre-deal checks etc. In that sense, Luma has been doing a great job with its private banking clients in North America and now has a lot of experience in solving those issues so the initial bespoke part of the product creation is just a small element of what the platform can offer.

Can you give us some figures on Luma's footprint in the market and last year's performance? What is next for Luma?

Tim Bonacci: We saw an upward slopping line and significant growth in 2020 with well over US\$25 billion volume transacted on the platform – that is in equity structured products transactions only, not including FX, currencies and other assets. Based on the new clients we have signed up we expect that figure to be well above the US\$25 billion mark.

Our overall strategy is very straightforward and is based on a buy-side focus around three areas. One is to continue our US domestic expansion and leverage our recent success; the second is on entering and expanding into other geographies such as Latin America and Europe; and the third is incorporating related products into our offering.

In the US we have launched annuity capabilities to serve this part of the market and there are a number of products with the same kind of profile as structured products – hard to trade, price and analyse - we are looking into as they would benefit from being transacted through a technology platform.

Isda fallbacks: structured notes have a complicated problem to address

SRP takes a closer look at the new fallbacks for derivatives linked to key interbank offered rates (Ibors) published by the International Swaps and Derivatives Association (Isda) in January.

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In this interview, Suzanna Brunton (pictured), managing associate, derivatives and structured products, at Linklaters, discusses the impact of the new Isda fallbacks for notes, after having looked at OTC transactions in part one.

The SRP database lists 2,234 live structured products linked to Ibors – 85% of which are wrapped as notes. The products, worth a combined US\$40.3 billion, include approximately 750 range accruals and 40 steepeners, structures for which implementing the Isda fallbacks could be problematic, according to Brunton.

LEGACY NOTES

Suzanna Brunton: legacy trades issued pre-2018 are the really problematic ones because no one contemplated that Libor would ever be permanently switched off.

The terms of those notes, they say one of two things, or a combination of those

two things. They either say, if Libor is not available you go to the last known Libor rate. In other words, it becomes a fixed rate for ever. The other option is for the calculation agent to determine the appropriate rate for that day. That is a bit better because it allows a bit of flex for the calculation agent to determine a replacement rate.

The tough legacy solution of the FCA is directing the administrator to publish a synthetic form of Libor

That sort of flex could be applied if you have a plain vanilla note referencing a Libor, but it is not going to work for range accruals, steepeners, all these structured products where you cannot just simply replace Libor with Sonia, or, if you can replace it, it becomes an economically different product. That is probably not going to be an acceptable outcome for investors and a calculation agent is not going to exercise its discretion to implement a solution which is not an acceptable outcome for investors because that entails litigation risk.

CONSENT SOLICITATION PROCESS

Suzanna Brunton: The other alternative is to amend the note through a process that is called the consent solicitation process which means going out to noteholders and getting their agreement for what you are going to do. Say they need a 75% majority consent to implement a change to the terms of the note, then you need 75% of the investors to agree. If you have got retail products, that is just not possible. These products are widely held, they have gone out through distributors, and it may be very difficult to determine holders of the notes.

That sort of process is probably only suitable in the repack world where a product has been structured for a particular investor. There probably is only one note holder. You know who they are, and you can reach out to them and have a conversation about whether you are going to restructure the note or not. If you restructure the note, you work out what the compensation payment is to compensate the investor for any loss of value in the fact that you are changing from one product to a product that is fundamentally economically quite different.

TOUGH LEGACY

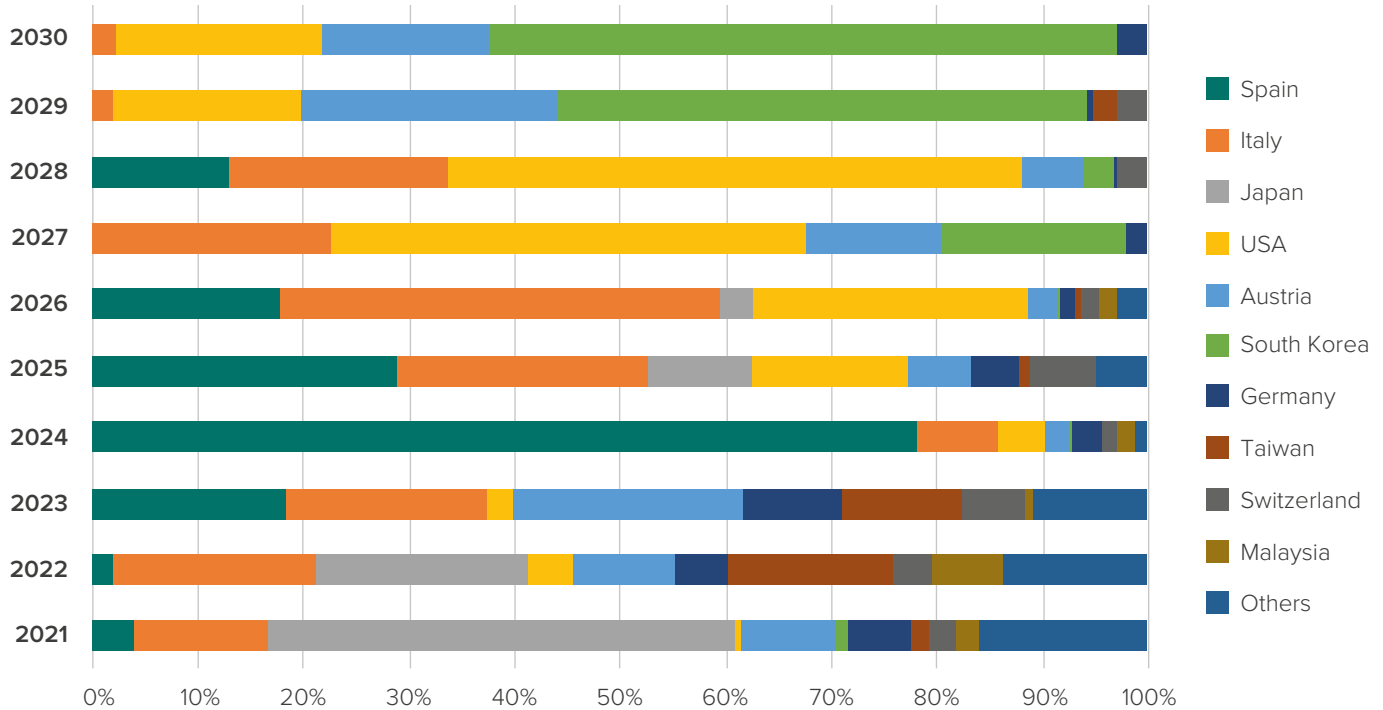
Suzanna Brunton: Structured notes have a problem which is complicated to address.

If the calculation agent doesn't have discretion to choose a new rate, or they do have discretion, but they won't exercise it because there is no suitable alternative that will maintain the economics of that structured product, and the consent solicitation process is not suitable because it is a retail product which is held all over the place, then this is what is called 'tough legacy'.

The ultimate solution for tough legacy in the UK under English law is going to be the FCA exercising new powers which have not come into force yet, and which are set out in the finance bill. These are new powers which insert into the UK onshore benchmark regulation, a new article.

The FCA would have the power to direct the administrator of Libor, which is IBA, to publish synthetic Libor. It would still be published as three-month Libor but instead of being a term rate,

Structured products linked to lbors: maturities between 2021-2030 (US\$m)



Source: StructuredRetailProducts.com

based on panel submissions for forward looking three months rate, it will be a compounded in arrears risk-free rate plus spread. That would get published and there will be a screen rate, so at least contracts which refer to a Libor rate would have a solution if the calculation agent has not changed the rate, or if the consent solicitation process has failed, or was never instigated because it was never going to succeed in the first place.

The tough legacy solution of the FCA is directing the administrator to publish a synthetic form of Libor. Even though that is an ultimate solution for what we call tough legacy, the issuer has to think about whether that synthetic Libor is still doing the same thing in that contract, but at least a solution will apply because it will have happened by way of legislation, by way of the FCA exercising powers that have been granted in the finance bill to direct the administrator to publish synthetic Libor.

No decision has been taken on that. The FCA is consulting at the moment on when it might be appropriate to use those discretions, so those powers are not even in force and this is some way down the line, but that is the tough legacy solution which is proposed in the UK for English law governed notes.

The 2,234 live structured products linked to lbors have maturities until 2051. The vast majority, however, are maturing in the next 10 years (2,077 products worth US\$37.9 billion), according to SRP data.

In 2021, 392 lbor-linked structured products reach the end of their tenure, releasing an estimated US\$8.3 billion back onto the market for reinvestment, with the bulk of the volumes coming from products issued in Japan (US\$3.6 billion), followed by Italy (US\$1.1 billion) and Austria (US\$725m).

A further US\$7 billion (from 406 products)

will be released in 2022, including US\$1 billion in Taiwan, while the Spanish market on its own sees US\$7 billion maturing from just 14 products in 2024, mainly due to two Euribor linked structures from Caixa Bank worth a combined US\$5.3 billion.

Other markets with lbor-linked products maturing between 2021-2030 include Germany, Switzerland, the Netherlands, and South Korea.

Isda published the lbor fallbacks supplement and lbor fallbacks protocol on 23 October 2020. The supplement incorporates the fallbacks into new covered lbor derivatives referencing the 2006 Isda definitions. The fallbacks cover Australia's Bank Bill Swap Rate, the Canadian Dollar Offered Rate, euro Libor, Euribor, Hibor, the Singapore dollar Swap Offer Rate, sterling Libor, Swiss franc Libor, the Thai baht Interest Rate Fixing, Tibor, euroyen Tibor, yen Libor and US dollar Libor.

Feature: SG to the rescue after Solactive ditches Finvex indices

The French bank steps in to protect more than US\$650m invested in structured products on Finvex indices, having to trigger a fall-back option after the index provider went bankrupt.



Société Générale has offered investors who bought structured products linked to Finvex indices continuity by providing proprietary indices built by the bank on the genuine methodology of the original indices.

The move comes after Solactive, which took over the calculation of the Finvex indices a year ago, decided to discontinue the indices on 3 December 2020.

Société Générale had prepared fall-back solutions for Finvex in case it would go wrong one day

The German index provider stated as the reason for the termination that the index sponsor (Finvex) was 'no longer able to fulfil its assigned role,' which consisted in providing Solactive with the index composition of the Finvex indices.

Finvex was declared bankrupt by the French speaking commercial tribunal in Brussels on 30 November 2020.

SWITCHOVER

Finvex indices were popular underlyings for structured products between 2014-

2018, with more than 180 products worth an estimated US\$1.1 billion issued – many of which are still live (see below). Société Générale was the manufacturer behind most of those.

The French bank therefore decided for the scope of products linked to the performance of the Finvex indices, to proceed to a substitution, which consisted in changing the underlying of the product with the relevant Société Générale index.

The methodology of the new indices created by Société Générale is in line with the original version of the Finvex indices. The replacement indices are calculated by S&P Dow Jones.

“When Finvex could no longer deliver, Solactive could have taken over the selection, but it would have taken some time to switch, which was not enough time for Société Générale and their certificates,” a market source told SRP.

“Those certificates [linked to Finvex indices] have quite significant notionals outstanding, that’s why Société Générale had prepared fall-back solutions for Finvex in case it would go wrong one day,” the source added.

The new indices went live on 4 December 2020 and have the closing level of the Finvex indices on 3 December as their starting levels. They include, among others, the SGI Sustainable Efficient Europe 30 Index (formerly Finvex Sustainable Efficient Europe 30 Index) and the SGI Sector Efficient Europe 30 Index (formerly Finvex Sector Efficient Europe 30 Index).

THE FALL

Finvex Group was founded in 2009 by Benedict Peeters, former global head of structured business at BNP Paribas Fortis, as an investment consultancy advising institutional investors on the design of customised, index-based investment solutions.

After a strategic partnership with Rabobank ended because the Dutch bank closed its equity derivatives desk in March 2013, the group became a strategic partner to Société Générale.

The French bank soon started issuing structured products on Finvex indices, with Sprinter Europa Ethical nr 1757, a five-year medium-term note on the Finvex Sustainable & Efficient World 30 that was distributed end-2013 by Garantum in Sweden, the first publicly offered product on a Finvex index, according to SRP data.

Soon more products followed. In 2014, Société Générale issued 56 publicly offered products worth a combined US\$300m on Finvex indices, which were predominately distributed in Belgium (17 products), Ireland and Finland (12 each). The following year Finvex indices really took off, with US\$375m collected from 64 products issued across 17 different jurisdictions.

In 2016, US\$300m was accumulated from 47 products, but in that same year Peeters, and fellow owner Christophe Pecoraro, decided to sell Finvex to Horus Partners Wealth Management Group, a Swiss provider of investment management services. Since then there were increasingly less structures

manufactured on the company’s indices – 11 and two in 2017 and 2018, respectively, with the last product issued in March 2019.

As of 3 February there are 99 live products, which sold US\$664m at inception, linked to Finvex indices listed on the SRP database. Of these, 41 are tied to the Finvex Sustainable & Efficient Europe 30 (now SGI Sustainable & Efficient Europe 30). A further 40 products are linked to the Finvex Ethical & Efficient Europe 30 (now SGI Ethical & Efficient Europe 30) while there are 10 products on the Finvex Sector Efficient Europe 30 (now SGI Sector Efficient Europe 30).

FINVEX DEMISE – A REGULATORY BURDEN, BUT NO IMPACT ON THE END-INVESTOR

SRP did the rounds and asked market participants about the impact on Finvex-linked structured products after the Belgian index provider was declared bankrupt in November last year.

Société Générale was quick to react after Solactive decided to discontinue several Finvex indices following the collapse of Finvex.

The French bank activated its fall-back solutions to safeguard more than US\$650m invested in Finvex-linked structured products it had issued between 2014 and 2019.

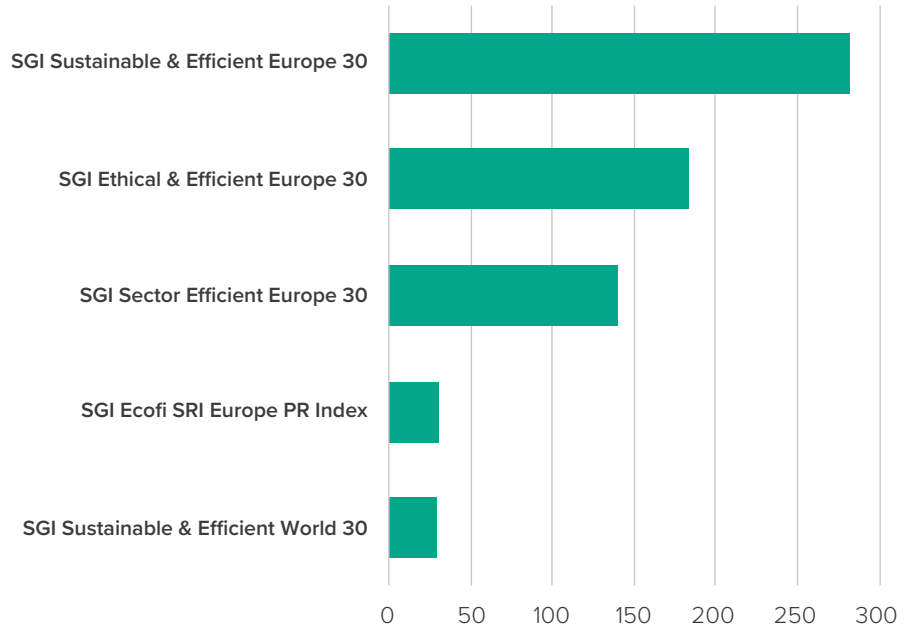
The substitution indices, developed by Société Générale and calculated by S&P Dow Jones Indices, use the same – or substantially similar – formula and method of calculation as used in the calculation of the original Finvex indices.

The Belgian regulator in particular was very interested because of all this retail money invested in these products

Société Générale had those fall-back solutions in place for various reasons, a market source told SRP.

“Of course, they want to protect investors, but also, from a regulatory perspective – under the benchmark

SGI indices (formerly Finvex): outstanding in structured products (US\$m)*



*Public offers only, as of February 2021
Source: *StructuredRetailProducts.com*

regulation – they have to have fall-back plans in place when they start to use a benchmark,” the source said, adding that the regulators were watching this very closely. “It was not just ‘nice to have’ it was also a regulatory burden for them to have something in place.

“The Belgian regulator in particular was very interested because of all this retail money invested in these products. It raises alarm bells, and, as a regulator, if you foster investor protection, this is something you need to look at.”

In Belgium, where there are 29 public offers on Finvex indices still live (with an outstanding notional amount of US\$350m), the Financial Services and Markets Authority (FSMA), kept a close eye on proceedings indeed.

“A significant amount was invested in structured products issued on Finvex indices,” a spokesperson for the FSMA said. “These instruments were available through various distributors and were

sometimes wrapped as a class 23 insurance contract.”

A point of attention for the FSMA was the continuation of these products, in accordance with the issue conditions and applicable legislation, on the same or very similar conditions, so that ultimately there were no material changes for investors.

“For that, the FSMA has been in contact with the issuer of the products concerned and also with the various distributors,” the spokesperson said.

DISTRIBUTORS – BUSINESS AS USUAL

When Société Générale created the new indices, it stated that, from an economic point of view, the substitution indices were intended to ‘maintain the profile of the notes as they were initially purchased’, with the durability of the products involved guaranteed until maturity ‘as initially agreed’.

FEATURE

In other words, business as usual and for the distributors we spoke to, this certainly seemed to be the case.

In Austria, “there was no issue for the retail investors, and neither from our perspective, from a hedging point of view,” said Uwe Kolar, head of retail & sparkassen sales at Erste Group Bank.

“SocGen has taken over the calculation formulas and more or less the same underlyings are used – I would say 95 to 97% are the same. It has the same logic, pricing does not change, so there is no impact for the retail investor. The only thing that has changed is the name of the index,” said Kolar.

Erste Group Bank, which has 17 live products worth a combined US\$60m linked to the Finvex Ethical & Efficient Europe 30 (now called SGI Ethical & Efficient Europe 30), made an

announcement on its homepage to inform investors of the name change.

The Finvex Ethical & Efficient Europe 30 was tailor-made for Société Générale, which made the French bank the only counterparty you could trade-off.

“The replacement of an index is an exceptional event,” said Koen Theys, product manager, off-balance sheet at Crelan in Belgium, “This is the first time we have seen this. The prospectus provides for such an event by default, and allows to replace the index if possible, so that the products can still survive.”

Crelan has six products with estimated sales of US\$175m linked to former Finvex indices, including Finvex Sustainable & Efficient Europe 30 (now SGI Sustainable & Efficient Europe 30) and Finvex Sector Efficient Europe 30

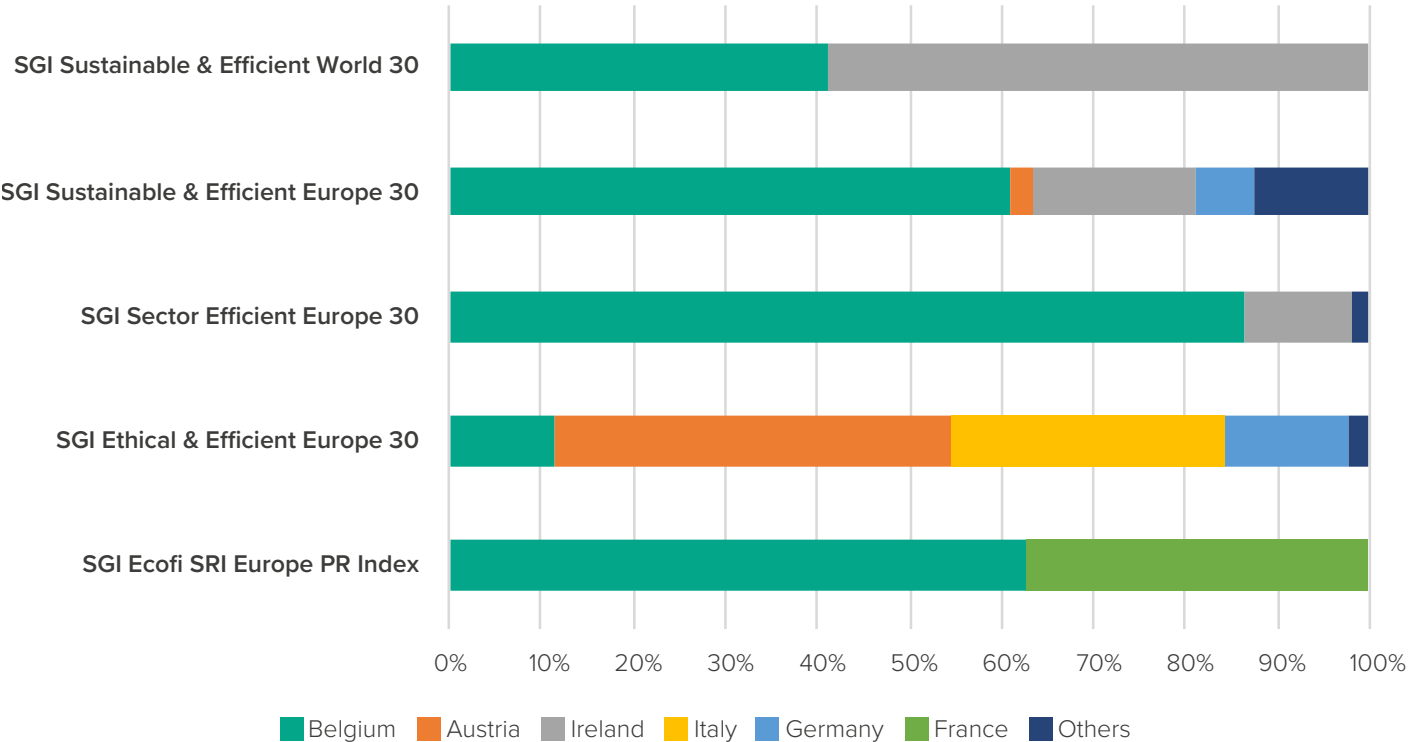
(now SGI Sector Efficient Europe 30) and Theys agreed that there is no real change to the products, since the new SGI index is a copy of the old index.

To be transparent, the Belgian distributor sent an informative letter to all concerned customers.

AG Insurance, which launched AG Protect+ Sustainable 1, a nine-year, class 23 life-insurance on the Finvex Sustainable & Efficient Europe 30 in July 2014, also informed its customers about the switch.

“The FSMA has given Société Générale the approval to ‘take over’ the index,” a spokesperson for the Belgian insurer said. “They have created a similar index without impact on the product, the valorisation and therefore also without financial consequences for the customer.”

SGI indices (formerly Finvex): outstanding in structured products by market (US\$m)*



*Public offers only, as of February 2021
 Source: StructuredRetailProducts.com

Incapital: custom trades on the rise

The US structured products intermediary has recorded a significant increase in sales of market-linked notes while the pull-back in rate hit certificate of deposit (CD) sales.



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One of the changes we have been seeing is the increase in custom trades being done

SRP caught up with Deryk Rhodes (pictured), head of structured products trading at the US distributor of fixed income securities, Incapital to discuss the firm's recent adviser forecast survey, rapidly changing investor needs, short-term market developments, and the value of capital protection.

The US distributor forecast survey represents the opinions of almost 400 financial advisers, the majority of whom (49%) reported positive but modest expectations for equity market returns in 2021.

Incapital went from roughly US\$3 billion of equity linked issuance in 2019, to a little over US\$3.3 billion in 2020

These advisers opined that equity markets will rise between five and 10%, with another 25% forecasting returns of zero and five percent which are all well below equity market returns from 2020.

Those who took a more bullish stance (16% of advisers) projected 2021 equity returns to be up 10% to 15%. Two percent said they expected gains of up to 20% or more. Just eight percent of the sample size said that they expected a down market in 2021.

How will these projections translate in terms of distribution activity at Incapital?

Deryk Rhodes: I think there will be a measured bullish sentiment as there's still a lot of uncertainty in the market which plays very well into structured products or as we call it market-linked products. In an uncertain market having the ability to participate in the underlying's upside while simultaneously having some downside protection sets these products up for continued growth.

How would you rate 2020? What would you highlight from the firm's structured products business performance/activities/initiatives in 2020?

Deryk Rhodes: Though 2020 was a rough year for several reasons, it proved to be a good year for market-linked products. Incapital went from roughly US\$3 billion of equity linked issuance in 2019, to a little over US\$3.3 billion in 2020. In addition, our desk did another US\$2 billion in rate linked structured products.

One of the biggest challenges was the dramatic move we saw

in rates at the onset of the Covid Pandemic. This made market linked CDs difficult to price. Incapital saw its market linked CD notional drop by nearly US\$500 million. However, we pivoted to market-linked notes and saw note notional go up over US\$800 million year-over-year which is significant.

How are the rapidly changing needs of clients, regulators and the financial industry being met from structured products platforms?

Deryk Rhodes: The market-linked products industry has really matured over the last few years. Much of this is due to the rise of tech platforms, like Simon, Luma or Halo. These platforms make it easy to track education, monitor existing books of business and the various life events a trade may have. These platforms also allow wholesalers and reps to focus on educating and sales vs running performance reports.

What events do you expect to see in the market in the short-term? Where is the market going?

Deryk Rhodes: One of the changes we have been seeing is the increase in custom trades being done. Historically the focus has been on calendar deals which are typically in the market for two to three weeks. I think added focus on customs trades also speaks to the maturity of the product line, people are getting a little more comfortable with the pay-out structure and looking to take even more specific views on the market. At Incapital, we saw an increase of roughly US\$600 million year-over-year for custom trades. I think this trend will likely carry on into 2021.

Where can structured products add value in the current environment?

Deryk Rhodes: There is a bigger opportunity with these products now in the sense that when people look at how choppy the equity markets are, they are hesitant to go straight in. They want to participate in the growth, but they want to know they have some protection should the market pull back. Additionally, those looking for income are also having a hard time finding yields in the corporate bond space unless they are willing to take on more credit risk than perhaps they have done in the past. Market-linked products offers a good alternative and investors can find a payout profile that aligns with the investors market view.

Is the pricing environment (low interest rates) influencing the products you are able to offer?

Deryk Rhodes: I think the pullback in rates is the largest factor that has affected the product line. The move in rates has basically eliminated a good portion of the MLCD product offerings on the market. Historically, we would have 30 or 40 different MLCD options on any given calendar, sometimes more, now we are down to 10 MLCD offerings or less. However, we work with the best issuers on the street and even in this environment we are still able to offer MLCDs that have attractive terms for our clients.

Is capital protection still a big driver of issuance?

Deryk Rhodes: Some clients simply require FDIC insurance so I think there will always be that demand. We have seen many investors move from MLCDs to PPN then onto notes. This also speaks to the maturity of the product. Clients have had a good experience with MLCDs and now are looking for more yield or higher participation in the underlying and are willing to put some principal at risk if the product aligns with their market view.

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Platforms make it easy to track education, monitor existing books of business and the various life events a trade may have

Barclays: offering ESG exposure with a high yield/low vol approach

Barclays is targeting retail investors with new structured products linked to an exclusive Solactive climate change index.



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Thematic indices have become one of the drivers of product development

Arnaud Heckenroth, head of equities structuring, Emea, **Barclays**

Following the exclusive licensing of the Solactive Climate Change Europe BTI Index by Barclays to be used as the underlying of new structured products, SRP spoke to Arnaud Heckenroth (pictured), head of equities structuring, Emea, and David Haefliger, director, QIS structuring, about the bank's response to demand from investors for thematic and ESG exposure.

The Solactive Climate Change Europe BTI Index was developed in partnership by Barclays and Solactive to meet the needs of investors looking to explore investment opportunities arising from the global move to a lower carbon economy.

How did the partnership with Solactive come about?

Heckenroth: Thematic indices have become one of the drivers of product development in the structured products market across Europe. We noticed that ESG has been a major catalyst of activity and one of the main building blocks for structured solutions. One demand we identified was climate change

indices that are aligned with the Paris agreement goal to limit global warming to less than 2c by 2050.

We wanted to create something investable that would meet the distribution requirements in the structured products market, with a focus on climate change and companies that have a commitment to be climate efficient by 2050.

Solactive provided us with a powerful starting point – when you design a new index you need to have liquidity and a certain risk profile for the index. We wanted to develop a high yield low vol type of index, on the back of an existing index. Solactive had the framework and the data we were looking for as well as the specificity of the theme.

Can you talk us through the index composition and the mechanics of the index?

Haefliger: The Solactive Climate Change Europe BTI Index is an equity index comprised by 30 European companies with high dividend yield relative to their home market or region. To

define the index universe, we took the Solactive right. Climate AVG Target Europe Index as the starting point, which tracks companies that are aligned with the Paris agreement. This amounts to 260 constituents out of a universe of 600 of the largest European companies.

We then applied smart beta filters by looking at the realised volatility, as well as at the dividends – we filter for companies with dividend growth over the last five years and that have paid a dividend in at least four out of five years.

In the final step we selected the companies that had the highest dividend yield relative to their home market or region. We tried to keep the weighting scheme very simple by putting them into three different weight buckets.

What is Barclays strategy around ESG? How are you responding to the increasing demand for ESG exposure?

Heckenroth: We want to be a key part of the market transition towards a green economy and provide our clients with investment solutions that factor in sustainability. ESG is a strategic priority of ours and we will continue to further develop and expand our client offering throughout the year.

We already have a well-established index used in an Ossiam ETF with an ESG angle. That was launched in April 2018 and we have seen good AUM growth recently. However, the newly launched Climate Change index has been designed to be used specifically in classic structured products.

There are different types of ESG strategies (investments,

screenings, broader, exclusions) and a clear demand for green underlyings, and we want to be able to respond to that. Most of the focus around ESG has been on the ‘E’ but we have seen the ‘S’ and the ‘G’ also making progress in some markets. We are starting to see demand for the three dimensions and as a result, index providers and banks are also taking that into consideration.

Performance remains a concern for some investors when investing in sustainable and ESG products. Is there evidence these products are delivering value to investors?

Heckenroth: Performance used to be a concern, but the market has evolved beyond that point - ESG filters and exclusions are the starting point and come before performance in many conversations. The capital going into ESG and sustainable investments suggests that performance is not the only consideration. Of course, institutional investors would not invest in these products if they were not getting a return on their investments, so it’s about balancing these needs.

Haefliger: We’ve seen many institutional investors that now have hard internal criteria when they allocate their capital to sustainable investments. A lot of the conversations we have with clients reflect that ESG is a must have.

The historical performance as of the end of last year of the Solactive right. Climate AVG Target PR Europe Index, which is the benchmark for the new Solactive Climate Change Europe BTI Index, outperformed the typical Stoxx 600 benchmark by more than 2.10% per annum since March 2013.



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With ESG as the main trend in the markets, it is fair to say that climate transition strategies are those in the spotlight.

Timo Pfeiffer, Chief Markets Officer, **Solactive**

As the number of ESG underlyings and products increases. How do you retain an edge in this space?

Heckenroth: Our goal is to build a comprehensive family of products in the mid- to long-term and offer investors solutions that help them achieve their investment objectives within a sustainable framework. The key is for each product we bring to the market to deliver value, answer different needs i.e. climate change, and tap into other types of themes as we expand our range.

There are different views on this topic, but we see ESG as a global theme with regional applications. The applications by institutional investors, wealth managers and distribution networks in different countries are not the same. We are looking to adjust our offering and develop initiatives at a global level that can be adjusted to suit the demand of local investors in different markets.

Is there a risk of over-complicating the underlyings to improve the optics of ESG products?

Haefliger: Our approach is to keep things simple as the components we use come from an existing climate change universe - we also apply common filters and smart beta applications. The smart beta filters reduced the volatility during the back-tested period allowing for more efficient option pricing.

Furthermore, we chose a simple weighting scheme applied to a known universe with the aim to avoid additional complexity. We want to address a client need and achieve it in an efficient way, with the goal to enable it to be used widely.

The structured products market has also seen an increasing number of ESG underlyings combined with other features such as decrement and risk control. Are you planning to include this kind of characteristics in your offering?

Heckenroth: We see an increasing number of indices looking at different areas and investor needs. Decrement is a key trend and has become even more relevant because of last year's dividend crisis. This kind of index was initially developed with a focus on benchmarks, but they have quickly moved to the thematic space.

We see demand for different approaches – within ESG we see demand for high yield low vol strategies, especially for participation type of products. We think it is important to develop different strategies around certain themes. Some of the themes can be played around one framework and do not easily fit in other frameworks.

Our focus is on identifying themes that we believe there is a market for, but we also want to be realistic about the value they bring to the end investor. In that process we talk to our distribution partners to make sure we deliver the best solution for their clients.

As ESG becomes mainstream, do you expect this kind of underlyings to take market share from traditional market cap indices?

Heckenroth: These new indices are adding valuable elements to the existing pool of assets used in structured products. It is difficult to say if they will overtake market cap indices in the future.

New themes are driving investments and adding new enhancing parameters to products as well as providing an answer to a target market need. There are still distributors and clients focused on traditional benchmarks and we don't expect that to change, but these new strategies provide an interesting source of diversification for wealth and distribution channels. This explains why ESG is increasingly adopted across distribution channels and geographies.

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We think it is important to develop different strategies around certain themes

Opportunity through sustainability

The new Solactive Climate Change Europe BTI Index comprises 30 Eurozone companies who are committed to higher environmental standards.

For more information visit indices.barclays/solactiveclimatechange



Tokai Tokyo: Japanese investors prefer mid-risk income products

Hideaki Furuta, head of product solution at Tokai Tokyo Securities, shares his views on the Japanese structured bonds market.



rate and credit derivatives embedded. Negative attributes were lowered interest rates and shrunken credit spreads,” he said.

“In addition, we saw declined sales of callable bonds linked to fixed interest rates that used to be well accepted by individual investors.”

Tokai Tokyo focuses on providing equity-linked structured bonds to retail investors while promoting bonds tied to FX, interest rates and credit to corporate investors.

Reflecting the stock market boom in Japan and abroad after the mid-March

market crash, the number of structured bonds linked to US and Japanese equities is ‘on the rise’ at the securities house.

“As low interest rates and low credit spreads dominate the current market environment, our clients now generally prefer equity-linked structured bonds,” said Furuta.

The Japanese equity underlyings used by Tokai Tokyo features a diverse pool of assets, according to SRP data.

Beyond the Nikkei 225 and S&P 500 indices – the most featured underlyings on the 99 products distributed in 2020

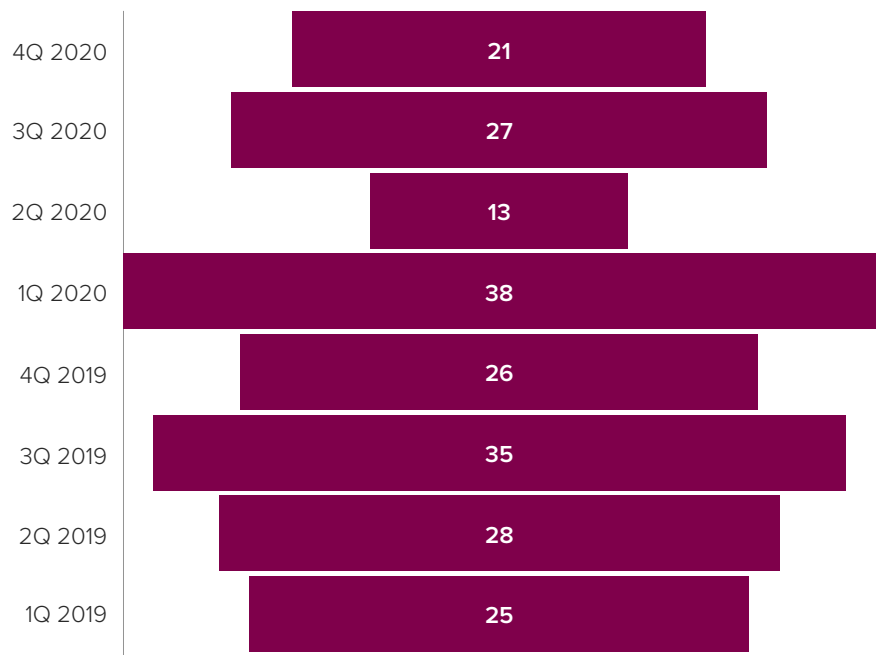
Despite last year’s offering decline, the Japanese distributor remains confident in the appeal of structured products to investors in the current environment.

The main subsidiary of Tokai Tokyo Financial Holdings conceded its crown as the most active distributor by issuance to Mitsubishi UFJ Morgan Stanley Securities in 2020 with 99 structured bonds recorded, lower than 114 in 2019, SRP data shows.

“[The breakout of Covid-19] hurt our structured bond business last year,” Furuta told SRP. “The pandemic lockdown prevented [us] from conducting normal sales activity, which is a conventional face-to-face approach as required by the regulatory requirements in Japan.

“With reference to the business with corporates, we suffered poor sales of structured products with forex, interest

Tokai Tokyo Securities: issuance by quarter



Source: StructuredRetailProducts.com

there were 40 different single stocks with a concentration on chemical, industrial and oil/gas sectors. This compares to 45 single stocks used across 114 products in 2019, which related to the industrials, technology and hardware sectors.

SRP data shows the combination of reverse convertible and knockout remain the most popular payoffs in the Japanese non-flow market, some of which include a worst of option. Other popular payoff types in the market include callable (47 products), dual currency (25 products) and power reverse dual currency (nine products).

“Japanese investors, particularly individual investors, tend to buy products like Nikkei 225-linked bonds and exchangeable bonds, which come with a fixed coupon rather than those promising no definite return, such as performance-linked bond,” said Furuta.

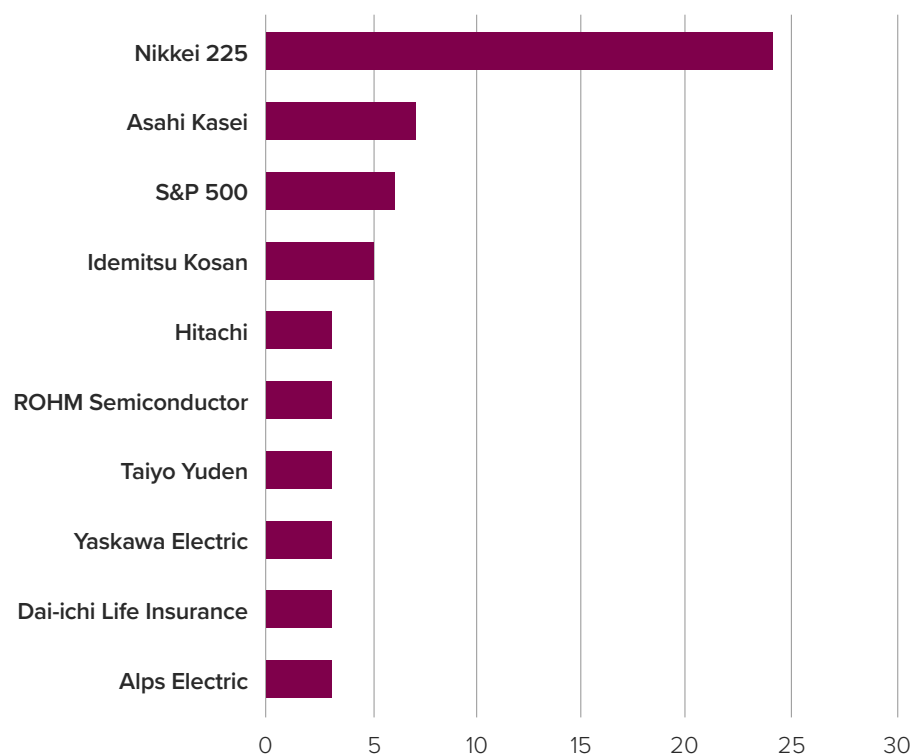
The investor behaviour has resulted in bank deposits taking a dominant position when it comes to wealth management products in Japan, which puts capital-at-risk products like stocks on the backseat.

“In addition, it seems difficult to achieve the return level that matches the risk associated with the investment in other asset classes in the current low interest rates and small credit spreads environment. Thus, I think investors will continue to choose equity-linked products,” said Furuta.

He also pointed at the importance to extend the redemption period in keeping structured bonds attractive when capital protection remains a driver of the demand.

Japanese structured bonds are typically issued by foreign banks including foreign subsidiaries of Japanese financial institutions, such as Svensk Exportkredit, Municipality Finance, Crédit Agricole CIB, Kommuninvest I Sverige and MUFG Securities EMEA, which enable the products to be regulated by foreign laws.

Tokai Tokyo Securities: top 10 underlyings by issuance in 2020



Source: StructuredRetailProducts.com

SRP data recorded 18 issuers for a total of 1,239 products worth JPY2.5 trillion (US\$3.4 billion) in 2020, among which Mitsubishi UFJ Trust & Banking and Sumitomo Mitsui Trust Bank were the only Japanese entities.

The year of 2020 also saw Tokai Tokyo narrow down its preferred list of issuers to just four counterparties - Svensk Exportkredit, Municipality Finance, Kommuninvest I Sverige and Crédit Agricole CIB, with Credit Suisse and UBS falling out of favour.

Furuta noted that the company's distribution channel is based on a partnership with regional banks, which allows them to build a larger customer base. The financial group has 11 joint ventures in place, including YM Securities, Hamagin Tokai Tokyo Securities (TTS), Nishi-Nippon City TTS, Senshu Ikeda TTS, Hokuhoku TTS, Tochigin TTS, and Juroku TTS.

“The fund flow into the structured product market will continue because investors in general keep seeking for middle-risk middle-return investment opportunities,” said Furuta. “My outlook is based on the continued tendency of the current market where the interest of deposits that banks used to keep their customers now stays infinitely close to ‘zero.’”

Tokai Tokyo posted a net profit of JPY1.3 billion in Q3 FY20/21 ended in December 2020, up 20.3% quarter-on-quarter (QoQ), or down four percent year-on-year (YoY), as its net operating revenues increased by 3.8% to JPY14.7 billion QoQ, or down 5.1% YoY.

Sales of structured bonds jumped by 54.5% to JPY49.1 billion during the three months QoQ or by 16.6% YoY. That amounted to a volume of JPY103.3 billion in the first nine months of FY20/21, up 14.1% YoY, as SRP reported.

Structured products and portfolio construction

SRP looks at the different building blocks in portfolio construction and how instruments such as structured products fit in a portfolio as they are designed for risk reduction and limiting losses. *By Tim Mortimer – FVC.*

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Image credit: Nathan Dumlao - Unsplash

have different risk appetites they simply allocate the appropriate proportion into this portfolio and the remainder in a risk-free asset. We can then deduce that in an equilibrium situation this optimal portfolio must approximately equate to the whole market weighted by capitalisation, otherwise if there was somehow a pocket of assets that never made it into the optimal portfolio, prices would simply adjust until they were there in the right proportion.

Directly following on from the initial principles and findings of MPT was the devising of the Sharpe Ratio. This statistic calculates the risk adjusted expected return of an asset. This in turn is a key determinant of whether the asset is likely to make it into any optimal portfolio. It is widely accepted now that MPT has two main drawbacks - the way it measures risk and its concentration on assets with symmetrical (normal) returns. Investments, technology, and techniques have all moved on since MPT was originally introduced and there are many approaches in use today.

Using volatility as a measure of risk is the simplest metric for portfolio analysis and mathematically it combines well with the symmetric return assumption. However, investors think in terms of losses rather than volatility, for the simple reason that it is actual losses that cause damage to a portfolio. Regulators take the same line, for example the UK's FCA devised its capacity for loss test 10 years ago as a key requirement for assessing suitability of investments.

TARGET RETURN

Academically this was addressed rather later than MPT and the Sharpe Ratio, with the advent of the Sortino Ratio which was devised in the early 1980s. This ratio calculates the difference between the portfolio expected return and a target return, relative to a downside standard deviation which only counts results below the target return. It is this notion of a target return sometimes also known as the minimum acceptable return which introduces the idea of avoidance of loss. Investors are looking for returns in excess of the target and constrain this by dividing by the magnitude and frequency of losses below the target. The most obvious value for the target return is zero, particularly in a low-rate environment.

The importance of diversification in portfolio construction has been well known for many decades and was first formulated in the development of Modern Portfolio Theory (MPT) by Harry Markowitz in the 1950s. Investors naturally seek assets with high returns and low volatility. It is almost as obvious that spreading the portfolio across relatively uncorrelated assets helps reduce overall volatility without necessarily impacting returns. This article follows on from the first look at the introduction on the subject in another article (Extending the efficient frontier).

Modern Portfolio Theory was the first to properly formulate portfolio concepts and came up with the rather surprising notion that in fact there is a single optimal portfolio combination of assets to achieve this. Given that investors

Portfolio choice to maximise	Weightings		
	10% Asset	20% Asset	30% Asset
Sharpe ratio	57.80%	21.70%	20.50%
Sortino ratio (target return = risk free)	56.20%	20.10%	23.70%
Sortino ratio (target return = zero)	65.60%	14.80%	19.50%

Source: *StructuredRetailProducts.com*

It is true to say that even today, the Sharpe ratio remains the more commonly used measure and it is rather surprising that the Sortino ratio has not gained greater traction. In addition to focussing on downside deviations the other advantage of the Sortino ratio is that it introduces a simple way to incorporate the target return into the measure of risk. This extremely elegant idea gives the Sortino ratio an extra degree of freedom which makes it so powerful.

By way of example, consider a simple hypothetical portfolio containing three assets of volatility 10%, 20% and 30% (with expected returns of 5.5%, 9.5%, 13% pa. respectively) in a risk-free environment of one percent pa. shows the following results:

The optimal portfolio to maximise the Sharpe ratio is given in the first row. We can see that the optimal portfolio to maximise the Sortino ratio when the target return (second row) is equal to the risk free is quite close to that which maximises the Sharpe ratio. When the target return is made more conservative the optimal portfolio to maximise the Sortino ratio as given by the bottom row has significantly increased the proportion of the lowest volatility asset. This makes intuitive sense to address to help eliminate losses.

	Best Sharpe ratio	Best Sortino ratio
Assets only	54.80%	156.70%
Asset plus options	56.00%	176.10%

Source: *StructuredRetailProducts.com*

STRUCTURED PRODUCTS

By only measuring asset volatility, MPT and the Sharpe ratio implicitly ignore the fact that asset distributions can be asymmetric. While primary assets such as stocks, bonds and currencies reasonably follow the symmetric assumption, its limitation is that it makes it harder to include non-linear instruments such as options and structured products.

Option markets have long been very liquid for many stocks, indices, and ETFs. This opens up an extra dimension to extend a universe of primary assets to include these options. When

you consider a task such as portfolio optimisation, extending the universe can only lead to allowing more possibilities and therefore a more efficient portfolio.

The use of options is more helpful to improve the Sortino ratio because of the ability to focus on losses by buying appropriate protection. This can be seen in the table below. By including options, the Sortino ratio can be significantly improved, whereas there is only limited pick-up for the Sharpe ratio. Note that Sortino ratios are in general much higher for any portfolio because the denominator volatility measure is much lower and therefore the levels of Sharpe and Sortino ratios are not comparable.

Other properties of options and structured products also make them compelling choices to improve a portfolio.

Options give exposure to volatility and the market generally prices volatility higher than long term realised values. This means that it is possible to buy some protection but also get paid for the risk premium. This is the strategy that is employed by autocalls and related product types, and is borne out by their popularity and historical performances in most market cycles. Options and structured products also have exposure to other factors such as dividend yields and correlations which give possibilities for further enhanced return.

The use of calls and puts is enough to demonstrate that options improve portfolio metrics as shown in the hypothetical portfolio above. However, this technique can be extended further using structured products such as defensive Autocalls and dual directional notes. Both these product types take the return profile further away from the direct performance of the underlying asset to which they are linked. This has the effect of reducing the apparent correlation of the product return with the underlying. This does not magically create low correlation assets, but inclusion of such instruments is likely to be useful in many cases to reduce overall portfolio risk.

The theory and practice around efficient portfolio management undoubtedly has a long way to go. The inclusion of options, structured products and other risk reducing instruments for retail investors will help to mainstream such ideas in the years ahead.

Disclaimer: the views, information or opinions expressed herein are those of FVC, and do not necessarily reflect the views of SRP.

Gamestop: a modern stock drama

Just when experienced traders and investors think they have seen everything, something unexpected always comes along. *By Tim Mortimer - FVC*

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Image: Clay Banks / Unsplash

Stock market history is littered with famous and dramatic events. These include the Tulip mania in the 17th century, post-Great War euphoria leading to the 1929 stock market crash and the Depression, bull markets caused by privatisation and exchange deregulation in the 1980s, and the late 1990s dot-com boom and bust. The enthusiasm for investors to find the next sure thing which 'this time is different' never diminishes. Human psychology and behavioural finance truly are fascinating topics.

There is no single pattern to investor crazes and this makes them harder to predict. The known phenomenon of hindsight bias then kicks in to try to rationalise events afterwards to excuse it all away as bad luck or a freak accident, which can simply set things up for the next one to occur. Some of these pivotal historic events have involved the entire market, for example in 1987, others have been

more selective such as the rise of technology stocks at the turn of the millennium. Even in these cases, the rest of the market usually gets dragged down when things turn sour as did indeed occur in 2003.

There have been other dramatic stock market events including the oil crisis in the 1970s, the credit crunch and the collapse of Lehman in 2007-8, and the Covid related market falls of 2020. We can put these down to adjusting to a changing reality with sounder economic reason. The Lehman crisis was brought on by speculation, greed and delusion of a slower burn nature that was years in the making by a variety of agents.

Fast forward to the present day and we live in a world of social media, ever more connectivity and the explosion of groups, causes and strongly held political views which have come to

define the last few years. This backdrop gave rise to a truly remarkable story involving American company Gamestop. This company was a strong force in physical gaming from its foundation in 1984. It was large enough to be in the S&P 500 until April 2016 by which time it had suffered some years of decline due to the rise of online gaming services from giants such as Microsoft and Sony. The company continued to struggle with resulting massive stock price falls - the next four years up to April 2020 saw it lose a further 90% of its value as persistent momentum against its business model combined with ill-judged M&A activity took its toll.

Its share price low of US\$2.8 coincided with the bottom of the Covid affected market sell-off in April last year. As markets rallied, the company showed some fairly steady gains up to August 2020 before suddenly becoming the speculative darling of forum website Reddit and attracting a group of smaller investors with loyalty to the brand determined to take on Wall Street short sellers who were betting on long term falls. The way these events played out was completely reflective of the intensity, nervousness and tensions that have permeated the global community in 2020.

INEVITABLE CRASH

The Gamestop share price then climbed astronomically - multiplying 18-fold from its turn of year price of US\$18.84 to its high on 27 January of US\$347.51. The company and its share price were headline news for two dizzying weeks. The inevitable crash then set in but at the time of writing the price is just above US\$50. This is a sharp fall (85%) since the high two weeks ago, but it has settled back at a level that was only exceeded for a short period in 2013 if we exclude the last two weeks. The stock now stands up 200% since the start of the year and time will tell how long it can maintain that position.

The stock is still currently in the Russell 2000 but a return to the S&P 500 is not impossible if further gains are made. The stock's

volatility levels also tell their own story, averaging 44% for the 10 years up to the start of 2020, jumping to 114% last year and then reaching an unbelievable 438% in just over two months since the start of last December as the situation played out.

Apart from its place in the Russell 2000 which is one of the most popular indices for structured product usage, some 76 structured products have been issued and matured in the last six years that have directly referenced Gamestop, according to data from SRP. These were issued in largest numbers in the US, as well as in Taiwan and Switzerland. The products varied from having Gamestop as a single underlying, plus worst-ofs and basket combinations. The payoff profile was typically autocall or reverse convertibles for the Gamestop only products reflecting the pick-up in yields that its volatility would bring.

Currently six products are still open according to SRP, five of them being principal-protected certificates of deposit on a basket of 10 shares with Gamestop and others including Rio Tinto, Staples and Seagate Technology.

All of these products were issued when Gamestop was a typical mid-cap stock and before it acquired its fame. Had any products matured early this year they would have caused significant trading issues, which were no doubt felt even for the products currently open.

While Gamestop has hit world headlines the major chaos was short lived. Structured products were relatively unaffected since not many products link directly to relatively small cap stocks. The market has preferred to issue products linked to indices such as the Russell 2000 whose diversification, transparency and stability are very valuable in situations like these. But for Gamestop and its equity investors, it has been quite a ride.

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Structured products were relatively unaffected since not many products link directly to relatively small cap stocks.

Product wrap: Deutsche offers access to multi-asset fund via NOK note

In this wrap, we look at a selection of structured products with strike dates between 21 February and 20 March 2021.

EUROPE

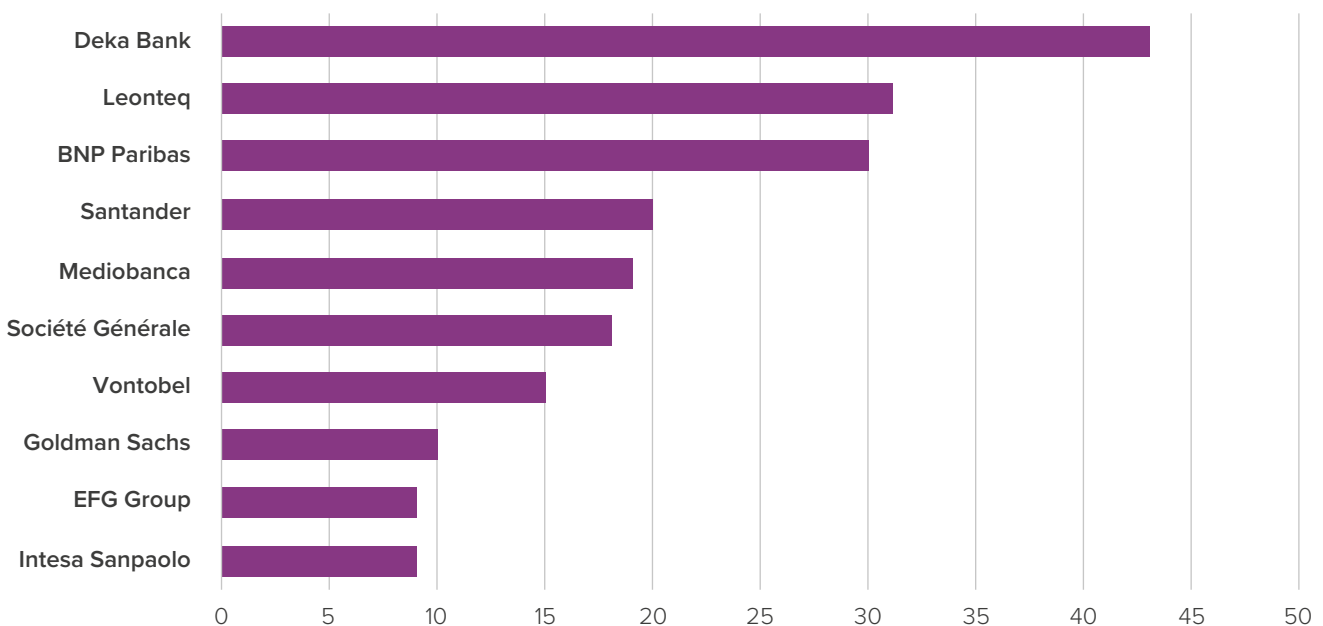
Deutsche Bank is both the issuer and distributor behind Fund Opportunity Coupon NOK 2029 in Belgium. The eight-year, capital protected medium-term note (MTN) offers investors access to Pictet Multi Asset Global Opportunities R EUR, an actively managed fund with assets worth €6.2 billion as of 28 February 2021. Every year the product offers a coupon equal to 100% of the annualised performance of the fund, subject to a maximum coupon of 6.25%. The note is denominated in Norwegian kroner and collected NOK68.1m (US\$8.1m) in the subscription period. It is listed in Luxembourg and total costs of up to 6.25% are included in the issue price of 102%.

Intesa Sanpaolo Private Banking sold €85.4m worth of Standard Long Barrier Plus Certificates on the Eurostoxx

Select Dividend 30 Index in Italy. The four-year reverse convertible pays a fixed coupon of 3.45% pa. At maturity, if the index closes at or above 65% of its strike level, the product offers 100% capital return. Otherwise, it participates 1:1 in the fall of the index. The certificate is listed in Luxembourg and a commission of 2.674% applies. A structuring cost equal to 0.05% of the issue price is payable to the issuer (Intesa Sanpaolo).

Sirius Asset Management collaborated with Société Générale for the launch of S*AM Green Deal NR 2018 in Sweden. The four-year medium-term note participates 100% in the proprietary SGI European Green Deal Index, which is calculated by Solactive. The index comprises companies that could potentially benefit from a growth strategy put in place by the European Commission aimed at making Europe the first climate-neutral continent. The minimum capital return is 50%. The product is issued at 46% and a fee of 6.5% is added to the issue price.

Europe: Top 10 issuer group by issuance 21 February-20 March 2021*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

Alexandria Pankkiiriliike is distributing Kultayhtiöt Autocall in Finland. The certificate has a maximum tenor of six-years. It redeems early, every six months (from 16 September 2022 onwards), if the underlying Solactive Gold Miners Decrement 4% Index – which is a representation of the Van Eck Vectors Gold Miners ETF with a synthetic annual decrement of four percent – closes at or above its initial level on the valuation date. In that case, it offers 100% capital return plus a coupon of 6.50% for each semester elapsed. The product has a soft capital protection barrier of 70% and is issued via BNP Paribas Issuance BV.

NORTH AMERICA

UBS Financial Services collected US\$8.7m for distributing Trigger Gears 78014M689 in the US. The five-year registered note, which is issued via Royal Bank of Canada, participates 159.5% in the upside performance of a weighted basket comprising five indices: Eurostoxx 50 (40%), Nikkei 225 (25%), FTSE 100 (17.5%), Swiss Market Index (10%) and S&P/ASX 200 Index (7.5%). UBS, will receive a commission of US\$0.35 per US\$10 principal amount. The initial estimated value as of the trade date was US\$9.41, which is less than the price to public.

Also in the US, **Goldman Sachs Private Banking** raised US\$10m with its Digital Notes on the Eurostoxx Banks Index

in the US. The registered note has a maturity of 1.9-years and offers a capital return of 114% if the final index level is lower than its initial level by no more than 20%. Otherwise, the capital return is 100% minus 1.25% for every 1% fall. The product is issued via Canadian Imperial Bank of Commerce (CIBC). The estimated value is set at US\$970.30 and an agent's commission of 1.25% applies. A fee will also be paid to Simon Markets for providing electronic platform services with respect to this offering.

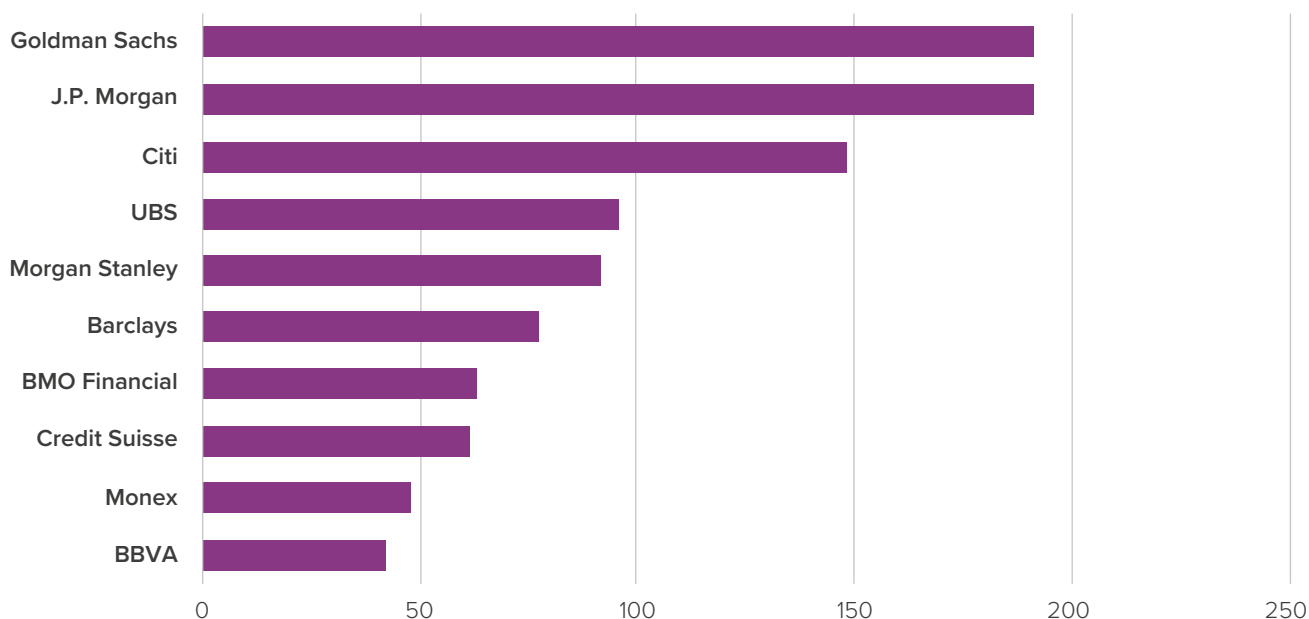
LATIN AMERICA

XP Investimentos is selling XP Índice Bovespa Bidirecional Knock-Out in Brazil. The three year deposit is issued on the paper of parent company Banco XP and offers 100% of the rise in the Ibovespa Brasil Index up to a maximum of [135-155]%. The fall down to a barrier of 70% is paid out as a gain. In all other cases the capital return is 100%.

MIDDLE EAST & AFRICA

Absa launched Twin Fixed Return and Growth Protector in South Africa. Twenty-five percent of the investment will be allocated to a one-year income account that will pay 10.55%

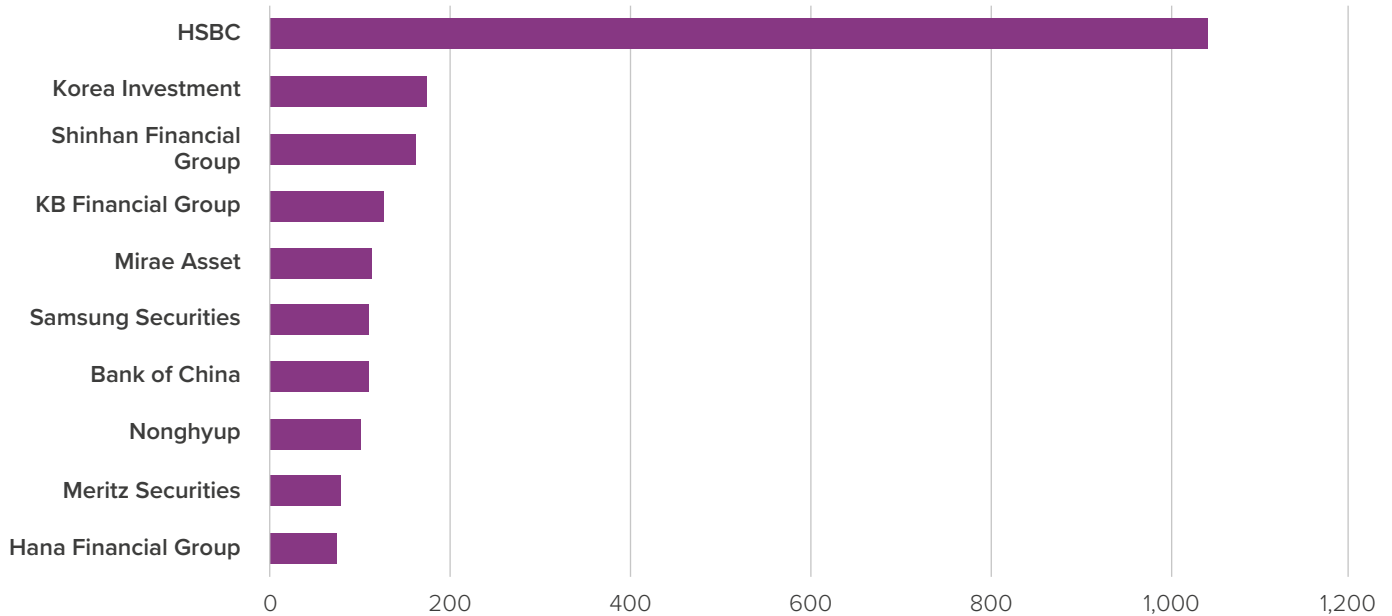
Americas: Top 10 issuer group by issuance 21 February-20 March 2021*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

Asia Pacific: top 10 issuer group by issuance 21 February-20 March 2021*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

after one year. A further 25% will be allocated to a three-year income account, returning 21.10% after three years. The remaining 50% allows the investor to participate 150% in the Credit Suisse GEM 10% Risk Control Index. A financial adviser fee (2.30%) and an administration fee (1.25%) are integrated into the structure and payable upfront.

ASIA PACIFIC

HSBC Bank issued 2Y CNY Note S11 in China. The deposit features a shark fin payout and is linked to the AI Powered Equity 5 USD ER Index. The index, which is owned by EquBot and calculated by Solactive, is dynamically exposed to the AI Powered US Equity Base Index. Exposure varies between 0% and 150% and can be adjusted on each trading day to achieve a volatility of five percent.

SMBC Nikko Securities accumulated sales of JPY17.9 billion (US\$167.7m) with KI M20240304 in Japan. The three-year securities offers a fixed coupon of 3.1% pa for the first quarter of investment. Every quarter thereafter, a coupon of the same

amount is paid if the underlying Nikkei 225 closes at or above 80% of its initial price. Otherwise, the coupon is 0.1% pa. The product is issued via KfW, a German state owned development bank. Natixis is the derivatives counterparty.

In South Korea, **IBK Securities** is marketing ELS 2704, a three-year autocall product linked to a worst-of basket comprising Hang Seng China Enterprises Index and Eurostoxx 50. If the product runs until maturity, and both indices close at or above 65% of their respective initial levels, it 100% of capital return plus a coupon of 9.3%.

OFFSHORE

Standard Bank launched issue two of its ESG deposit. The 5.7-year structure offers 100% capital return plus 75% participation in the S&P 500 ESG Index, subject to 18-month backend averaging. The maximum return is capped at 17%. The product is denominated in US dollars and manufactured via Standard Bank Isle of Man. A one-off entry cost of 0.40% applies. Priips SRI: five out of seven.

People Moves



Goldman's head of Emea equity structuring exits



The senior executive leaves after three years leading the US investment bank's equity structuring and systematic strategies (strats) in Europe to join an alternative investment management firm.

Tom Leake, head of equity structuring for Europe, the Middle East and Africa (Emea) at Goldman Sachs in London has

left the US bank to join Capstone Investment Advisors as head of solutions, also in London.

Leake joined Goldman Sachs at the beginning of 2017 reporting to Guy Saidenberg, global head of sales, strats and structuring at Goldman who stepped down later that year to join Barclays as global head of distribution and structuring - Saidenberg exited the UK bank in May 2019 after a restructuring of its trading business which is now run by Stephen Dainton.

Later in 2017, the US investment bank created a global structure to cover its clients consistently in each region with Leake, Ales Sladic and Pooja Mishra in charge for global coordination around structured products.

As a result of these changes, Maryline Mertz became the

global head of origination across FICC and equities while Leake was charged with running the bank's Strategies (strats) unit globally across equities and FICC which is led by Thalia Chryssikou, co-head of global sales strats and structuring across fixed income currencies and commodities (FICC) and equities and Stacy Selig, co-head of global sales strats and structuring in the global markets division.

Leake joined Goldman from Deutsche Bank, where his last role was global head of equity structuring, a position that was assumed by Sean Flanagan, who joined Morgan Stanley at the end of 2018 as global head of equity structuring and quantitative investment solutions. He joined Deutsche Bank's equity structuring team as a director in October 2009, and was then promoted to head of the equity structuring group in 2012, before becoming European head of equity derivatives distribution and structuring in 2014, and then adopting the global role in 2015.

Leake left Deutsche in late 2016 after the bank moved all customised products under one roof, under the custody of Tarun Nagpal, formerly head of alternatives and fund solutions at Deutsche.

The equity structuring group (ESG), which was led by Leake became part of Deutsche's global investment solutions (GIS)

PEOPLE MOVES

group, which consolidated all manufacturing functions for customised products including risk premia, the managed account platform and X markets (which includes certificates, notes and warrants), but excluded exchange-traded funds, which fall under the bank's X Trackers business and wealth investment solutions.

Prior to joining the German bank, Leake worked at J.P. Morgan for three years. A spokesperson for the US bank confirmed Leake's departure.

UBS appoints sole investment bank chief



The Swiss bank continues to align capabilities and resources in global wealth management, investment bank financing and risk management under one umbrella.

Robert Karofsky has been appointed as sole president of UBS Investment Bank, following Piero Novelli's decision to

retire from the banking industry to 'pursue new opportunities, including non-executive chairman positions and roles in academia teaching finance and business'.

Novelli will step down as co-president of the Swiss investment bank on 31 March 2021. Karofsky and Novelli became co-presidents of UBS Investment Bank in September 2018 following the exit of Andrea Orcel who had run the investment bank since 2012.

Day-to-day, Novelli was primarily focused on corporate client solutions (CCS) and Karofsky on investor client services (ICS) as well as leading the investment bank's digital transformation.

They were behind the Investment Bank's partnership with the bank's global wealth management and asset management business, and launched a new global financing team in May 2020 to bring divisions and markets under one group. The new team led by Remi Mennesson, who joined the Swiss bank in November 2020 reporting to Karofsky, as well as Iqbal Khan and Tom Naratil, co-heads of global wealth management, focuses on corporate derivatives and structured solutions developed through the bank's Structured Equity Solutions Group (SESG) and Special Situations Group (SSG).

'Under their leadership, the investment bank achieved its best fourth-quarter and full year results since 2012, finishing 2020 with an exceptional return on attributed equity of nearly 20%,' said UBS in a statement.

Karofsky joined the firm in 2014 as co-global head of equities and became the sole global head of the division at the Swiss bank after the departure of Roger Naylor in early September 2016.

Karofsky was behind the restructuring of the bank's equity derivatives and structured products business, which saw a shift in focus from London to New York as part of its 'Accelerate project' to streamline its operations kickstarted in late 2016.

He appointed Dushyant Chadha, former co-head of equities for the Americas, as managing director and head of global equity derivatives at the UBS capital markets & banking products division in New York, replacing Shane Edwards, formerly the global head of equity derivatives at UBS Investment Bank in London. Edwards joined digital asset financial services and advisory company Diginex in January 2020.

Prior to joining UBS, Karofsky was global head of equity trading at AllianceBernstein. He began his career at Morgan Stanley and joined Deutsche Bank as head of North American equities in 2005, later becoming co-head of global equities.

Novelli re-joined the Swiss bank in 2013 having previously served as global head of advisory and, before that, chairman of global M&A. Prior to joining UBS he was global co-head of M&A at Nomura, after a five-year stint as global head of M&A at UBS between 2004 and 2009. Novelli first joined UBS from Merrill Lynch in 2004 where he held the position of head of European M&A.

The Swiss investment bank UBS has increased its structured product distribution in the US market by about 27% in Q4 20 from the prior year's 1,547 products worth US\$3.8 billion. SRP data shows that UBS was the sixth biggest issuer globally in 2020 with over 110,000 products issued worth an estimated US\$14.3 billion.

Barclays global head of structuring exits



Follow the latest industry moves as Barclays sees a senior structurer depart, Credit Suisse bolsters its QIS team, Optiver hires former Goldman Sachs trader, and more. **Fabien Labouret**, global head of equities structuring and Barclays Investment Managers, in London, has left the UK bank.

Labouret joined Barclays investment bank (formerly Barclays Capital) as European head of structuring in 2010. Based in London, he reported to Hassan Houari, now managing director at Tramontana Asset Management and former head of equity derivatives structuring at Barclays, and head of sales Emea at Deutsche Bank until 2015.

Labouret was behind the bank's move to bolster its Apac market team which saw a series of senior global equities structuring and regional managers hires including the appointment of Nicolas Reille as managing director and head

of equities structuring for Asia Pacific, who had reporting line to Labouret, as well as Mark Dearlove, the bank's head of markets for Asia Pacific.

Prior to his move to Barclays Capital, Labouret headed the equity structuring group at BNP Paribas for the Americas in New York and prior to that he was head of structured products Asia Pacific in Hong Kong and head of alternative investment Asia in Tokyo at Natixis; and before that he worked as a financial engineer at Credit Agricole Indosuez's structured product group.

Barclays declined to comment.

Optiver

Dutch market maker and proprietary trading firm Optiver has appointed **Leaf Wade** as an institutional trader with responsibility for growing the market maker's London-based business dedicated to institutional investor clients. Wade joins from Goldman Sachs where he was a derivatives sales trader. He has extensive industry experience in derivatives trading and was previously an equity derivatives sales trader for over three years at Goldman Sachs and an equity derivatives sales trader at UBS for over 11 years.

Optiver is seeking to '[democratise] the markets' via its work with Refinitiv's foreign exchange trading platform, FXall. Earlier this month, Optiver became the first non-bank liquidity provider for foreign exchange options on FXall which also posted record trading volumes for 2020.

Optiver said the move was essential to its growth in the OTC foreign exchange options space for which it has been a dealer since 2019

Credit Suisse



Clément Florentin at Credit Suisse has taken up a newly created role of co-global head of QIS distribution structuring, Asia ex-Japan, in addition to his existing position as head of investment solutions structuring, Asia ex-Japan, a bank spokesperson told SRP. He reports to Nicolas Cohen-Addad in Hong Kong, co-global

head of investment solutions at Credit Suisse along with Thibault Dufour.

Starting from mid-December 2020, 'co-leading QIS distribution

means delivering investment strategies for distributors (private banks, insurance companies, retail distributors) globally, leveraging on successes in Asia to expand the business globally', according to the spokesperson.

Florentin continues to lead investment solutions structuring in Apac outside of Japan by delivering investment strategies, fund derivatives, insurance solutions and platform solutions to clients in the region.

Having joined Credit Suisse in July 2008, Florentin spent ten years in London as head of cross-asset and equity quantitative investment strategies structuring before moving to Hong Kong, responsible for R&D, marketing and execution of QIS and funds-linked transactions

ResonanceX chief re-emerges at Coinbase



Guillaume Chatain, co-founder and former chief executive officer at ResonanceX, the digital structured products multi-issuer platform launched in 2018, has joined Coinbase as director, institutional sales and trading.

ResonanceX entered the market offering end-to-end automation of price discovery, execution and life-cycle management with product details, life cycle events and associated alerts. The platform was a market pioneer in the use of a centralised infrastructure or blockchain asset custody set up, and was the first to launch and execute a fully automated structured note which was cleared, settled and registered on a public blockchain as part of the third UK Financial Conduct Authority (FCA) regulatory sandbox.

In early 2020, ResonanceX changed its business plan and applied for an FCA licence to offer advice and consultancy, as it tried to shift from an issuer-focused platform to a one-stop shop for the design, price, and trade of bespoke structured investments targeted at the buy-side. The B2B SaaS fintech did not gain traction and by Q3 2020 ResonanceX ceased its operations.

Prior to founding ResonanceX, Chatain was a managing director at J.P. Morgan Private Bank where he oversaw client solutions and product development for equity investments in Asia. In this role he led the creation, marketing and execution across managed equity, over-the-counter derivatives, structured products, and cash equities.

Before his move to Asia, he led the equity derivatives and structured products team for J.P. Morgan Private Bank in Emea.

Valour Structured Products



Swiss-based exchange-traded products provider Valour Structured Products has appointed the former global head of innovation at HSBC Private Banking, **Diana Biggs**, as CEO. In her new role, Biggs will lead the company's expansion, following the recent launch of Bitcoin Zero, Valour's bitcoin (BTC) exchange-traded product (ETP) that comes with zero management fees.

Prior to joining Valour, Biggs was global head of innovation for HSBC Private Banking, where she led on fintech partnerships and driving open innovation. Earlier roles include VP, head of growth & partnerships, Emea for digital currency platform Uphold; chief strategy officer for e-commerce startup Soko, and management consultant at Oliver Wyman Financial Services.

In December, Valour announced the launch of the world's first fee-free digital asset ETP, Bitcoin Zero, which trades on the NGM stock exchange. The company now has just shy of US\$30m in assets under management.

XP Investimentos



Brazilian investment firm, XP Investimentos commenced 2021 has reshuffled its structured products team following the departure of the head of COE and structured products, **Maite Kattar**.

Fernando Lemos took over the sales team in December 2020, succeeding

Kattar who went on to run a cross-sales team for wealth management clients before departing the firm in January. She joined XP Investimentos in 2010 from Bank of America where she spent ten years in the structured notes sales and trading teams in Sao Paulo and New York.

Lemos joined XP in São Paulo in December 2019 as a partner and global head of structuring in charge of the global markets structuring team, covering cross-asset investment solutions and transversal business initiatives.

Prior to that he spent 11 years at BNP Paribas holding a number of roles including head of Brazil structured products sales, and director of global markets institutional sales.

The Brazilian provider also onboarded Rafael Miranda to join its structuring and sales team. Miranda also joined from BNP

Paribas where he was the head of structured products sales desk. He reports to Lemos.

Miranda first joined BNP in 2014 where he assumed the position of an analyst for the bank's fixed income group. He then left the bank in 2015 and began dabbling in structured products when he started working at Santander Brasil with the structured products desk. He also worked at the 'Not-flow' desk, where he ran all new treasury products for wealth management.

He then went on to re-join BNP in 2018 as part of the bank's sales team where he was responsible for the pricing and distribution of structured notes as well as equity and fixed income derivatives for institutional clients.

HSBC WPB



HSBC Wealth and Personal Banking (WPB) has created three new chief investment officer (CIO) roles in Asia effectively immediately following the recent designation of Willem Sels as global chief investment officer, private banking and wealth management, based in London. The new private banking and wealth management CIOs include **Fan**

Cheuk Wan (pictured) for Asia, **Patrick Ho** for North Asia and **James Cheo** for Southeast Asia.

In her expanded role, Fan will be responsible for developing regional investment strategies and themes across all asset classes for private banking, Jade and Premier wealth clients in Asia. She joined HSBC Private Banking in 2016 as head of investment strategy for Asia and later assumed the role of chief market strategist, Asia for private banking. Prior to HSBC, Fan spent nine years at Credit Suisse Private Banking in various roles, including CIO for Asia Pacific, head of equity research and head of research Asia Pacific. She also held senior China equity research roles for 11 years, working at ABN Amro Bank, Cazenove Asia Limited, BNP Peregrine Securities and Standard Chartered Securities Limited.

Ho will oversee the investment strategy team in Hong Kong and manage the investment process of the Asia advisory model portfolios that incorporates core-satellite and thematic investment approaches. He joined the UK bank as chief market strategist, North Asia for private banking in 2017 after holding several senior roles at Credit Suisse Private Banking and UBS Wealth Management. Ho also covered equity research for 12 years, working at Bear Stearns, BNP Paribas and other brokers.

Prior to re-joining HSBC in 2019, Cheo was senior investment strategist at Bank of Singapore.

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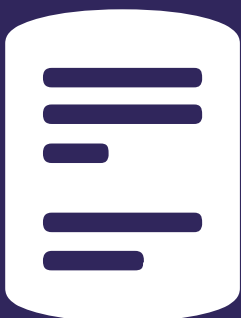


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