SRPInsight

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Contents

Ireland's CBI demands industry action on complex structured products

The Central Bank of Ireland (CBI) has written to Mifid investment firms, outlining the findings from a series of targeted reviews of structured products aimed at retail investors.

The reviews found a number of poor practices and weaknesses in firms' processes, which increase risks to investors.

This includes failure by firms to consider potential difficulties investors may have in understanding the complex features in some structured products; failing to present past performance information in a fair and balanced manner; and not including prominent capital-at-risk warnings in marketing materials.

'The retail investment market is changing rapidly, with an increasing shift away from traditional, capital protected products to more complex, capital at risk products,' said Colm Kincaid (pictured), director of consumer protection, Central Bank of Ireland.

The regulator carried out these reviews because it wants to see that regulated firms meet high standards in how they design, manufacture and distribute complex investment products to retail investors, according to Kincaid.

'In particular, we want to see that complex investment products are designed with real investment needs in mind, that they are targeted only at investors with those needs and that the risks are properly explained,' said Kincaid, adding that the CBI requires firms to take action to improve their performance on each of these fronts, as well as highlighting good practices which it wants to see emulated across the sector.

In the letter, the CBI asks regulated firms to take action to identify a sufficiently granular target market for structured products and to drive improvements in the quality and transparency of disclosures to investors of the risks relating to these products.

In particular, given the increasingly complex nature of structured products, the regulator deems it essential that the assessment of the target market is done in a proportionate manner, one that considers the nature and complexity of the product.

Where complex features are proposed, firms must consider if they are appropriate for the retail market and whether they are likely to be understood by the target market. Information about past performance (back-testing) must be fair and balanced, must be supported by clear narrative and context, and must not diminish the potential likelihood of capital loss with the regulator stressing that care must be taken to avoid presenting an overly optimistic or unbalanced picture of the likely investor outcomes.

Capital-at-risk warnings must be in a prominent location in all marketing communications and advertisements.

Finally, in the case of complex structured products, special care is needed when designing and presenting marketing information to ensure that individual statements, as well as the tone and overall content when read together, remains clear, fair and not misleading.

Just four investment firms – Broker Solutions, BCP Asset Management, Cantor Fitzgerald Ireland, and Moloney Mortgages Pensions and Investments – were active in the distribution of structured products in Ireland during 2021, according to SRP data.

Together they launched 55 structured products targeted at retail investors, down from 90 products the previous year, according to SRP data.

"We want to see that complex investment products are designed with real investment needs in mind

SRP Europe Awards 2022: RCB takes the lead in sustainable investing, inflation protection

Raiffeisen Centrobank (RCB) has won the award for Best Distributor Austria, Best Performance Austria, and Best Performance Germany at this year's SRP Europe awards.

With a record turnover of €2 billion, RCB ended the year 2021 on a high.

The topic of sustainable investments was distinctive of the business, with the bank reaching new milestones in terms of sustainability during the course of the year. It joined the UN Global Compact Network in order to support the UN principles regarding labor standards, human rights, environmental protection and anti-corruption while at the product level, the RCB Sustainability Standard was developed.

"As of year-end 2021, approximately every fourth certificate in the RCB product range was ESG-compliant in terms of our chain: sustainable underlying - sustainable issuer - sustainable certificate," said Philipp Arnold (pictured), head of structured products sales at RCB.

"Compared to the beginning of the year, we thus achieved a 53% increase in ESG open interest and a fourfold increase since 2018," he said.

One of RCB's highlights of the year was its Bonus & Safety 3, a five-year certificate linked to the Eurostoxx 50 and the LBMA gold price with a deep American barrier of 49%. In addition to the annual fixed interest rate of 0.7%, the product pays a variable interest rate equal to the positive annual rate of change in the consumer price index for the euro zone (inflation).

Given the high inflation, interest rates will not rise strongly enough to cover the depreciation, according to Arnold.

"Private investors will experience a real loss in value of money, if no counterstrategy is in place.

"Often, the first thing that comes to mind is an equity portfolio, but in recent months in particular, enormous volatility has been seen here. Therefore, investment products with a well-balanced opportunity/risk profile can ease the situation," said Arnold, adding that at the present time, a change rate (February) of about 5.9%, would result in an interest rate for the first year of the certificate's term of 6.6%.

"Direct inflation protection combined with a particularly comfortable safety buffer are demanded more than ever. Certificates make it possible to precisely cover these customer needs and also open up opportunities in this exceptional market environment," said Arnold.

Sustainability remains a trend in 2022 and for a broad, safety-oriented investor public, certificates with 100% capital protection level are possible again. At the same time, inflation and the maintenance of purchasing power continue to be pressing issues.

"When one buys weekly groceries, fills up tanks or looks at the housing situation: we all already notice the real impact - and no one is exempt from this.

"The media presence of the topic creates additional attention. This begs the question: What can individuals do for themselves? Falling into a state of rigidity or panic would be counterproductive. Higher inflation requires higher returns so if you want to maintain your purchasing power, your standard of living, you have to take action," said Arnold.

With its investment products, RCB is very close to what is happening on the market and wants to meet its customers' needs. The bank frequently issues Inflation Bonus & Safety certificates or addresses upcoming investment topics such as clean energy, health care and technology.

According to Arnold, 2022 has already created a challenging environment in the first quarter. "Of course, we are noticing the volatility on the capital markets and the uncertainty among investors.

"On the other hand, it is so important, especially between zero interest rates and inflation, to do something for one's personal financial situation - this is also possible with smaller amounts," he said.

The structured products team of Raiffeisen Centrobank in Austria as well as its Central and Eastern Europe (CEE) unit continues to focus on offering "attractive products and opportunities", in particular its subscription products while another option for investors is to take a close look at the secondary market.

"Due to the market development, yields of more than five to six percent per annum are quite possible with a safety cushion (distance to the barrier) of 50%," said Arnold.

SRP Europe Awards 2022: Hedios capitalises on conviction-based approach

Hedios has won the award for 'Best Performance Europe' and 'Best Performance France' at this year's SRP Europe awards.

The company launched 12 structured products worth an estimated€75m in the French market during 2021. The structures were all autocalls on European equity indices that are part of the company's Gammes H series.

They included 11 products on the S&P Euro 50 Equal Weight Synthetic 5% Price Index, which were issued via BNP Paribas. The remaining product, H Absolu 9, was linked to Solactive Eurozone 75 Equal Weight 5% AR Index and issued on the paper of Credit Agricole CIB.

"2021 has been our best year ever, both in business and in reimbursement, and we broke many of our records," said Julien Vautel (centre), CEO, Hedios.

The absolute highlight of the year was H Performance 31, another product from the company's Gammes H offering.

The 12-year structure was issued via Société Générale and collected €8.8m during its subscription period. It knocked out at the first time of asking after the underlying Euronext Eurozone 40 EW Decrement 5% Index increased by more than 10% on 3 August 2021, returning 100% of the nominal invested, plus a coupon of 44%.

"If you invest in a single stock at the right time, it is possible to achieve a similar return, but when you achieve this by investing in a structured product with a principal protection barrier of 40%, it is an outstanding performance," said Vautel.

Since then, another 10 of Hedios' products were redeemed early, including H Performance 33, which returned 141% after just one year while H Performance 35 (120%) and H Rendement 49 (108.50%) also autocalled on their first validation date at the start of 2022. Unlike most of its competitors, which design tailor-made products, Hedios' offering is conviction based. After it has built a product, the structure is then proposed based on its own conviction to its customers via the internet – a model that is quite different from the rest of the structured products industry in France.

"Our conviction-based approach and our online distribution business model are unique in the market," said Vautel.

Hedios wants to further develop its Gammes H offer in continental Europe from its London office while it also plans to open an office in Italy next year. At the same time, specific themes for its structured products will mainly surround around the resilience of the biggest European companies, according to Vautel.

"We continue the trend of 2021 for our business on the French market and even with market fluctuations we are expecting another record year.

"Our structured products are suitable for all market levels and our customers have confidence in our know-how," Vautel said.

The SRP France database registers 24 live autocallable products that are marketed by Hedios to retail investors, dating back to February 2017.

"

Our conviction-based approach and our online distribution business model are unique in the market

BNP Paribas’ structured products, derivatives gain momentum

BNP Paribas posted revenues of €13.2 billion in the first quarter of 2022, an increase of 11.7% year-on-year (YoY).

At €4.7 billion, revenues in corporate and institutional banking (CIB) were up by 28.1%. Revenues in the global markets business, at €2.8 billion, were up 52.8% compared to the first quarter of 2021. Activity on the fixed-income, currency and commodities markets was very robust, with strong demand from clients, for their reallocation as well as hedging needs.

Global markets also achieved a high level of activity in prime services and cash equities with strong momentum in derivatives, in particular in structured products, early in the quarter.

The bank led by Jean-Laurent Bonnafé, CEO, issued 710 publicly offered structured products in the first quarter of 2022, according to SRP data.

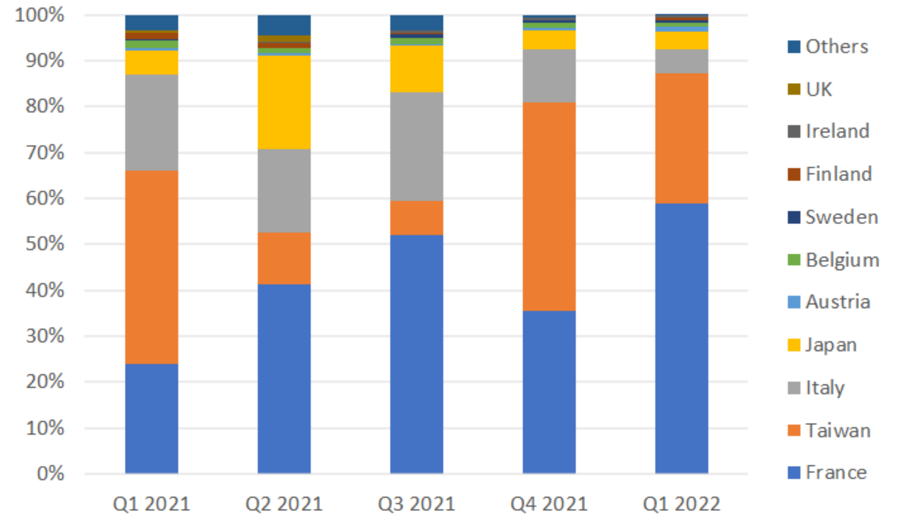
The structures, which were launched across 13 different jurisdictions, were worth an estimated US$3.6 billion, up 13.4% compared to the prior year quarter (Q1 2021: US$3.2 billion from 785 products).

In its local market France, the bank accumulated an estimated €2 billion from 212 products, an increase of 180% by sales volume YoY (Q1 2021: €724m from 150 products).

All but two of the products issued had a knockout feature and the majority were tied to a single index (128 products), of which the Eurostoxx 50 (25 products), S&P Euro 50 Equal Weight 50 Point Decrement Index (Series 2) (17), and Solactive France 20 Equal Weight NTR 5% AR Index (10), were the most frequently used.

Sweden was another European market where the bank had a successful quarter. Eleven products worth SEK234m (€22m) were issued during the quarter, up 154% in sales from Q1 2021 (SEK92m from eight products). The Swedish products had a mixture of payoffs, including six uncapped calls, and were distributed via Strivo (10 products) and Garantum (one), respectively.

BNP Paribas: global sales by quarter*



**Public offers, excl. flow- and leverage products*

Source: StructuredRetailProducts.com

BNPP fared less well in Italy, where sales, at €180m, were down by more than 70% compared to the same quarter last year; issuance, at 32 products decreased by 62% YoY. The main payoff in Italy was the reverse convertible while distributors included BNL, Banca Generali, and Mediabanca.

Outside of Europe, the bank was active, among others, in Taiwan and Japan. In the former, it was the manufacturer behind 304 products that were targeted at private banking clients of local banks and securities houses. In Japan, it collected JPY19.9 billion (US$153m) from 15 products that were all autocalls (Q1 2021: JPY22.5 billion from 11 products).

BNP’s 2022 medium to long-term regulatory issuance plan of approximately €20.5 billion can be broken down into €15 billion non preferred senior debt, of which €8 billion has already been issued, and €5.5 billion capital instruments (€2.9 billion already issued).

The group’s immediately available liquidity reserve totalled €468 billion (31 December 2021: €452 billion), equivalent to more than one year of room to manoeuvre in terms of wholesale funding.

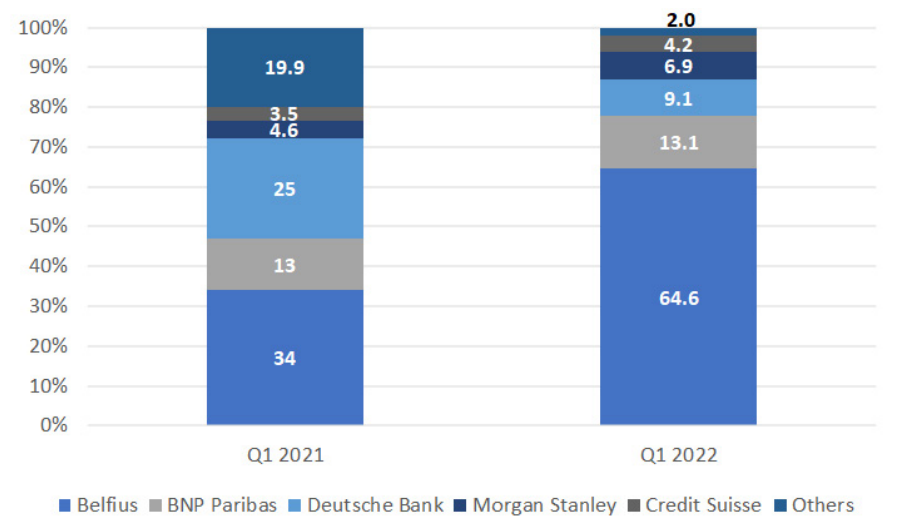
As of 31 March 2022, assets under management (AuM) came to €1,244 billion, an increase of six percent YoY but down 2.6% compared to 31 December 2021, due mainly to an unfavourable performance effect of -€53.7 billion, caused by market trends but partially offset by a favourable exchange rate impact of €10.8 billion euros and a positive scope effect of €10.3 billion.

NEWS | EUROPE

Spotlight on... top issuers in Belgium (Q1 2022)

Some €250m was collected from 24 publicly offered structured products during Q1 2022 in Belgium – down 37% by sales volume year-on-year (Q1 2021: €398m from 44 products).

Belgium: top 5 issuers - market share by sales volume (%)*



**Public offers, excl. flow- and leverage products*

Source: StructuredRetailProducts.com

Despite a drop in sales, average volumes, at €10.7m, were slightly higher than those in Q1 2021 when products sold on average €9m. Six different issuer groups were active in Q1 2022 compared to 10 in the prior year quarter. KBC was the most notable absentee.

The bank-insurer had claimed a 12.2% market share in the first quarter of last year but issued no products this time around. ING Bank, Société Générale, Goldman Sachs and Citi also refrained from issuing products this quarter.

Belfius captured 64.6% of the market in Q1 2022 – an increase of 30.6% YoY. The bank collected an estimated €160m from 10 products between 1 January and 31 March 2022 (Q1 2021: €135m from 15 products). Its offering included Belfius Financing Company (LU) Callable Interest 03/2032, a 10-year steepener linked to the constant maturity swap (CMS) rate that was the best-selling product of the quarter with sales of product of the quarter with sales of €49m.

The best-performing product also came from Belfius. Its Megatrends Coupon Private Notes, which were linked to the Solactive Megatrends US-EU Index, matured on 9 March, returning 148.62% (8.24% pa).

BNP Paribas consolidated its position as the second most active product manufacturer, with a market share of 13.1% – level on last year. It sold five products that were distributed via Bpost Bank.

In third, Deutsche Bank's market share significantly decreased: from 25% in Q1 2021 to 9.1% this year. All its products were available via the branch network of Deutsche Bank Belgium, which also distributed the products issued Morgan Stanley, Credit Suisse and Barclays, the three other active issuers this quarter.

Julius Baer expands warrants offering to deriBX

Julius Baer and BX Swiss have signed an agreement under which Julius Baer will now also trade leveraged products as a market maker on the exchange's structured products platform deriBX. The bank's markets team has issued the first warrants on deriBX on a number of of stocks and equity indices from Switzerland, Europe and the US. The bank said it will expand the leveraged products range further in the coming months.

'The partnership with BX Swiss is another step in our efforts to provide innovative solutions and services to our clients and investors via professional platforms,' said Luigi Vignola, Head Markets Julius Baer. "With our deriBX segment, we offer investors a steadily growing range of exchange-traded structured products. With Julius Baer, we welcome another well-known issuer as a market maker on deriBX and gain a valuable partner in our constantly growing ecosystem," said Lucas Bruggeman, CEO of BX Swiss.

Hamburger Sparkasse enters Deritrade in 'individualised' product push

Hamburger Sparkasse (Haspa) and Vontobel have entered into a partnership for Haspa to use multi-issuer platform Deritrade to 'give investment advisory clients the opportunity to tailor structured products to their individual needs live and in real time during consultations'.

Haspa, a bank for private clients and small and medium-sized corporate clients in the Hamburg Metropolitan Region, wants to leverage Vontobel's automated platform to enable investment advisors to create individual customised products.

'For years, Deritrade has been supporting its platform partners in Germany with its fully digitalized processes,' said Anton Hötzl, a member of the management board of Bank Vontobel Europe.

'This partnership with Germany's largest savings bank in one of the country's strongest economic regions will show how Deritrade can be deployed in the German market. We also expect this to give additional momentum to tailored structured products in Germany.'

Vontobel's multi-issuer platform is used by around 120 banks and 600 independent asset managers and investment advisors to create customised structured products in Europe and Asia.

Cboe Europe Derivatives to launch new equity index products

Cboe Global Markets has announced the launch of new equity index futures and options products for trading on Cboe Europe Derivatives (CEDX), its Amsterdam-based equity derivatives exchange.

Futures and options will be launched on four additional Cboe Europe single country index benchmarks including the Cboe Italy 40, Cboe Norway 25, Cboe Spain 35 and Cboe Sweden 30. The eight new products are planned to be made available for trading on CEDX on 27 April, with clearing provided by EuroCCP, Cboe's pan-European clearing house.

The addition of these products brings the total number of products available for trading on CEDX to 20, adding to the 12 products made available at launch last September, comprising futures and options on six Cboe Europe indices: the Cboe Eurozone 50, Cboe France 40, Cboe Germany 40, Cboe Netherlands 25, Cboe Switzerland 20 and Cboe UK 100.

'The launch of this second phase of products broadens our equity index product suite to cover additional key European markets providing customers with a tool to efficiently manage their European index exposures via a single marketplace,' said Ade Cordell, president of Cboe Netherlands.

Nest partners with Amundi on new mandate

The UK National Employment Savings Trust (Nest), the workplace pension scheme set up by the government in 2008, has launched a new mandate in collaboration with asset manager Amundi.

The mandate was set up to enhance government-backed master trust's ability to manage its portfolio more efficiently.

Through the mandate, Amundi will provide Nest with access to the use of derivative contracts for two main objectives in the scheme's portfolio.

These objectives are to rebalance Nest's portfolio to target exposures when it's proving difficult to do through equity and credit markets, and to reduce drag on performance by equitising cash set aside for private market deployment.

Nest head of public markets and real estate Anders Lundgren said the contract will play a "crucial role" for Nest in specific circumstances.

'We saw during the pandemic that when markets are volatile it can be very difficult to quickly rebalance portfolios,' Lundgren said. 'Derivatives provide a great solution, allowing us to quickly reach target exposures and ensure our members benefit when markets recover.'

Nest previously partnered with Amundi in 2016 when it selected the firm to manage its active emerging market debt portfolio, and in 2019 the firms partnered on a private credit mandate.

J.P. Morgan reports Russia related losses, strong Q1 for US structured products

Despite the positive performance the US investment bank reported losses related to markdowns of derivatives receivables from counterparties linked to Russia in Q1 2022.

J.P. Morgan has reported a net revenue of US$30.7 billion for the first quarter of 2022, a decrease of five percent year-on-year (YoY). Net income was US$8.3 billion, down 42%, predominantly driven by a net credit reserve build of US$902m compared to a net credit reserve release of US$5.2 billion in the prior year.

The bank's Q1 2022 results included US$524m of losses within credit adjustments & other in the corporate & investment bank (CIB) driven by funding spread widening as well as credit valuation adjustments relating to both increases in commodities exposures and markdowns of derivatives receivables from Russia-associated counterparties.

Equity markets revenue was US$3.1 billion, down seven percent, driven by lower revenue in derivatives and cash equities compared to a record first quarter last year.

On the primary market, the bank led by Jamie Dimon (pictured) claimed a 12.2% share in the US structured products market in Q1 2022 – making it the third most active issuer behind Goldman Sachs (15.4%) and Citi (12.9%).

The bank collected US$3.3 billion from 1,604 structured products issued in the US during Q1 2022, an increase of 10% from the previous quarter and up six percent YoY.

Apart from its own channels, products were distributed via, among others, UBS (US$450m from 45 products), First Trust Portfolios (US$260m from 200 products), Morgan Stanley (US$260m from 31 products), Incapital (US$95m from 70 products), and Goldman Sachs (US$360m from 41 products).

Goldman also acted as selling agent for the bank's best-selling product

US: top 10 issuer group Q1 2022 by market share

Issuer group	Issuance	Sales (US$m)	Market share (%)
Goldman Sachs	1,055	4,187.94	15.44
Citi	1,152	3,509.06	12.94
J.P. Morgan	**1,604**	**3,308.63**	**12.20**
Morgan Stanley	985	3,113.34	11.48
UBS	1,522	2,557.58	9.43
Barclays	542	2,373.54	8.75
Credit Suisse	404	1,470.77	5.42
Bank of America	199	1,267.05	4.67
RBC	245	1,228.15	4.53
CIBC	96	1,158.72	4.27
Others	752	2,946.45	10.86
Total	**8,556**	**27,121.22**	**100**

Source: StructuredRetailProducts.com

of the quarter: Buffered Enhanced Participation Basket-linked Notes (48133DWW6). The five-year registered note, which was linked to a weighted basket comprising FTSE 100, S&P/ASX 200 Index, Swiss Market Index (SMI), Topix Index (Tokyo), and Eurostoxx 50, sold US$105m.

Equities accounted for the majority of the underlyings with products linked to index baskets or single indexes accumulating sales of US$860m and US$805m, respectively, while US$680m was invested in structures tied to single shares.

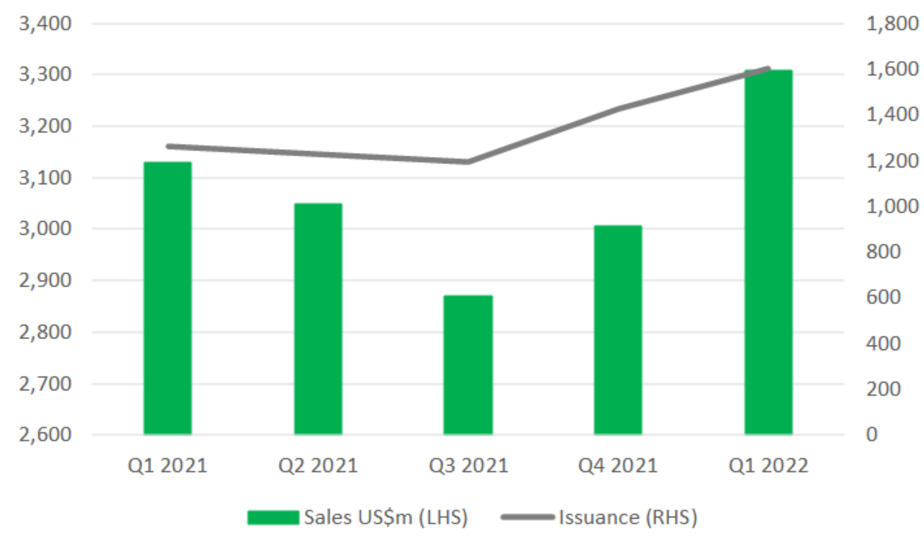
The S&P 500, seen in 540 products worth US$1 billion, was the most featured index, followed by the Russell 2000 (US$700m from 464 products) and Nasdaq 100 (US$475m from 353 products).

The MerQube US Tech+ Vol Advantage Index, which first appeared in the market in the summer of 2021 and is exclusively licensed to J.P. Morgan, collected US$45m in the first quarter.

Shares in demand included Tesla, Apple and Microsoft, while there was also significant issuanceof products linked to the iShares Russell 2000 Value ETF.

Outside the US, the bank was the number one provider (by issuance) of leverage products listed in Germany.

J.P. Morgan: sales & issuance in the US by quarter



Source: StructuredRetailProducts.com

Some 188,973 turbos were issued by J.P. Morgan in the first quarter of 2022, up 51% YoY (Q1 2021: 124,904). Of these, 64% were linked to a single index, including the Dax (65,141 products), DaxXdax (20,275), Nasdaq 100 (16,809), DJ Industrial Average Index (12,459), and S&P 500 (6,018).

There were also 51,271 products tied to a single share, with most of the demand coming for stocks from the technology sector (14,025), followed by those from consumer goods (9,626) and consumer services sectors (7,260).

A further 7,167 turbos were linked to commodities, predominately gold and silver, while 9,048 turbos were linked to four different currency pairs, of which the EUR/USD was the most popular (6,945 products). Asset & wealth management delivered strong results with positive inflows into long-term products of US$19 billion across all channels, as well as continued strong loan growth, up 14%, primarily driven by securities-based lending. As of 31 March 2022, assets under management were US$3.0 trillion, up four percent, predominantly driven by cumulative net inflows.

FIA double digit growth propels Q1 annuity sales, Rilas level off

Total U.S. annuity sales increased 4% to US$63.6 billion, according to preliminary results from the Secure Retirement Institute (SRI) US Individual Annuity Sales Survey. Total fixed annuity sales were $35.2 billion, up 14% over first quarter 2021. Double-digit growth for fixed indexed annuities and fixed-rate deferred annuities drove the overall fixed annuity sales to pre-pandemic levels.

Fixed indexed annuity (FIA) sales were $16.3 billion, 21% higher than prior year. Fixed-rate deferred annuity sales increased 10% in the first quarter, year-over-year to $16 billion. 'Both FIAs and fixed-rate deferred products benefited from the significant interest rate increases in the first quarter,' said Todd Giesing, assistant vice president, SRI Annuity Research. 'Coupled with a nearly 5% equity market decline, investors sought out principal protection and steady growth, which these products offer.'

Registered index-linked annuity (Rila) sales were $9.3 billion. While this is two percent higher than first quarter 2021, it reflects a 10% drop from the previous quarter. 'Market conditions in the first quarter have made FIAs more attractive than Rilas. As a result, the remarkable growth Rilas experienced over the past three years has leveled off,' said Giesing.

NEWS: AMERICAS

Barclays pulls out 30 more ETNs

The UK announced the suspension of the ETNs yesterday (28 April) as the structured notes paperwork gaffe reported in March continues to reverberate.

Barclays has suspended any further sales by the bank and its affiliates in the US of 30 of iPath ETNs listed on NYSE Arca and CBoe BZX until it resolves the paperwork issue with the U.S. Securities and Exchange Commission (SEC).

The UK bank said sales of affected products under the iPath brand will be halted from Thursday until further notice.

The bank previously stopped the issuance of the iPath Pure Beta Crude Oil (OIL) ETNs and the iPath Series B S&P 500 VIX Short-Term Futures (VXX) ETNs, before revealing in late-March that it had sold US$15 billion worth of structured notes and exchange-traded notes (ETNs) above the volume it had registered for sale under its BBPLC US Shelf in the SEC.

Last week Barclays suspended the iPath Series B Bloomberg Natural Gas Subindex Total Return ETNs due March 5, 2037.

The bank reported in its quarterly earnings update yesterday that its total operating expenses have increased to £4.1 billion (Q121: £3.5 billion) due after booking a charge of £523m (US$652m) for litigation and conduct including a provision in corporate and investment banking of £320m (post-tax impact of £240m) relating to the over-issuance of securities by Barclays Bank in the US and higher customer remediation costs relating to a legacy loan portfolio.

Barclays is in discussions with the US regulator to resolve its filing requirements to open a new shelf registration statement with the SEC, 'and resume issuance of structured notes, during the second quarter of 2022'.

"Barclays Bank expects to reopen sales of the ETNs when the amended Form 20-F and new shelf registration statement have been filed with the SEC and will make a further public announcement when this action is taken," the bank said in a statement.

The bank also said it remains committed to its structured products business in the US as it was able to 'absorb this issue financially'.

'Having reviewed all our other issuance programmes, we note they are all within applicable limits,' said C.S. Venkatakrishnan, Barclays group chief executive, during the presentation of the quarterly results.

'This situation was entirely avoidable and I am deeply disappointed that it occurred.'

Although the UK bank has slipped down the US league table it has almost matched already its 2021 sales of structured products in the US market - YTD sales of structured products stand at US$2.1 billion compared to US$2.5 billion in 2021, according to SRP data. Barclays has over 50 live ETNS of its iPath series in the US market.

The bank has commissioned an external review 'focused on what happened, how it could have happened, and where accountability lies'.

'We are also enhancing the internal controls in relation to our debt securities issuance activities as an extra safeguard,' said Venkatakrishnan.

Symetra introduces Accumulator Ascent IUL

Symetra has rolled out a new version of its Accumulator indexed universal life insurance (IUL) product - Symetra Accumulator Ascent IUL. The new Accumulator Ascent indexed annuity offers eight interest crediting options including seven indexed strategies plus a fixed interest option. Any growth within the index strategies is linked to the performance of a market index calculated as the one-year and two-year point to point performance.

The pool of available indexes includes the Putnam Dynamic Low Volatility Excess Return Index which is exclusively licensed to the insurance company, Symetra Allocation Index, S&P 500 Index and JPMorgan ETF Efficiente 5 Index. Other indexed annuities offered by Symetra include the Symetra Stride and Edge Elite annuity linked to the S&P500, JPMorgan ETF Efficiente 5 Index, and Putnam Dynamic Low Volatility Excess Return Index; and the Symetra Prestige annuity offering exposure to the S&P 500 or the SG Columbia Global Market States Index.

'The Accumulator Ascent IUL offers clients a straightforward indexed universal life product with a simple story: the opportunity for even stronger cash value accumulation potential, more competitive policy distributions and lower policy charges,' said Phil Bouvier, senior vice president, individual life sales and marketing.

Spotlight on... top issuers in the US (Q1 2022)

Goldman replaced Morgan Stanley as the number one issuer in the US structured products market during Q1 2022.

Some US$26.6 billion was collected from 8,561 structured products (an average of US$3.1 per product) in the first quarter of 2022 – a slight increase from Q1 2021 (US$26.3 billion from 8,085 products). Sales and issuance were also up compared to Q4 2021 when US$24.6 billion was collected from 8,054 products.

Goldman Sachs was the most prolific issuer during the quarter. The bank captured a 15.5% share of the US market with sales of US$4.1 billion from 1,057 products (Q1 2021: US$3.5 billion from 928 products).

A large chunk of Goldman's sales (US$920m) came from 91 structures that were distributed via Morgan Stanley Smith Barney LLC (Morgan Stanley Wealth Management). Considerable sales were also achieved via InspereX - formerly Incapital (US$475m), UBS (US$445m), and Raymond James (US$111m).

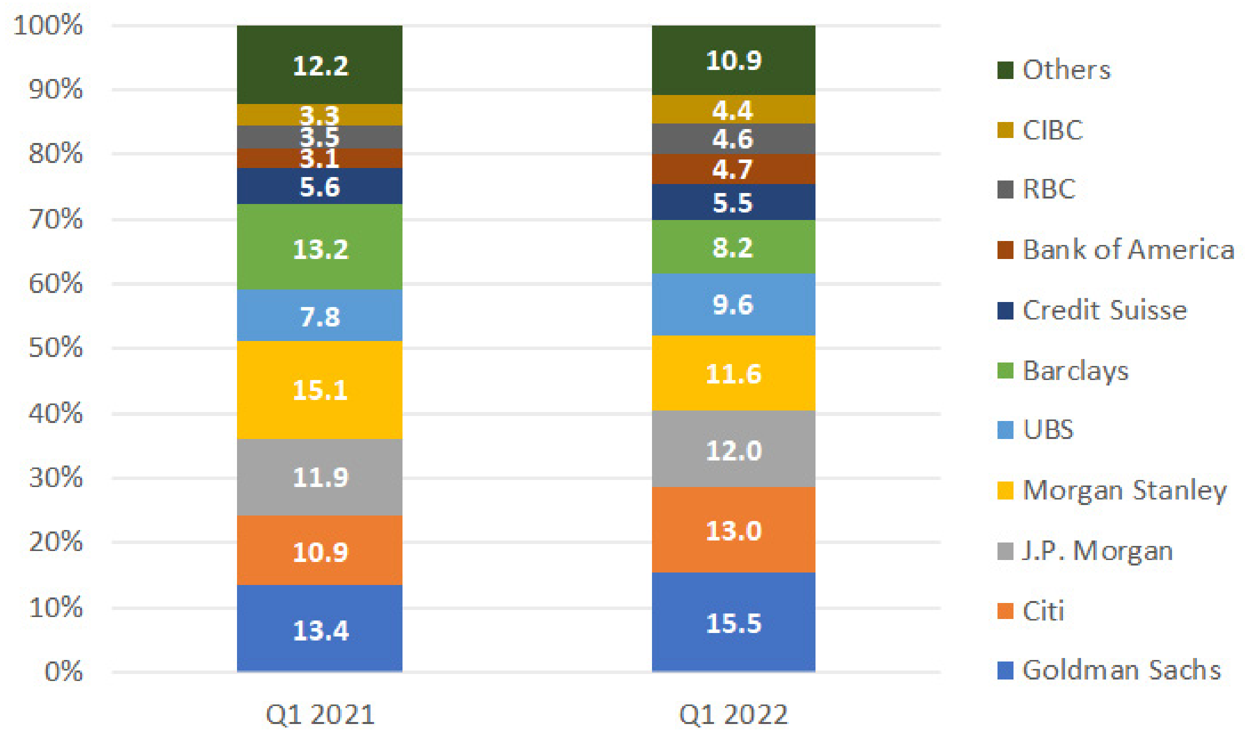
Almost halve of the bank's sales in the quarter, at US$2 billion, was tied in 458 products linked to the S&P 500. The Russell 2000 (US$586m from 247 products) and Eurostoxx 50 (US$573m from 154 products) were also in demand as was the proprietary GS Momentum Builder Focus ER Index (US$93m from 25 products).

In second, Citi increased its market share to 13% with sales of US$3.5 billion from 1,152 products while J.P. Morgan completed the top three, accumulating sales of US$3.2 billion from 1,606 products (12% market share).

Morgan Stanley, which was the main issuer in Q1 2021, saw its market share decrease by 3.5% to 11.6%, and a noticeable drop in sales was also seen by Barclays, which lost five percent in market share year-on-year. The only newcomer in the top 10 was Bank of America (BofA), which replaced Scotiabank.

BofA was also responsible for the best-selling product of the quarter, albeit as a distributor. Its Accelerated Return Notes (78015B856) on the S&P 500, which were issued on the paper of RBC, collected sales of US$140m during its subscription period.

US: top 10 issuers group - market share by sales volume (%)



Source: StructuredRetailProducts.com

Morgan Stanley debuts custom index in annuities market

Morgan Stanley has licensed on an exclusive basis a smart beta index to North American Company for Life and Health Insurance, a member company of Sammons Financial Group.

The Morgan Stanley Dynamic Global Index (Dynamic Global) which is rooted in approaches to level out the highs and lows of the market will be incorporated to some products within the insurers' index annuity range NAC VersaChoice, Performance Choice, and PrimePath which offer different growth and accumulation crediting methods with participation rate strategies at one- and two-year durations.

'This Index provides global multi-asset diversification and includes provisions intended to address the unique risks and return characteristics of each asset class as part of its rules-based dynamic allocation,' said Keshiv Desai, managing director at Morgan Stanley.

The Dynamic Global Index uses a rules-based approach and dynamically allocates across global assets with the goal of achieving diversified exposure across and within equities, fixed income and commodities to create a diversified, global portfolio that seeks positive returns in various market environments.

The index methodology includes provisions intended to address the unique risk and return characteristics of each asset class when re-allocating exposure during changing market conditions and may also reduce cash allocations to preserve gains during periods of high volatility and increasing leverage to capture returns when volatility decreases, as part of managing a 5% annual realized volatility target.

'A top concern of today's annuity owners is outliving their money,' said Rob TeKolste, president, Sammons Independent Annuity Group. 'By applying this new index, we can help alleviate some of the risk in potentially volatile economic conditions.'

In calculating the level of the Index, the Index methodology deducts a fee equal to 0.50% per year.

Other custom indices from Morgan Stanley used in the US annuities market include the Morgan Stanley Dynamic Balance Index (four products/US$8.64m); Morgan Stanley Target Equity Balanced Index (32/ US$8.04m); Morgan Stanley 3D Index (three/ US$6m); Morgan Stanley Diversified Select Index (three/ US$9.59m); Morgan Stanley Expanded Horizons Index (three/US$9m); Morgan Stanley Global Opportunities Index (three/US$27.81m); and Morgan Stanley Dynamic Rotator Index (two/US$6m).

J.P. Morgan joins ICE CDS derivatives complex via index options clearing

J.P. Morgan is now offering clearing services for client-executed Credit Default Swap (CDS) index options via ICE Clear Credit.

ICE Clear Credit supports the clearing of CDS index option instruments referencing the major North American and European corporate indices enabling traders to add cleared CDS index options to their risk management strategies.

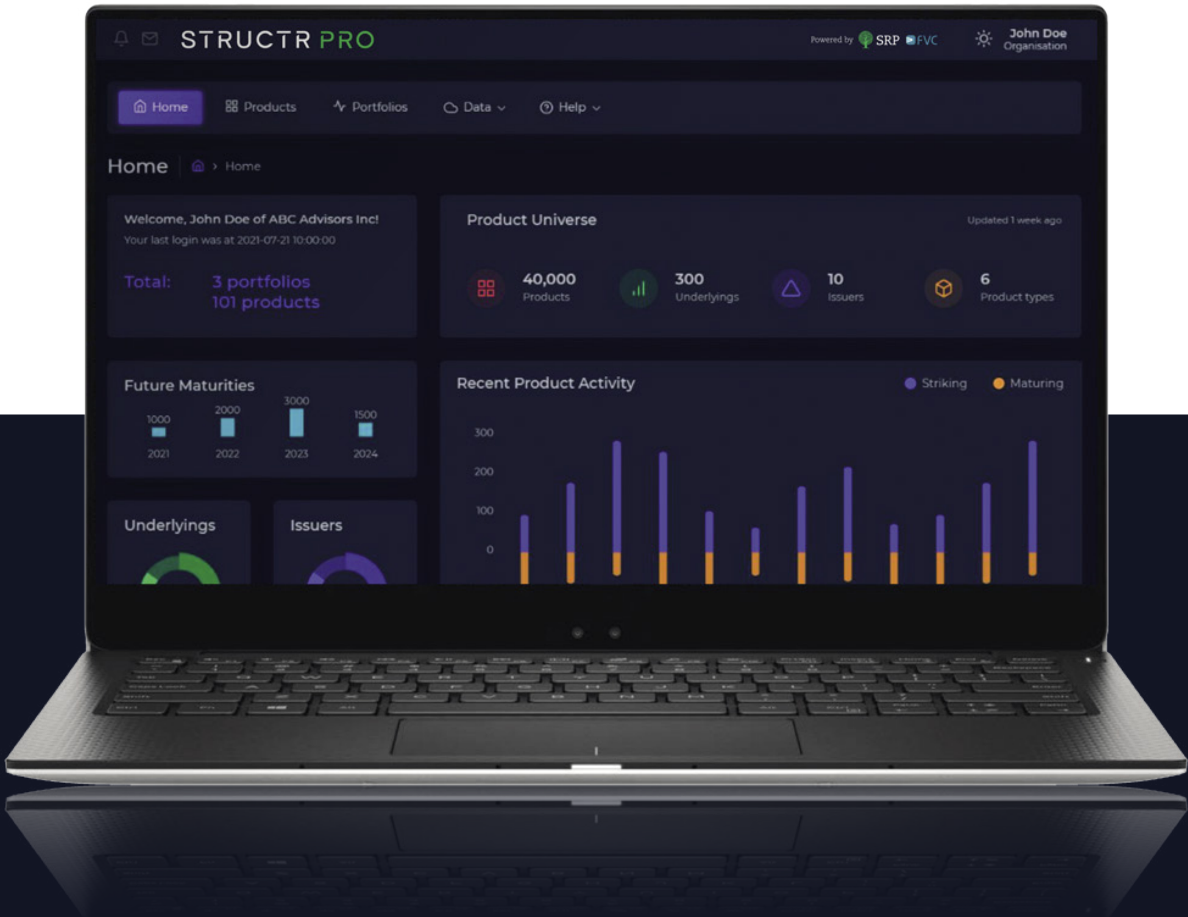
'Margining of index, single name and option instruments in one capital efficient portfolio provides growth opportunities for the ICE CDS derivatives complex,' said Stan Ivanov, president of ICE Clear Credit.

'The addition of options to the cleared product set is an important step in offering credit derivative clients a comprehensive clearing solution, allowing clients to achieve further operational and risk management efficiencies through clearing," said Paul Davidson at J.P. Morgan

Launched in 2009, ICE Clear Credit clearing solutions offer clearing for more than 500 single name and index CDS instruments based on corporate and sovereign debt with reduced counterparty risk exposure as it clears over US$283 trillion in two-sided notional amount, with open interest of approximately US$2.0 trillion.

STRUCTR PRO

A fully featured structured product lifecycle management tool



StructrPro is a complete structured product selection, monitoring and analysis system, developed using SRP's extensive structured products database and FVC's cutting-edge analytics and valuation expertise.

Featuring coverage of thousands of products across the US, dynamic product reports and aggregate reporting across entire portfolios. Gain valuable market intelligence on trends and future outcomes to enhance your analysis, product selection and management of structured products.

FIND OUT MORE

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HSBC debuts Morningstar target vol ESG index

Starting in China, the UK bank today (4 May) has traded the first tranche of structured deposits tracking the performance of a target vol strategy.

With a two-year tenor, the product linked to the Morningstar Exponential Technologies ESG Screened Target Volatility 7% Select Index includes an Asian up-and-out option offering full principal protection if held till maturity.

The CNY-denominated deposit will deliver a coupon of 7.5% if the performance level is at or above 112% of its initial strike on any yearly valuation date.

If no trigger-out event occurs, investors will receive the initial investment plus 100% of the average performance, subject to a minimum of one percent.

With a sales window from 15 April to 25 April, the product requires a minimum investment amount of CNY500,000 for retail investors, which is considered a large ticket size among retail structured deposits offerings at HSBC Bank (China).

Denominated in USD, the underlying index (ticker: MSXTSST7) is an excess return strategy with a total return variant also available.

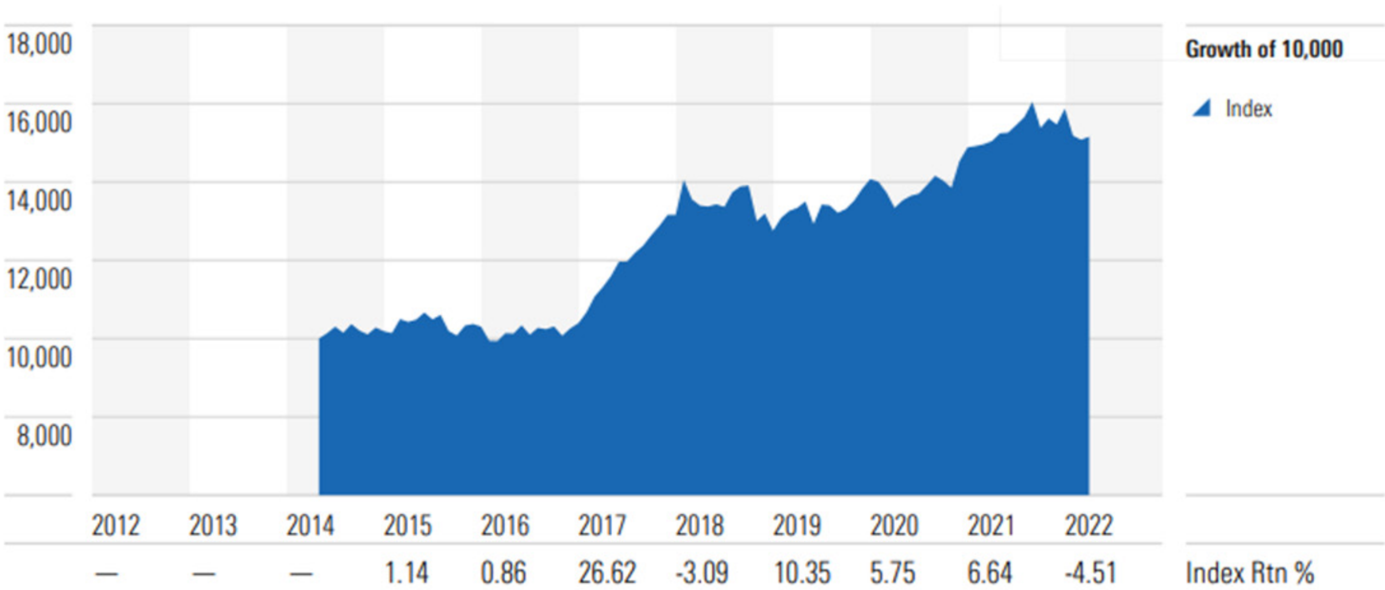
This is the first structured product tracking an ESG index developed by Morningstar at HSBC, according to SRP data. Prior to this, HSBC has rolled out dozens of structured deposits tracking ESG indices provided by Solactive and MSCI in China, as SRP reported.

In US and Europe, the bank has issued structured notes tracking ESG indices featuring the S&P 500 ESG, Stoxx Europe ESG Leaders Select 30 EUR, HSBC Investable Climate Change Index.

'The HSBC structured deposits that track the index offer principal protection and additional upside linked to the performance of carefully selected companies based on nine key exponential technology themes,' said Romain Benvenuto (pictured), global head of QIS Structuring at HSBC.

The UK bank plans to launch structured deposits linked to the ESG index in the Malaysian market 'followed by other markets globally,' according to Benvenuto.

Evolution Morningstar Exponential Technologies ESG Screened Target Volatility 7% Select Excess Return (ER) USD



Source: Morningstar

> "The HSBC structured deposits that track the index offer principal protection and additional upside linked to the performance of carefully selected companies

The nine themes include big data & analytics, cloud computing, energy transition, fintech innovation, healthcare innovation, hyperconnectivity, nanotechnology, next generation transportation and robotics.

The underlying index contains ESG elements by using an ESG rating from Sustainalytics to each one of the tech companies chosen per theme and screens out companies that are deemed severe risk or non-compliant with the Ten Principles of the UN Global Compact, according to HSBC.

UNDERLYING

Going live on 18 February, the Morningstar Exponential Technologies ESG Screened Target Volatility 7% Select Index provides variable exposure to the base index - the Morningstar Exponential Technologies Index, in order to target a volatility of seven percent.

"Embedding a risk management feature in the index where the index disinvests from equity when volatility rises should help maintain a stable volatility profile and reduce potential drawdown," a senior source told SRP.

The target exposure is monitored daily and is subject to both an exposure tolerance of five percent and a maximum exposure cap of 150%.

The Morningstar Exponential Technologies Index is designed to deliver diversified exposure to companies poised to benefit from innovative technologies with exponential growth potential.

To construct the underlying index, the universe eliminates constituents with severe ESG risk rating category and which are non-compliant with the principles of UN Global Compact. It also applies product involvement screens and weighting using inverse volatility and liquidity of the securities before adding a target volatility overlay.

Rebalanced on a quarterly basis, the Morningstar Exponential Technologies ESG Screened Target Volatility 7% Select Excess Return (ER) USD has a back-testing date from 18 March 2014.

The index posted the highest quarterly return of 8.85% in Q1 2017 and the lowest of -8.29% in Q4 2018. In the first quarter of 2022, its performance amounted to -4.51%, according to Morningstar.

With the US as main country exposure, the underlying comprised synthetic cash USD and Morningstar Expo Tech ESG Sel GR USD with a respective weight of 73.42% and 26.58% as of end of March.

StanChart WM business turns sluggish

The bank's wealth management (WM) income fell 17% to US$530m in Q1 22 year-on-year (YoY) as a 'challenging environment' offsets record financial markets income. Standard Chartered Bank (SCB) has reported a decline in WM income with Greater China North Asia ex-Hong Kong taking the hardest hit with a 32% income decline to US$104m. This was followed by Hong Kong SAR, which saw its income slide by 26% to US$176m in the first quarter YoY despite remaining the largest market for the UK bank. According to SCB's Q1 22 earnings report, income generated from the wealth business in Singapore increased by two percent to US$102m. In total, the Asian market contributed to US$382m income, accounting for 72.1% of the entire WM income at SCB.

Nearly one third of the WM income was generated from bancassurance, which posted a nine percent growth in Q1 22 YoY on the back of 'strong growth in Singapore,' while the remaining income from other WM products fell by 26% - mainly managed investments and treasury products. The overall income decline was attributed to the increasing market volatility, which reduced transaction volumes as well as the impact of Covid 19 restrictions across China, Hong Kong SAR, South Korea and Taiwan, said Bill Winters, group chief executive. '[The] Wealth Management side probably will take a bit of time to get back into its rhythm,' he said in the results presentation.

Exclusive: UBS brings back CMS-linked notes to Chinese market

The Swiss bank has issued two tranches of structured notes linked to USD 10-year constant maturity swap (CMS) in China to capitalise on US treasury volatility spikes.

After several years of limited activity around the CMS market in China, UBS has launched a new series of non-principal-protected CMS-linked structures – the two tranches which have a tenor of nine months and use a European digital put option were sold to an onshore corporate client.

Denominated in US dollars and Chinese yuan, respectively, they were offered under the Qualified Domestic Institutional Investor (QDII) scheme, which allow eligible Chinese domestic institutions and fund managers to invest offshore within quotas.

As of 30 April, UBS (China) has an accumulated QDII quota of US$230m following the last approval by the State Administration of Foreign Exchange in November 2020.

"CMS are fairly new derivative instruments in the Chinese market," Vincent Yeung (pictured), head of global investment management & products and Shanghai branch manager at UBS (China), told SRP. "Our offering was the first CMS-linked structured note in China during the current cycle based on my knowledge."

The notes are designed to capitalise on the bank's expectations of rising US interest rates amid inflation besides the unusual high volatility seen in the interest rate space, according to Yeung.

Traded at the end of February, they were manufactured by an undisclosed foreign investment bank.

"In view of the active trading in the US interest rates market, we didn't have much liquidity or pricing concern for the transactions when it comes to hedging," said Yeung.

The launch came as US treasury market volatility hit the second highest level in 10 years on 7 March 2022 as measured by the ICE BofA MOVE index, which was only surpassed by the Covid-19 related disruption in March 2020.

"Our interest rates-linked offerings tend to appeal corporate clients who generally have longer-term investment needs than high-net-worth individuals. In view of the increased volatility in US treasury, we suggest corporate investors lift the allocation of interest rates in their portfolios."

Prior to the launch, the Swiss bank considered using a steepener option tracking the spread of USD 10-year CMS and USD 2-year CMS, which didn't come true due to the concern over a flatten or inverted yield curve.

"[A] directional payoff is a safer bet as our general expectation is that the Fed will raise interest rates leading to the benchmarks growth," said Yeung. "We're more conservative about CMS spreads considering the basis risk compared with directional payoffs," he said.

After 2005, CMS is no longer among the top traded underlying assets mainly due to its low implied volatility, according to Yeung.

For structured product investors, yield enhancement is normally achieved by selling options to short volatility and collect premiums, which means that the pricing looks unattractive in a low volatility environment. "The CMS-linked products we often see in the offshore market usually come with a long tenor from five to 15 years," he said.

Moreover, Chinese investors are not familiar with interest rates-linked products in general compared with offshore investors, particularly US investors. "Besides, CMS [structures] are more complex than regular interest rates swaps," Yeung added.

In Q1, the QDII traded volume at UBS (China) slowed down due to the equity market corrections in both onshore and offshore.

"Some investors choose to stay on the side-line while there's growing demand for principal-protected products year-to-date," said Yeung. "A major trend we see is the increasing popularity of interest rates-linked products driven by the uncommon volatility."

REVISIT

The last time CMS was seen in the Chinese market was in 2017 when a handful of tranches of structured deposits for corporate clients were issued by a local joint-equity bank, SRP learnt.

However, in view of the recent volatility

> "Our offering was the first CMS-linked structured note in China during the current cycle based on my knowledge

hikes, several offshore hedge providers have started to promote US interest rates-linked offerings in China, including Société Générale, J.P. Morgan, Goldman Sachs and Morgan Stanley. Their pitch included a range accrual on the back of the spread of USD 30-year CMS and USD 2-year CMS.

In China, the use of new underlying assets must be approved by regulators. The revival of CMS structures hasn't led to any regulatory guidance, according to a source at a Chinese joint-equity bank.

"The use of [CMS] hasn't gained traction mainly because it remains a strange name to wealth investors and the treasury market volatility used to be too low to bring attractive pricing," said the source. "Structured deposits investors in China favour short tenor of less than one year, and the products must be fully principal-protected, which sets limits for CMS-linked products."

Yet CMS is viewed as 'the derivatives of derivatives' and is likely to grab the attention from regulators due to a series of related investment loss around the 2008 financial crisis, according to another market source who worked for one of the largest four Chinese banks.

"Before 2008, there were corporates, particularly the state-owned companies which were active borrowers of USD or EUR loans, trading CMS spreads with the lenders to hedge against rising interest rates," said the banker. "The inverted Euro yield curve from May 2008 led to tremendous loss for the corporates, and they eventually had to terminate the investments ahead of maturity."

According to a local news report published in July 2008, the 'Big Four' Chinese banks - Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, China Construction Bank, as well as China Citic Bank and Shanghai Pudong Development Bank had considerable CMS-linked business with corporate investors while Lehman and Citibank were active hedge providers.

SRP registers 1,472 live structured products linked to CMS underlying assets, including the USD CMS of two years, 30 years and 10 years as well as the EUR 30-year CMS. They were issued in 16 countries led by US (438), South Korea (335), Taiwan (286) and Germany (200) with callable, accrual and steepener being the most popular payoffs.

In Taiwan, 16 of the live offerings are dual currency notes linked to USD/ZAR besides a basket of USD CMS of five years, 10 years and 30 years - they were issued by Société Générale with a typical tenor of 10 years.

Nomura EQD revenue tumbles

The Japanese bank's equity derivatives (EQD) business slowed down in Americas in Q1 2022 after a booming quarter. Nomura Holdings has posted a net revenue in its global markets (GM) business of JPY158.2 billion (US$1.2 billion) from January to March, which was a 3.4% decrease quarter-on-quarter (QoQ), according to its earnings report for FY21/22 ended in March. The amount reflected a recovery from the Archegos-related loss of JPY36.8 billion at GM in the prior-year period. By asset class, fixed income and equities contributed to 50.6% and 49.4% of the net revenues, respectively.

Equities reported 'stronger revenues' in cash but derivatives revenues dropped in Americas 'giving an overall slight decline'. Other regions in Q1 22. 'In fixed income, rates revenues increased while securitized products slowed,' stated the Japanese bank about its Americas franchise. Meanwhile, equity derivatives revenue grew in Japan and Asia ex-Japan. Cash equities reported increased revenue driven by Americas and Emea in the first three months of 2022. Nomura exited the EQD business in Emea in 2016.

By region, Americas remained the most profitable centre for global markets (GM) followed by Japan, Asia ex-ex Japan and Emea. GM contributed to 81.2% of the wholesale net revenues while the remaining JPY36.7 billion came from investment banking (IB). 'Japan reported stronger revenues in equities and investment banking, while Emea posted revenues growth in macro products such as rates and FX/EM and in investment banking,' stated the bank led by Nomura President and Group CEO Kentaro Okuda.

Taiwan issuance tumbles, Nomura, GS stand out

A handful of issuers have posted noticeable growth amid the overall market decline.

Structured note issuance in Taiwan has dropped 29.1% to 5,727 from January to April compared with the prior-year period.

Credit Suisse overtook DBS Bank as the most active issuer by accounting for 24.3% of the entire new products, or 1,391, in the first four months of 2022 year-on-year (YoY) despite a decrease from 1,696 issuances, according to SRP data.

DBS retreated to the second place with an issuance of 1,380 during the same period, 95% of which was distributed in-house – the figure has more than halved YoY. Out of the total 12 issuers, only UBS, Nomura International Funding ('Nomura'), Citi and Goldman Sachs increased their issuance from January to April, SRP data shows.

Taiwan: top 10 issuers by issuance

Issuer	Jan-Apr 2022	Jan-Apr 2021
Credit Suisse	1,391	1,696
DBS Bank	1,380	2,982
Morgan Stanley	824	1,403
UBS	536	386
HSBC Bank	448	520
BNP Paribas	395	505
Natixis Securities	257	101
Nomura International Funding	191	2
Société Générale	114	438
Citi	105	33
Others	86	7
Total	**5,756**	**8,079**

Source: StructuredRetailProducts.com

Nomura and Goldman Sachs saw significant growth in the Taiwan market year-to-date on the back of 191 and 57 products, respectively – their respective issuance included two and one launches in the prior-year period.

SRP data shows that Nomura accelerated its expansion no later than Q3 when it rolled out 221 structured notes in the country – back in 2020, it had only issued six products.

For the new offerings in 2022, the Japanese bank has partnered with a group of six distributors comprising Fubon Bank (77), UBS (33), BNP Paribas (33), Uni-President Securities (24), Bank SinoPac (23) and Jih Sun Securities (1).

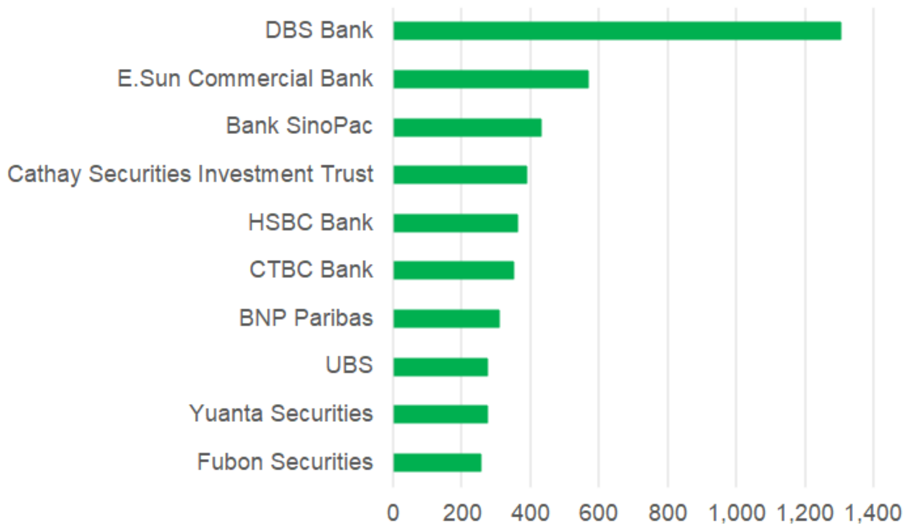
These structured notes are linked to unspecified share baskets featuring snowball and range accrual payoffs with an average tenor of 10 months – 114 are denominated in US dollars while the remaining of 77 are denominated in Taiwan dollars.

Goldman Sachs, which launched 38 products in Taiwan in 2020, linked most of its products to unspecified baskets of shares with six products tracking single index or foreign exchange (FX) rates, according to SRP data.

The new issuance were distributed by Fubon Bank (26), KGI (9), UBS (9), Mega International Commercial Bank (5), Taishin Bank (5), Cathay Securities Investment Trust (3).

By currency, US dollar and Taiwan dollar denominated products accounted for 36 and 17 products, respectively, while

Taiwan: top 10 distributors by issuance - Jan to Apr 22



Source: StructuredRetailProducts.com

Australian dollar, Euro and Japanese Yen denominations featured on one product each with an average tenor is one year and four months.

From January to April, the use of underlying assets has also shifted noticeably compared with the prior-year period. The issuance linked to hybrid assets fell 65.8% to 101 YoY while the number of equity share basket-linked notes fell to 28.5% to 5,510 despite remaining the most popular choice.

Interest rate has also gained traction appearing 59 structured notes, compared to four in the first four months of 2021. In the meantime, the number of products on the back of single stock and FX rate was stable at 52 and four, respectively.

There's one worst-of note with a knock-in option linked to two ETFs - VanEck Vectors Junior Gold Miners ETF and VanEck Vectors Gold Miners ETF while no product was seen tracking commodity, single equity index or mutual fund.

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Taiwan: issuance of structured notes by asset class

Asset class	Jan - Apr 2022	Jan - Apr 2021	Jan - Apr 2020
Equity (share basket)	5,510	7,704	2,604
Hybrid	101	295	227
Interest rate	59	4	19
Equity (single share)	52	53	30
FX rates	4	4	15
ETF	1	11	105
Commodity	0	1	4
Equity (single index)	0	1	3
Fund	0	1	0
Total	**5,727**	**8,074**	**3,007**

Source: StructuredRetailProducts.com

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The use of underlying assets has shifted noticeably compared with the period last year

FEATURE

Can platforms transform the UK market landscape?

Luma Financial Technologies and asset manager 1OAK have partnered to inject some dynamism into the UK market and help to get the platform message out across parts of the market.

The two teams have been working for some time to try and find ways to bring automation into a traditional market that has not really had a lot of attention in the past. The US platform chose 1OAK as a partner because of its footprint – it covers around three-quarters of the UK market - its infrastructure and the strong market knowledge of its people.

"We've been working with them to educate clients and end users of structured products across the market in the UK about the benefits of technology to offer greater access to more bespoke products for a wider section of the market," David Wood, head of international business at Luma, told SRP.

The initial approach will leave the pure independent financial adviser (IFA) business - the plan manager business – out as that part of the market is "really well set up and served and is not where the interest has come from".

"The interest comes from discretionary managers who are looking for direct access to ideas and issuers, and go beyond the retail kind of products that they've typically been exposed to because they don't have massive tickets and in the UK market there is no click to trade, lots of small trades, type of activity," said Wood. The growth of platforms in the US has been phenomenal – the market crossed the US$100 billion in issuance in 2021, with big brokerages and private banks now using them to deliver and manage products.

"We think platforms can transform the structured products market in the UK and will address some of the bottlenecks and problems we have here," said David Stuff, managing director at 1OAK. "We are targeting investment professionals, discretionary managers, and advisers, promoting the benefits of platforms. We may or may not be involved."

For example, if a firm has existing distribution agreements with banks, they can deal with banks directly through the platform; 1OAK will help those clients to "get set up and get stuck in". If firms don't have all the distribution agreements, they can use the Luma platform and 1OAK's distribution agreements.

With its issuer connectivity, Luma will offer managers price discovery, but also the ability to look at product opportunities and help them make better decisions for their clients with some of the analytics the platform offers, according to Wood.

"We think platforms can transform the structured products market in the UK

David Stuff, 1OAK

Platforms give asset managers easier access to product pricing in an efficient manner

Zak De Mariveles, chairman, **UK SPA** and chief executive, **Dura Capital**

"We can see there's a variation in terms of who offers the best price on a regular basis on the same structures so there is a real advantage when you look for pricing across the market and take advantage of the risk appetite of issuers to find the best price," said Wood.

"The shift will not happen overnight but there is some momentum and we are starting to see people adopting new tools and ways to offer and manage these products."

According to Zak De Mariveles, chairman of the UK Structured Products Association and chief executive at Dura Capital, the ability to price multiple variations of different structured payoffs from multiple issuers, in order to fine tune a product to specifically match the needs of a client, can be time consuming for all parties.

"Platforms such as Luma and Futora offer the ability to help facilitate easier creation of such bespoke structured products, especially in the DFM space, giving asset managers easier access to product pricing, directly from multiple Issuers, in a fast and efficient manner," said De Mariveles.

"Whilst this may be of lesser value to those distributors who tend to offer less tailor made and more generic product offerings that can have a wide appeal to many investors, for example in the UK IFA marketplace, for the more sophisticated markets such as the DFM space the benefits of such multi-bank platforms, along with their ancillary services such as performance monitoring and lifecycle management, can potentially help streamline the many processes involved."

DISCRETIONARY MARKET UNDERSERVED

According to Stuff, platforms can transform the way that discretionary managers use structured products with individual portfolio managers now being able to price products themselves before getting any trade approved by the central team.

"[They] will be a massive game-changer for discretionary managers because it is a way for portfolio managers to access pricing directly from all investment banks in a way it was not available before," he said. "In addition, they will be able to show their clients the terms investors can get for different products, and how they change when they alter the product structure. Giving portfolio managers the ability to get live product pricing in front of clients and respond immediately to what they are saying is a significant advantage."

Despite the interest from discretionary managers, Stuff does not see platforms as exclusive to the discretionary space as there is an "excellent case for plan managers and IFAs to use them as well".

"All UK distributors need to access prices, and if plan managers can share that on the fly with the advisers their business development team is speaking to in the field it is an added value to their offering," said Stuff. "Firms are already very conscious about making sure that the structured products are used sensibly by their portfolio managers and that the products are correctly described and are best suited and appropriate for clients. The checks and audit log embedded in platforms will help firms show that they have followed the correct process and that all the required documentation is in place."

As seen in other markets, multi-issuer platforms can bridge the sell-side/buy-side gap and make products more accessible and manageable as well as helping with the monitoring of investments and portfolios.

"These products require tools and information that can be hard to handle," said Wood. "The UK market has long dated products with lots of observation periods. That and the different maturities

“

Execution flows show that most trades do not actually get done on a click-to-deal basis

David Wood, Luma

in a portfolio needs to be proactively managed otherwise it becomes complex quite quickly.”

In addition, platforms can also help discretionary managers with their obligations in terms of control and governance as they will be able to demonstrate through the reporting tools their best execution process with a clear audit trail of activity.

“This will give the risk control frameworks and departments better comfort that portfolio managers are managing it in the right way,” said Wood.

TOOLS IN FOCUS

There is a lot of focus and attention placed on electronic pricing and price discovery, but the execution flows show that most trades do not actually get done on a click-to-deal basis, according to Wood.

“Price discovery is great, but you still must provide a high touch service solution at the end,” he says.

“Providing reporting is complex and sometimes underestimated because each product has got different pay off profiles. If you're a small asset manager, being able to demonstrate and show how you build those reports can become very cumbersome – doing these things on excel is hard and scaling is really hard; then making sure it's accurate is even harder. Platforms just take those problems away for the operations team.”

Stuff noted that asset managers big and small have got their own lifecycle management systems in place already which makes price discovery the main USP for platforms in the UK.

“Lifecycle management is not the main feature managers are looking for in platforms although they can certainly be a useful and very functional feature – email alerts can help brokerages to monitor products for multiple portfolios and enable portfolio managers, compliance and the management team to make sure nothing slips through the net,” he said.

Luma’s syndication functionality will also allow large discretionary managers and networks to use that marketplace function to syndicate products across large numbers of clients.

“That ultimately could be very useful particularly when there are a lot of portfolio managers that are all using the same custody and dealing systems in a safe and easy way,” said Stuff.

In addition, the ability to separate the hedge from the notes will enable managers to take that into a next step and offer a derivative on a deposit instead of a hedge on a note.“We are able to support different approaches and tailor the offering for particular client needs. There is a huge opportunity in many markets that have not fully embraced this kind of technology, but different regulations are still creating challenges for platforms,” said Wood.

CHANGE OF DIRECTION

Because of FCA regulation in the last 10 years, the UK market has struggled in terms of growth, but platforms can also address practice capabilities when it comes to trading and allow firms to completely control what people are and are not able to do.

According to Stuff, the UK market has declined significantly partly due to the abolition of commissions and the move away from a transactional relationship with clients to one where intermediaries manage client portfolios on a discretionary basis.

“As a result, very few wealth managers now have an advisory service. But I'm convinced that platforms have the capability of changing this,” he said.

One of the reasons for low take up of structured products in the UK is the poor fit with adviser practices, said Clive Moore, managing director at structured products specialist firm Idad.

“UK Financial advisers almost universally steer client assets onto one or two custody platforms,” he said. “This makes managing money much easier for investors and advisers alike, with easy switching between funds or portfolios and straightforward fee collection methods for advisers (charges being collected from client portfolios). Most of these platforms developed to hold open-ended funds and only recently have become more flexible in terms of holding wider ranges of securities.”

Stuff pointed that advisers can still charge a client for a transaction, but they face “enormous work and effort - box ticking and compliance, report writing to support any recommendation”.

“It's not easy to demonstrate that products are suitable and appropriate without specialist analysis. As a result, many advisers have concluded that there is a lot to do with structured products, but there is very little reward,” he said.

Structured Products in the UK have traditionally been sold as ‘plans’ with clients effectively entering into a kind of limited discretion investment agreement with the plan manager/ custodian, whereby their subscription will buy a particular security - typically the instrument issued by the investment bank.

An investor portfolio will consist of the funds - and sometimes direct share investments - held on a fund platform and sometimes structured products held separately in a plan.

“The fee structures for advisers and clients are different (no quarterly fees from structured products) and reporting isn’t consolidated – a pain for investor and adviser alike,” said Moore. “Some advisors will effectively incur double custody fees for their investors by holding the plan on the platform, which is still far from ideal. It is relatively easy for most structured products to be held on many platforms now in their ‘naked’ form (i.e. no plan) which saves investors and their clients costs as well as aggravation, but take up is still relatively low.”

According to Stuff, adoption will be a slow because all the firms in the UK that are using structured products have got systems and processes in place that they feel adequately deal with the requirements they have in the structured products space - they've got product approval systems, they've got ways in which they get prices from banks, the dealers know how to get prices from different places.

Moore pointed that there are not many advisers who actively trade structured products on behalf of their clients in the UK and there are probably fewer who require an automated process to do this.

However, Stuff believes that with specialist platforms portfolio managers will come back to structured products in numbers.

“Ultimately, structure products are one of the best ways in which a portfolio manager can work with clients to create and tailor concrete investments that are specifically designed for a particular client or a small group of clients,” he said. “They offer a way for portfolio managers to demonstrate the value they have by creating something that matches the investor risk profile, the investment term and underlying assets, the product shape, the coupons and so on.

“The ability to work with the clients and provide that level of services quicker and demonstrate best execution allows portfolio managers to work with clients pretty much in real time while firms can control and supervise all this activity. I think that is why platforms will potentially be the catalyst to a massive resurgence of structure products in the UK.”

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UK advisers steer client assets onto one or two custody platforms

Clive Moore, Idad

Recycling risk: volatility and structured products

Structured products with all their complex underlyings and payoffs are in many cases a way for investors to sell volatility in a packaged product.

As we saw in our recent article about risk control, investors continue to face significant challenges when managing market volatility - for many, volatility shocks often result in large drawdowns and negative equity market returns. However, a change in the volatility regime may present opportunities to investors and other players in the structured products market.

Most of the structured products in the market are capital-at-risk that offer enhanced yield or participation in exchange for a conditional repayment of capital at maturity – usually when the underlying is above a pre-determined barrier level, according to Jean-Victor Demaison, head of equity solutions sales, Emea (ex FraBeLux) and Americas, Crédit Agricole CIB (Cacib).

"Those products embed a short put position. This means that investors have to bear the mark-to-market of that short option position during the life of product - as the market falls and/or becomes more volatile, capital-at-risk products see their value falling," he said, adding that volatility can also benefit prospective investors who want to buy new products.

"As the volatility gets higher, the sale of a put option generates more premium, funding higher coupons and therefore higher potential returns. Volatility can magnify returns or losses. It is therefore important for investors to understand the risks and benefits of each individual product and seek financial advice when necessary."

CORRELATION

In many cases these short volatility structured products also take on a correlation exposure too.

"Many equity structured products sell a worst-of put on the downside in order to increase the coupon, and this means that they are also long correlation between the associated underlyings," said Pete Clarke, head of multi-asset derivatives strategy at UBS.

This is because in a very high vol environment, if the correlation between the stocks in the basket is very low, with names moving in opposite directions, then the product is more likely to hit the knock-in barriers on the downside, and also less likely to be able to autocall to the upside.

"The standard worst-of reverse convertible or worst-of autocallable is short volatility and long correlation, and also tends to carry a short dividend exposure as well, because the higher the dividend versus what was implied, the more the ending spot level will be dragged lower, taking the payoff towards the knock-in barriers and away from the autocall level," said Clarke.

From a structured product risk recycling perspective, the issuer ends up with the opposite position.

"The dealer effectively ends up long vol, short correlation and long dividends, all of which they ideally want to recycle in order to reduce risks and enable further primary issuance," said Clarke.

The relationship between volatility and correlation is very important as seen earlier this year – in very volatile environments correlation tends to jump at the same time as the biggest spikes in volatility.

Since the beginning of the year, we have seen a large divergence in broad sector performances

Sumit Kendurkar, Optiver

We've had very steep skews on global equity indices for much of the last two years

Pete Clarke, UBS

"You see that in terms of cross-asset correlation, ie bonds and equities selling off together which is what we've had year to date," said Clarke. "Yields have moved higher, and equities have sold off."

This has also triggered higher internal correlation within indices like the Eurostoxx50, with constituent stocks selling off together or rallying together on any given day, driven by the same market dynamics. This makes options on an index particularly expensive versus the weighted average cost of options on the constituents within the index.

"When the cost of options on an overall index is high versus the weighted average cost of options on the individual constituents, then the internal implied correlation within the index is high," said Clarke. "If there is a very steep index skew relative to the stocks, this means that implied correlation is also expected to rise sharply on market drawdowns."

In a very steep skew situation, a relatively small spot decline can often create a meaningful spike in the VSTOXX or the VIX, which is in line with what the market has experienced at times in recent years.

"We've had very steep skews on global equity indices for much of the last two years coming out of Covid because markets have been consistently rallying and uncertainty has remained high. This has encouraged investors to spend some of their positive equity returns on mitigating downside risks via long put options," said Clarke.

OFFLOADING RISK

One of the main functions of market makers is to be able to recycle the risk that is generated from structured products, and the last two and a half years have been action-packed as far as volatility is concerned.

According to Sumit Kendurkar, senior equity trader at Optiver, the focus is on two specific sets of products - the mono underlying structures linked to one asset and basket-linked structures, mostly worst ofs.

"This is a critical function for us, to be there and offer product issuers room to manoeuvre," he said during the volatility panel discussion at SRP Europe 2022. "This is what has kept the market so dynamic even in 2020 when Covid first hit. We saw the Asia markets going first then came Europe and finally the US, when everything just went down together.

"This meant that at different points in time there were different underlyings that were basically the worst-of on those baskets. Consequently, you would see that the whole exposure switched from Hang Seng to Eurostoxx50 and then to the S&P500. Then 2021 was all about rates, inflation expectations, etc. which has led to a massive rotation within sectors and stocks in 2022."

Since the beginning of the year, we have seen a large divergence in broad sector performances, with energy, materials, utilities and staples outperforming vs discretionary, banks and technology. This dispersion has resulted in significant rebalancing of volatility and derivatives exposures.

"These huge underlying sector rotations have meant that dispersion trades have been very popular and generally quite profitable in realised terms year-to-date, even as implied marks have been moving higher," said Clarke. "The volatile rates environment has helped to keep realised correlation at the stock level much lower than you might naturally expect for such a high implied vol backdrop."

This is particularly the case in Europe where implied vols have been comparable to the levels of 2015 - 2016 over parts of the last couple of years, although the absolute level of realised correlation has been significantly lower.

The problem with correlation is that there is no basket which you can use to wager your vision on any index and is difficult to measure because there are no direct listed products to recreate correlation in a basket, according to Kendurkar.

"You can use calls versus calls - so calls on the basket versus the basket of the individual calls, but these are very illiquid OTC products," he said. "We are helping issuers by getting access to dispersion packages which consists of listed underlyings.

Recycling risk (part 2): offloading vol

The Priips saga, with its sector heroes, regulatory disputes, implementation frustrations and (even) parliamentary uprisings, has finally come full circle.

Market players talk about the role of implied volatility in triggering the shift away from traditional equity index-linked autocallables and reverse convertibles. Issuers of structured products use several ways to offload implied volatility. The easiest way is to go into the inter-dealer broker market and see if there are any matching interest within hundreds of participants - these can be other banks but also market makers, and hedge funds, according to Pierre Roussel, head of EIS stocks trading, Crédit Agricole CIB.

"Liquidity will mainly depend on underlying and maturities, but trades will always be listed derivatives," he said. "For less liquid underlyings, it is possible to macro hedge the volatility exposure with more liquid ones - main indices in general."

Another way is to structure products that can help to mitigate the volatility risk, said Roussell. "We can think about simple payoff diversification with usual clients to more sophisticated products that can be traded with more advanced clients such as hedge funds."

Active investors like hedge funds and market makers want to see where the structured products flow is as this can affect the dealers option positioning.

Trading desks look at S&P 500 index flows, for instance, to see if dealers are short or long gamma - if there's a level where dealers are short gamma, and the index goes down, issuers need to start hedging their gamma if they're short.

The selling pushes the market even lower and escalates the need to sell even more which adds some volatility to the markets. When dealers are long gamma that dampens the volatility because they start buying when the market goes lower, and they start selling when the market goes higher.

"Hedge funds are looking at where the flows are, what kind of products are sold, where are the strikes and the peak Vega – the level at which knocking puts are set," said Tom Karlsson, director of volatility strategies at Dunn Capital.

"The structured products market is a very interesting space for hedge funds because it offers opportunities – the flow may be so one sided that some volatility becomes very cheap to buy and some volatility becomes very expensive to sell. It's not only the arbitrage opportunities but also about having good trade entry points."

Hedge funds and market makers are always seeking opportunities to buy cheap volatility so they tend to look a the longer dated implied volatility levels of an index and "where the structured product flow is pushing the volatility down too much and there is little liquidity to hedge in longer dated maturities".

DIVIDEND RISK

If there is a lot of option activity this might affect the implied volatility and dividend levels which in turn may open attractive trading opportunities for these firms as the market flows are not always balanced.

"Longer dated dividends have had constant selling pressure as banks need to hedge their long dividend risk exposure. In times of risk-off market this risk can trade very attractive levels and you can earn a good yield carrying this illiquid risk," said Karlsson.

"That is what happened with the Covid crisis of 2020 when companies stopped paying dividends, and it became a real risk for the market, but also an opportunity. Issuers reacted quickly and addressed the problem with decrement or synthetic dividend indices - clearly a good way for banks to hedge that risk and pass some of that premium on to investors."

The dividend risk generated by structured products has become a key theme since 2020, according to Conor McCann (right), equity derivatives trader, Susquehanna International Group.

"There was certainly a lot of stress in March 2020 and the structured products market has been an area of the marketplace where we've had to step into in a more serious manner," said McCann, during the volatility panel discussion at SRP Europe 2022. "The introduction of decrement indices is a good example of the innovation triggered by the industry which moved fast to come up with ways to manage and reduce these risks."

According to McCann, the dividend risk has been reduced across the marketplace, on average, but there are still occasions when dividend risk is coming under stress.

"I think that is still very much an important risk for us all to manage," he said. "A lot of the work that has gone into the last two years and being more focused on this risk has also provided a better framework to manage the risk and have an orderly market in terms of the dividend risk compared to 2020."

"The structured products market is a very interesting space for hedge funds because it offers opportunities

Tom Karlsson, Dunn Capital

INDICES V STOCKS

The shift away from traditional market cap indices for autocallables or reverse convertibles began before Covid as very low long dated index implied volatility was already seen in benchmark indices such as the Eurostoxx 50 which was declining through the back end of 2018.

Coming out of Covid there's been an industry-wide switch towards trading single names, which in turn has meant the stock-to-stock correlation levels are more important nowadays, than the index-to-index correlation levels might have been in the past.

The impact of structured products issuance moving away from indices and more towards single stocks over the last couple of years has left an environment where index skews have been very steep and stock skews have been a lot flatter, which is conducive to looking for risk adjusted ways to buy downside vol and skew on single names.

"You end up with a trade that is long on the single name vols, in the region where the vol is more accessible," said a senior banker who preferred to remain anonymous.

By mirroring the underlying autocallable risk issuers can recycle their spot to dependent Vega and offer competitive and quite attractive trades in terms of the underlying risk premium.

"We generally recommend trading it in an equal Vega format," said the banker. "Normally when you do a correlation trade, you'll tend to sell more Vega and more vol exposure on the index leg than you buy on the stock legs and that just represents the difference in the strikes that you're trading it turns into more of a pure correlation trade."

OUTLOOK

As of today, the Russia-Ukraine conflict remains the main cause for realised volatility in the market, but central bank policies, economic data (jobs, ISP, PMI) and company results are contributing to the shift in the volatility regime. This realised volatility, according to Roussel, is also a big driver of the implied volatility "we observe every day".

"The war may have consequences for growth and will increase the issues we already had in the past six months with inflation likely to be a big challenge all over this year," he said.

Karlsson believes the current volatility comes from higher inflation and interest rates as opposed to geopolitical events like the war.

"Those are going to be more persistent," he said. "history suggests that there is a high risk of a recession, and obviously in this kind of environment volatility and uncertainty will be high. We should also consider how the markets are going to take the projected rate hikes if the inflation continues to be high."

In this environment the best products are those that can get a carry and can earn some yield selling that high volatility. Barrier strategies can be hard to structure because it is difficult to time the market going down, but in the current market they provide enough buffer to cope with sharp moves as long as investors manage their risk and trade small enough, according to Karlsson.

"Market neutral type of structures and bullish structures specially with Asian assets by selling up puts and buying multiple call options to have a nice leverage on the upside would probably add value to any portfolio," concludes Karlsson. "Similarly, in Europe, you can probably benefit from selling short-term downside puts to get a good yield, and in the longer dated maturities replacing the long stock portfolio with call options could build a nice payout profile."

Like volatility the structured products market moves quickly and those manufacturers that can keep up and react with opportunistic trades will have an edge with investors as long as they have the risk appetite to hedge those volatile positions or find someone externally willing to cover the risk.

Shenwan Hongyuan capitalises on market transition

The securities house has won the Rising Star accolade at the SRP China Award 2021 on the back of a tier-1 OTC option licence received in 2021, which boosted its structured product business.

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The full licence, handed out by the China Securities Regulatory Commission (CSRC) in December 2020, enables securities firms to conduct over-the-counter (OTC) derivative trading with any company qualified to trade equity derivatives while Tier 2 companies can only trade with Tier 1 companies. Prior to that, Shenwan Hongyuan Securities (SWHY) was also granted a pilot scheme licence for cross-border business in July 2020, which paved the way for the use of offshore underlying assets.

“We achieved more than most tier-1 dealers operating as a tier-2 dealer until 2021. From 2018 to 2020, SWHY jumped from sixth to third to second in the league table of OTC options notional outstanding [made by CSRC],” Tang Jun (pictured), member of executive committee and head of equity derivatives at SHWY told SRP.

In 2021, the firm completed 9,144 OTC option trades with a notional amounting to CNY649.2 billion (US$100 billion), which was up 42.1% year-on-year, or nearly the triple compared with 2019.

During the same period, SWHY issued a total 1,043 retail structured notes, known as “beneficiary certificates (收益凭证)”, with a combined notional of CNY33 billion in China, which translated into a 147% increase year-on-year.

“Following the debut of exotic option embedded products like CSI 500-liked snowball autocallable notes, they soon became a door crasher across all distribution channels, especially among retail investors and onshore private banks,” Tang said.

Subsequently the securities house launched index enhancement notes and bullish notes linked to the CSI 500 offering full capital protection. “The SWHY-Voyage series of CSI 500 bullish note immediately became our flagship principal-protected product after its debut in April 2021,” said Tang.

The one-year note had a 110% participation rate with the payoff deployed through a fixed-coupon bond and a CSI 500 vanilla call.

“It offered a worry-free way for the risk averse investors to participate in the mid-cap equity market,” he said.

The launch resulted from a surging demand for snowball autocallable products linked to the CSI 500 at the beginning of 2021, with investors selling exotic CSI 500 put options and trading desks taking on large CSI 500 volatility positions, reaching risk limits on Greeks.

“The trading desk naturally sought to balance its volatilities positions by pricing the CSI 500 vanilla structure, which was a volatility short. The 12-month CSI 500 index call option was priced at an almost 40% discount where the premium could now be covered by the 12-month bond,” said Tang.

The SWHY-Voyage series was issued twice a week and raised a total notional of more than CNY300m as of December 2021.

TRANSFORMATION

The structured product market in China has been heavily shaped by regulatory action over the past four years. In 2018, the landmark asset management regulations were released with a one-year grace period to break the “rigid redemption (刚兑)” by adopting the net-asset-value (NAV) model for wealth management products (WMPs), under which WMPs are valuated mark-to-market and shall no longer guarantee an expected return in an explicit or implicit way.

“Over the past two years, we’ve seen onshore investors increase their allocation of equity securities while gradually lowering that of real estate or fixed income securities. The shift brings great opportunities for equity derivatives and equity-linked structured products,” said Tang.

The former Société Générale trader and his team have been working to provide a more diverse product shelf in the current high volatility environment as a derivative manufacturer serving banks and asset managers. “Structured products can play a critical role in such market based on my experience at foreign investment banks, such as by providing more choices with non-linear payoffs,” he said.

The wealth market transition is full of challenges and requires the collaboration of market players. WMP issuers now face the pressure of dealing with the NAV decline and are keen to find out how structured products can leverage the volatility, especially through innovative structures that can be effectively hedged.

In the meantime, the market is testing the risk management capabilities of securities firms - whether they can effectively price the liquidity and volatility.

One example is the concentration risk that a securities house may face when conducting a large-scale single transaction with a corporate client. “In this case the solutions are expected to be very detailed,” he said. “We need to consider whether the client bears any downside risk and whether the return is capped besides the pricing of taxes and dividends.”

Additionally, multi-asset allocation indices are a key focus at SWHY. The SPDB Global ESG Index, which was co-developed by Shanghai Pudong Development Bank, SWHY and a foreign investment bank, went live in October 2021 and features as the underlying of structured deposits.

Two months later, the broker launched its proprietary SWHY Multi-Asset Rotation Tactics (SMART) Index, which has collected CNY500m notional through structured notes sold to retail investors since its launch.

The pricing of such products requires more than a single-series model as they cover global cross-asset classes. Hence various correlation risks need to be managed, according to Tang. In the past, the pricing model used by SWHY applied to regular single-asset capitalisation-weighted indices, such as the CSI 300 and CSI 500.

“This process also involves how to simulate and manage risk exposure across different types of markets, so that the product ultimately helps clients reduce risk dependence on a single asset or a single market, which means that we had to shift to stochastic volatility models from traditional local volatility models,” said Tang.

The introduction of the SMART index is part of the SWHY strategy to include offshore underlying assets in its offering after obtaining the pilot scheme license in July 2020.

“We aim to better serve offshore investors’ needs for onshore assets allocation,” said Tang. “Despite the recent volatility hikes seen in the A-share market, I believe onshore equity represents a trend from a long-term point of view and will become crucial to global asset allocation.”

Tang also noted that WMP issuers prefer taking a moderate approach in response to the transition.

“At this time, we aim to provide solutions with an acceptable risk level that helps the industry with the transition as a hedge provider,” he said.

“As a result, we need an expanded team to improve our risk management capabilities while meeting regulatory requirements and promoting our brand,” said Tang. “This will be very important for us this year.”

The broker will also focus on the needs of institutional investors, especially around corporate clients which have demand for risk management, asset allocation, wealth preservation and appreciation.

DIVERSITY

China’s capital market has been opening up in the past five years with many Chinese companies listing in the US and Hong Kong SAR. In the meantime, the demand for onshore treasury, equity and commodity exposure is rising among offshore investors, according to Tang.

“In contrast to the declined interest rates in overseas markets, the onshore interest rates remain above 3% overall, which provides a relatively easy environment [for structured products],” he said. “From the perspective of diverse asset allocation or yield enhancement, the demand from Chinese investors remains very strong, although many investors turn risk-averse in the current volatile market.”

Although the structured product market in China is dominated by onshore capitalisation-weighted indices, there’s demand for Hong Kong stocks via the Hang Seng China Enterprises Index (HSCEI) as well as for Chinese stocks listed in the US, the S&P 500 and European stocks, according to Tang.

“In the context of the current global market volatility and geopolitical instability, principal-protected notes have been gaining traction,” said Tang. “Recently, we’re seeing the market slightly stabilised, and may launch new strategies with no capital protection, such as autocallable and phoenix notes.”

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As a hedge provider, we aim to provide solutions with an acceptable risk level

PROFILE

SRP China 2021 Personality of the Year: TANG Jun

TANG Jun (汤俊), managing director, head of equity derivatives at Shenwan Hongyuan Securities, has been awarded the inaugural Personality of the Year accolade at SRP China Awards.

As a native of the former Chinese capital Nanjing, Tang Jun began his career as an equity derivatives trader assistant at Société Générale in Paris in 2007 and earned his second master's degree from CentraleSupélec on the job. He moved to London for BNP Paribas in 2009 before returning to China to join the equity derivatives team at Citic Securities, the biggest Chinese securities house by assets, in 2015.

With a 14-year track record, Tang was tapped to lead the growing equity derivatives business at Shenwan Hongyuan Securities (SWHY) in early 2020 – the securities house which has state-owned China Jianyin Investment as its main shareholder and has assets under management close to CNY600 billion (US$93.5 billion). It is among the 10 largest securities houses in China. Tang became a member of the executive committee at the firm in 2021.

Under Tang's leadership, the derivatives manufacturer traded 2,198 options over-the-counter (OTC) with a total notional amount of CNY456.8 billion in 2020, an increase of 175.3% year-on-year and translated to a market share of 18.2%. The expansion came also after SWHY was granted a cross-border license in July 2020, enabling the firm to offer offshore securities-linked products and became a tier-1 OTC option dealer in December 2020.

On the retail side, the securities house issued a total of 820 structured notes in 2020, amounting to CNY13.5 billion in notional. The 2020 issuance included the debut of products with exotic payoffs in China including snowball autocallable notes and principal-protected index enhancement notes – both were linked to the performance of CSI 500 index.

In an interview with SRP, Tang reflected his career path in structured products and shared his observations and outlook on the Chinese market, which is "filled with potential".

You studied bachelor's degree in computer science. What brought you to the financial market?

Tang: Back in 2007, the derivatives business in the European and American markets were booming. The application of technology in derivatives models and the pricing of structured products was fascinating to me.

As a leader in global equity derivatives, Société Générale had invested heavily in model development, architecture, product design and trading with a technology team of nearly 2,000 people in the headquarter. It already applied what's nowadays known as "graphics card computing" to the development of derivatives models.

There was no concept of "fintech" yet, but I had a hunch that the combination of finance and technological innovation would become the trend.

What changes have you observed in the Chinese market following your return in 2015?

Tang: China's derivatives market has a history of over a decade, which can be summarised into three stages – exploration, gradual maturity and rapid growth.

During the exploration, the A-share market was fairly active back in 2015 when Chinese and foreign securities companies were generally in a period of vigorous development. Many securities houses began to lay out their derivatives business driven by regulatory schemes, although the business was insignificant in terms of income generation. At that time, the firms were gradually striving for the pilot qualifications for OTC derivatives trading and for cross-border business where vanilla options and income swaps were dominant. The model pricing, risk indicators and business frameworks were just established in the derivatives segment. And there were very limited talents available.

As a result, the proprietary trading was mostly carried out through a traditional research approach based on stock fundamentals. Securities houses started to expand to actively managed wealth products, derivatives, and quantitative businesses from their traditional investment banking and brokerage business.

After 2016, the linear income swap business gradually scaled down while the OTC options business expanded. For the securities firms with preparation, they continued to improve the capabilities in transaction pricing, risk management and product design.

The experience was leveraged to the highly volatile A-shares market over the next few years, which also delivered innovation in the products linked to H-shares. A typical example is the snowball option. Following its debut in the market in 2016, the autocallable product has been welcomed by institutional investors and high-net-worth (HNW) clients.

Thus, a growing number of manufactures jumped on the bandwagon, enabling investors to have a better understanding about derivative instruments. The popularity of barrier options featuring the snowball payoff translated to the gradual maturity level for the OTC derivatives business in China.

In 2020, OTC options represented by snowballs had attracted unprecedented attention from market players. A number of hedge funds and bank's wealth management arms started to carry out in-depth research on autocallable products. On one hand, the increasing use of derivatives indicated the reformation of the approach to wealth management or equity asset allocation.

On the other hand, it shows that the derivatives business entered the stage of rapid development – it was deployed to continuously widened scenarios, turning volatility into investable assets. Thus, traditional fund managers were able to choose longer-term investment through market timing, rather than simply taking bearish and bullish views on individual stocks.

In view of the overall decline of A-shares in 2022, derivatives have further proved their value in risk management as there are structured products led by the snowball notes delivering stable returns for investors. At SWHY, the repurchase rate of such products is around 90%. According to our estimates, the current assets under management for snowball products has surpassed CNY111 billion on the streets.

Why did SWHY begin to bolster its derivatives business from 2020? What are the goals for the firm following the breakthroughs it had made in licensing?

Tang: Our expansion is actually a process of accumulation. As mentioned, the derivatives business in China posted a relatively rapid growth from 2020. Whether based on research reports of securities companies or the outlook of domestic and foreign analysts, it's generally believed that the capital intermediary business represented by derivatives will be the profit engine of securities companies in the next 10 year.

SWHY made an early and good start in the space. As a subsidiary under China Investment Corporation, we need to undertake certain social responsibilities and have adhered to a stable development in the derivatives business. Our infrastructure investment in staffing, system, model, capital scale, risk management, pricing and transaction management played a critical role during the past two years.

We overcame many difficulties and challenges in the early stage of the business layout and infrastructure construction. As an emerging business, equity derivatives involve various volatility models and system applications. There were certain technical barriers as the infrastructure doesn't comprise a set of systems that can be easily built by pure technology or financial engineering theory. Taking the snowball payoff as an example - its continuing development dated from 2016 is a reflection of the trend in exotic derivatives as the pricing, risk management and customer management of such payoffs require brokers to have certain professional talents and the capabilities of model iterative development.

One of the typical difficulties was volatility pricing, which was the core of my work for a long time. The leading securities houses must learn to handle volatility pricing professionally when managing hundreds of billions of Yuan of derivatives hedging positions. This process comes with continuous trial and error. Securities houses that trade derivatives must learn to take stress tests under varying market conditions, especially in the highly volatile environment.

If I may describe the structured product business back in 2015 with a Chinese poem, it' be "the lotus just buds (小荷才露尖尖角)." However, I am confident that business will one day "connect to the sky with infinite lotus leaves (接天莲叶无穷碧)" as China's capital market opens up and the derivatives begins to serve the national strategy.

In recent years, the derivatives business has accounted for 15% to 20% of the top brokerage's revenue and profit. I also believe the derivatives business will be a driver to SWHY's capital intermediary business and contribute to the transformation of the entire company accordingly.

In terms of team building, we have a very clear long-term plan. We have reformed the organizational structure and established sales, structuring, quant and operation for the equity derivatives division by learning from major foreign investment banks.

The current team size is around 100, and we hope to expand to about 200 by end of 2022. At the same time, system and model construction remains the core of team building. We have specially built up a quant research team to increase the use of financial technology in the business.

Overall, SWHY has invested an average of CNY50 million per year in the system construction in 2020 and 2021, including the purchase of domestic and overseas databases, fintech equipment and staffing. This year, the investment is expected to double and we aim to achieve a 30% revenue growth from equity derivatives compared with 2020.

MSCI: risk control revisited

Market volatility continues to be at the top of the agenda of institutional and retail investors alike.

Over the last two decades, dynamic asset allocation-based (smart beta) risk-control strategies have been deployed in the structured products market to stabilise the level of portfolio volatility through market cycles.

These strategies allow issuers of structured products to offer building blocks with a specific target volatility in the underlying which makes options cheaper and the ability to deliver higher potential premiums.

The classic version of a risk-control strategy involves the use of cash and/or US Treasuries as a risk-control tool alongside a growth asset, typically referenced to an equity index.

> **We have already launched a few indices based on this feature**

"While these approaches have been effective in manage the level of volatility, the use of these three assets may not have reached their full potential," says Stephane Mattatia (pictured), managing director, head of index products for Europe, Middle East and Africa and global thematic index products at MSCI.

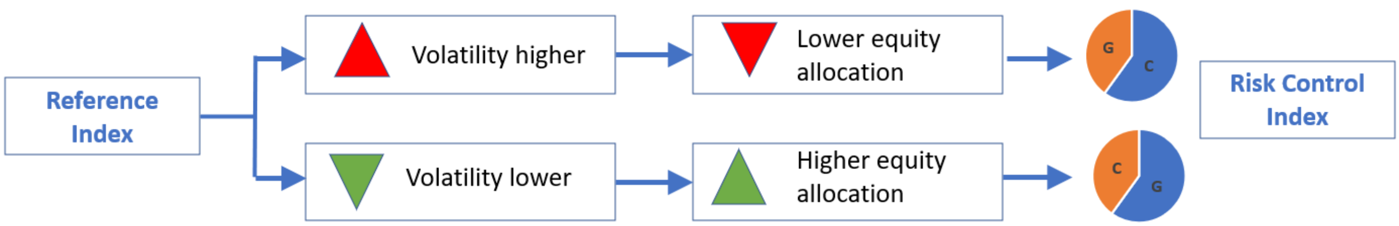
MSCI has released a new research paper Risk Control with Maximum Exposure providing a comparative overview of risk-control methods and applications to non-market-capitalisation indices and introducing alternative approaches to risk control that aim to maximise exposure to non-cash assets.

The third-generation risk control indices use cash and/or US Treasuries as a risk-control element to achieve the desired risk target but also take into consideration the covariance between assets.

"Ultimately targeting volatility makes life easier for traders and allows them to be more aggressive because they take less risk, but they can also provide better metrics [Sharpe ratio] to the end client." says Mattatia.

The practical application of risk control is wide-ranging. Going beyond market-capitalisation indices, structured products can be designed for investors looking to assume asymmetric exposure to long-term investment trends such as environmental, social and governance (ESG) factors or climate change, to focus on the thematic trends shaping our future or on traditional factor-based strategies, according got Mattatia.

Illustration of risk control rebalancing



Source: MSCI

"Everyone has its own recipe for risk control indices, but we want to share with the market the features we have introduced," he says.

"We already met our first target which was raising interest on risk control, and also agree with banks that there is much more that we can do together to improve this mechanism. We want to contribute to respond to this demand."

BACK AT THE BEGINNING

Twenty years ago, when Mattatia was in investment banking – he worked at SG for over 12 years, most recently as global head of product strategy, equity & derivatives - the focus of these strategies was not a volatility target, but a volatility cap.

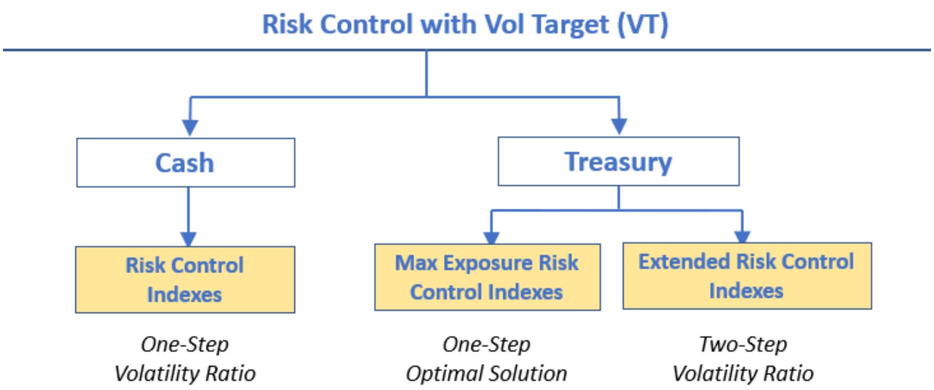
"We did not leverage the risky assets, we simply blended a risky asset like equity with cash," he recalls. "Interest rates were very high so by mixing equity with cash, you could really control the volatility of your blend, and you were adding a safe leg, which was also adding to the performance because it was still paying at four to 5% on cash."

This was the first iteration of risk control or what Mattatia calls 'generation one' risk control.

After the global financial crisis of 2008, the equity market experienced some extreme level of volatility and interest rates came to zero so risk control indices became more challenging because the volatility could be controlled by blending with cash but the performance of the indices suffered because cash was not adding that 5% to the performance anymore.

"The second generation of risk control indices appeared in the market when people started to use Treasuries instead of cash as a safe asset," says Mattatia. "Treasuries became a great alternative because they had a low vol compared with equity and they rallied for many years, which meant that numerous risk control indices done with Treasuries performed quite well and progressively replaced the first generation of indices."

Alternative approaches to risk control using a US Treasury security



Source: MSCI

TREASURIES BECOME RISKY ASSETS

There are two ways of building a risk control index. Step one is to do as if Treasuries have no volatility.

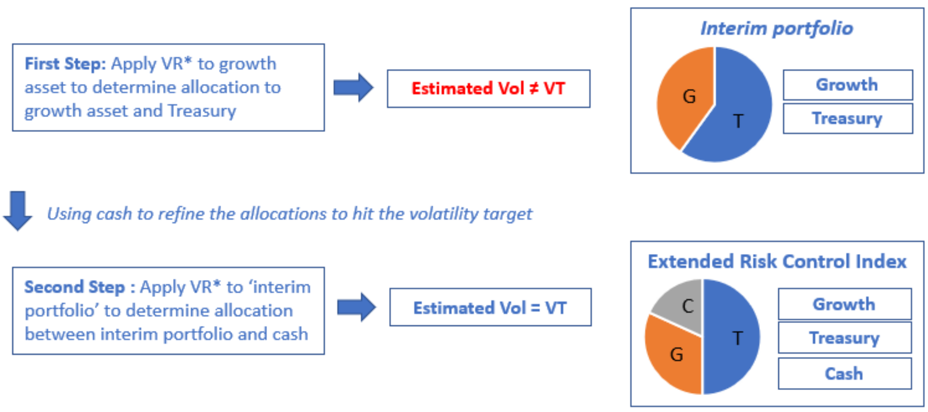
"So you use it as cash and you create your generation one risk control; then you look at how volatile it is - you don't exactly match your targets because Treasuries has both volatility and a correlation with equity. You do that in a second step where you can arrange reduced cash just to under leverage," says Mattatia.

The concept behind generation three risk control indices is to look at the volatility that the underlying basket needs to meet the target.

"But instead of keeping the weights to 100% we maximise our exposure on both Treasuries and equity, while keeping the target volatility unchanged," says Mattatia.

Over the last 10 years equity and Treasuries have often had relatively similar volatility, and their Sharpe ratio is also similar. Our point is that for years we used to consider Treasuries as a safe asset and equity as a risky asset, but we are looking at them now as two risky assets. So, there is no need to consider them separately."

Extended risk control



Source: MSCI

Max-exposure risk control

Source: MSCI

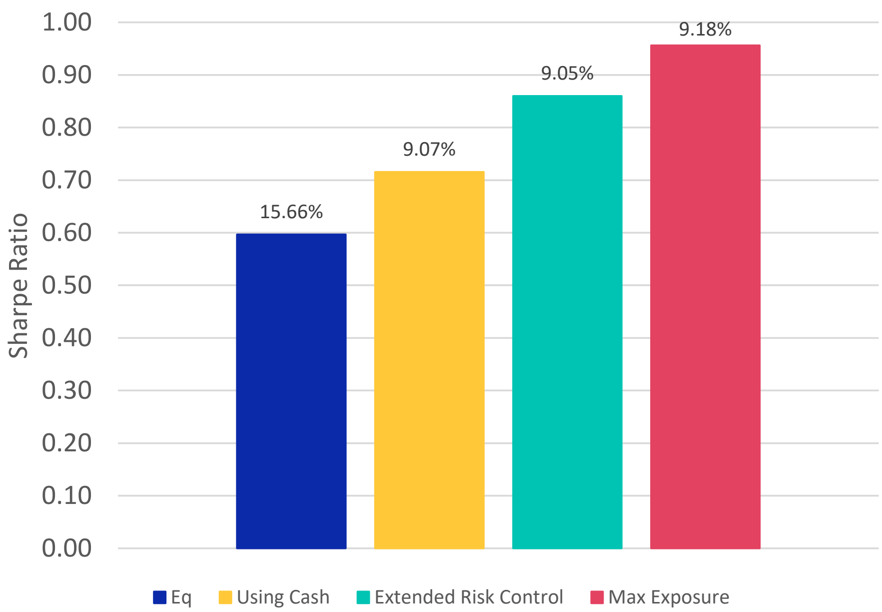
According to Mattatia, this approach still historically allows to control volatility "very well, because you look at the volatility of the basket, but historically increased the Sharpe ratio by about 0.1 to 0.2 which is very significant".

The tests carried out by MSCI by using different cap on the weightings and vol targets of 10% or 15% to check how robust was the strategy, showed that "clearly this new feature historically brought additional Sharpe ratio".

"The extra performance comes from the additional exposure to risky assets. These observations remain valid under different hypotheses of caps, level of volatility target, region or ESG feature," says Mattatia, adding that by doing max exposure risk control, "you still had on average about 80% of equity in your portfolio, but you had another 70% of exposure to Treasuries".

"That means that starting from regular risk control, you could slightly increase your exposure to both equities and Treasurys while keeping the volatility under control. And as the financial theory says, higher exposure to riskier assets is expected to improve the returns of the strategy."

MSCI ACWI risk control strategies - realized vol comparison



Source: MSCI

INCREASED LEVERAGE, MAXIMISED EXPOSURE

Mattatia believes third generation risk control indices will resonate with investors and meet client demand for optimising market volatility – aiming to optimise risk control by increasing your leverage and maximising your exposure.

"There are questions around raising interest rates, but the mechanisms could be used for other purposes, for instance maximising the ESG rating, while keeping the volatility constant," he says. "These indices will continue to evolve because you can add features around the rebalancing too – we see them as a very efficient way to add value to investors and bring innovation to the market."

Specific to structured products, there is reason to expect these new risk control features will be applied to more indices used in structured products given the current focus on custom indices because they offer an alternative to market cap indices and cheaper optionality.

"We saw in the past min vol indices being successful candidates for risk control because doing a risk control on minimum vol historically gave you a great outcome," concludes Mattatia. "But the market conditions have changed and by diversifying the risk control mechanism, we can deliver other strategies that leverage risk control. We have already launched a few indices based on this feature.

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Democratising access to crypto & DeFi

Canada's crypto firm InvestDEFY has expanded its offering with Sygma, a weekly market neutral yield harvest program launched in late March targeted at institutional investors, family offices, high-net-worth individuals, Bitcoin miners, and DeFi yield farmers.

The new product follows the launch earlier this year of InvestDEFY's D.A.T.A. platform and the firm's first two indexes - the Equal Weighted Decentralized Finance (DeFi) and Equal Weighted Metaverse + Web 3.0 NFT. SYGMA is a weekly yield harvest programme that uses a machine learning (ML) model powered through the firm's analytical platform which seeks to generate attractive yield alongside downside protection.

"The design of the structure itself is to remain agnostic and non-path dependent to price direction, and to generate risk adjusted yield on a weekly basis," said James Niosi, CEO and co-founder at InvestDEFY. "The model itself informs as to whether or not to enter into one of two derivative structures - offensive/ defensive."

The model attempts at predicting volatility in the upcoming week - if the model infers that volatility is going to increase, it selects the defensive derivative structure which will increase the protection resulting in a lower yield; if the model however infers that volatility is going to be range bound, or lower, in a week, then the protection will be reduced, and the allocation will go into the offensive derivative structure to increase the yield.

"The model which is effectively market neutral with regards to the underlying asset (BTC/ETH), identifies each week which structure to enter into," said Niosi. "If both BTC and Ethereum had a very strong week with a 9 or 10% move, the programme itself is not going to move commensurate to that move, but instead will generate yield, and upon expiry, compound yield weekly throughout the life of the program."

According to Niosi, these are not the kind of payoff structures investors can find in traditional structured notes, but they can be referred to as derivative structures because they are multi leg including underlying spot.

"The offensive payoff profile structure would have a similar payoff profile like a butterfly whereas the defensive derivative structure would look more like a hedged put risk reversal," he said.

How would you define the target market for your offering?

James Niosi: We're targeting different segments of the institutional investor space including family offices and high net worth individuals seeking absolute returns and attractive yields, but also low volatility and returns uncorrelated to the underlying asset. Basically, our products are targeted at accredited investors seeking lower risk with attractive uncorrelated returns. We think Sygma will also appeal to DeFi yield farmers and Bitcoin miners looking to harvest yield and who do not wish to move way out the risk curve to find similar attractive yield.

The underlying safety of this structure lies in the fact that our collateral resides with our custodian and does not reside with any markets or any counterparties per se. The programme can be an ideal part of a miner's corporate's treasury management program by significantly reducing the risk that is associated with just having your underlying asset freely exposed.

Is there scope to offer this kind of derivative structure to retail investors?

Aaron Samsonoff, co-founder: Our goal is ultimately the retail investor in addition to the high net worth investor. InvestDEFY is a creator and an issuer of crypto structured products, not a distributor. We do work with distributors, and that keeps us to the accredited professional channels for now, but our intention is to democratize access to these products.

We believe the most effective way to do that would be via a DeFi platform which could carry products like Sygma. This would look like us launching on the Ethereum main net - the average retail investor would be able to subscribe and redeem through their web wallet, and then they would get a return that signifies the collateral that they have in our system. And then as phase two, we would potentially launch a governance token on our DeFi platform which may give people a little bit more upside with regards to how well the platform does. That is something that we are considering right now - the plan is to launch sometime in the second half of 2022.

We seek to democratize access, and that really includes offering our products through traditional finance channels, crypto channels and DeFi channels. We are as agnostic as possible in terms of how we offer our products. But we are alive to any regulatory landmines that could cause us to be offside from a regulatory perspective.

What are the main obstacles on the firm's roadmap?

Margaret Paproski, co-founder: There's obviously a lot of regulatory landmines in terms of uncertainty, and one is launching anything to the retail channel. That has really been the biggest impediment so far. Sygma has a lot of appeal for retail investor because of the downside protection but the regulatory framework is not allowing us to offer the product to these investors.

Our products are targeted at accredited investors seeking lower risk with attractive uncorrelated returns

James Niosi, InvestDEFY

At the moment we're focusing on the accredited investor channel globally, but we think there is scope to offer these products to retail investors across different jurisdictions. We're working on offering our products in Canada, United States and Europe - Asia would be the one after that.

Are crypto investors moving from single names to baskets and indexes?

James Niosi: We do have two novel index products on our index platform already. Our Equal Weighted Decentralized Finance (DeFi) and Equal Weighted Metaverse + Web 3.0 NFT indexes use a systematic and novel screening process for constituent inclusion and rebalancing.

We have also created an index contract similar to a certificate as referenced in Europe which investors can access viaour distribution partners. We provide the index settlement level on the day at the issuance which is 16:00 GMT and provide index settlement upon redemption date which removes tracking error beyond up-front fees. We have built full execution capabilities, developed a custom program trading application that can execute entire baskets simultaneously in order to provide exposure, as well as fully automated rebalancing mechanisms in the backend to manage the full lifecycle from issuance through monthly rebalancing through to redemption..

Do you think the development of a crypto derivatives ecosystem will help grow choice and adoption in the structured products market?

James Niosi: Crypto derivative adoption continues to increase. The liquidity surrounding crypto derivatives is definitely growing although still has room to improve. We have the ability to trade electronically on derivative exchanges but we're also starting to partner with select counterparties that can provide liquidity and price discovery as well as the ability to offer exotic options like knockouts and barrier options. Pricing is still not as tight as we like from counterparties, so we end up managing most of our execution electronically or via low touch. We are noticing an increase in activity away from just BTC and ETH options towards more esoteric tokens and options on cryptos such as Solana and Avalanche reflecting the increased participation from market makers in the space.

There's still utility for those that can actually price and delta hedge and that's something that we have the ability and capacity to do as well. We are seeing a noticeable increase in Defi option vaults, which automate the entire auction process for call or put writing products. While we commend this brilliant automation, the reality is that pricing remains wide in these option vaults and therefore, we seek to augment liquidity and price discovery with a combination of low touch and high touch facilities. It is fascinating to watch how this space is unfolding and we think it will continue to grow considerably throughout the course of this year.

Traditional financial firms are looking at the crypto and DeFi space not only to get exposure but also as a way to develop further activities and their offering. Is there a risk of defeating the purpose of disruption and decentralization originally posed by the new asset class?

James Niosi: We're definitely seeing some of the bigger more traditional market makers moving into the crypto space which is driving increased liquidity. This increased participation will ultimately force spreads narrower which is a great benefit for the derivatives space overall and a sign of increased maturity.

However, crypto is a 24/7 365 market with many of its own nuances - managing DeFi protocol risk, highly fragmented that don't really exist in the traditional markets so any new incumbents will have to seriously consider these challenges as they are definitely a barrier to entry. These institutions are not as experienced with navigating this market which provides an advantage for those firms that are crypto and DeFi natives and have built expertise in navigating these challenges in the space.

Hashdex aims at European investors with crypto index backed by Nasdaq

The crypto asset manager is seeking to provide in Europe a pathway for the traditional market to access the crypto economy using proven structures.

Laurent Kssis (pictured), former managing director at crypto ETP provider 21Shares has joined the crypto asset manager to spearhead the firm's European expansion. "[The new role] is actually very suited for me and as I've gained a deep expertise in crypto issuance in a regulated framework and portfolio construction in alternative asset classes in the last eight years," said Kssis.

The firm has established a special purpose vehicle (SPV) in Europe to meet the prospectus directive (PD) requirements and is preparing to roll out its first ETP linked to a basket of crypto assets.

"The company has been running since late 2018 and was the first one to launch a crypto basket ETF in Brazil and worldwide," said Kssis. "We want to develop that approach."

The firm is working in collaboration with Nasdaq which will manage and calculate its crypto index Nasdaq Crypto Index (NCI) – the index includes a number of cryptocurrencies "that capture a good chunk of the market".

According to Nasdaq, the Nasdaq Crypto Index (NCI) was designed to provide a benchmark that simplifies access to a diverse basket of USD-traded digital assets.

The index methodology was developed in part with Hashdex in preparation for their filing for the Hashdex Nasdaq Crypto ETF (HDEX), on the Bermuda Stock Exchange (BSX) in February 2021. In April 2021, Hashdex launched another version of the Hashdex Nasdaq Crypto ETF (HASH11), on Brazil's B3 exchange.

In Europe, crypto ETPs continue to drive activity since 2018 with seven to eight active issuers of ETPs now managing around US$5 billion in assets.

"It's definitely a fast-growing market," said Kssis. "We're still scratching the surface today, because typically investors are interested in the crypto space but they generally have compliance issues and don't know how to address it and then you have the regulatory issue which is not the same convention in every states and countries."

According to Kssis, indices will gain more visibility going forward because they "capture the market more efficiently"

"With a single asset you only capture a fraction of the market whereas with our basket of cryptos we can capture +80% of the market," he said.

"In the end, institutional investors don't want exposure to just one asset and may get burnt – we've seen how some of the traditional crypto assets have performed individually with huge volatility, but you also have new cryptocurrencies like Polkadot and Solana and others now ranked among the top 50, a US$3tn market capitalisation, with real business cases behind the native tokens. Investors don't want to miss out on those either."

The theme is no longer tracking single crypto asset but instead a basket of crypto assets, according to Kssis.

"The market continues to have many gaps and institutional investors are incredibly badly served in that field," he said. "There is scope to offer products linked to a basket of securities, just like an ETF does with a basket of stocks and shares, which resonate a lot more with institutional investors for two main reasons."

Why are indices a better way to invest in crypto assets?

Laurent Kssis: The first one, most of investors don't have fundamental of all the crypto coins/tokens that are in existence and trying to decipher what's good and what may be up and coming and that alone can be challenging, by giving exposure using a basket of cryptocurrencies using a rule-based methodology, secondly you mitigate the risks in having less exposure and more diversification from a single asset, hence reducing risk. With a basket you get more diversified exposure, which is exactly what an ETF, basket of stocks and shares does!

I think baskets and indices are the way forward – there is more scope to provide innovative strategies than individual exposure to single assets. People may know may be familiar with the top 10 perhaps but there's no way these investors are going to know what Avalanche and Polygon Matic all are about initially. This is a nascent crypto asset and there are opportunities to take advantage of new cryptocurrencies and expand the scope of the market exposure.

There are new names in the crypto space that are now coming up onto the radar because some have delivered 1,000% return out of nowhere in a very short term, and these are cases that will resonate with investors more prudently using constituents in a wider exposure, not just on their own single tracking exposure.

Do you think AMCs and other structured products will catalyse some of the demand?

Laurent Kssis: AMCs have several advantages – they are issued on the back of an SPV which reduces the credit risk and can provide an efficient way to deliver actively managed strategies as the underlying strategy can be rebalanced regularly, even daily!

AMCs are well placed to be very well integrated in the crypto world because you can be dynamic in modelling these underlying indices or strategies where you can react and intervene quickly and be more opportunistic than holding a ruled based passive product.

The disadvantage however is that the distribution of certificates is a lot harder, unlike ETFs or ETPs which are by definition exchange traded and therefore anyone can buy them on an exchange. With certificates you often must go to a specialist firm or a specialist exchange and not every retail broker has access to these products via their broker due to their distribution restrictions and compliance rules!

There are still hurdles around accessing some structured products – distribution and costs, and some of these strategies are not transparent. You must ensure you're bringing products to the market that make sense and not the ones that are going to give you the biggest margins. Investors must be able to access what is in the strategy, what the methodology is and how it is actively managed.

The new futures-based Bitcoin ETF do not really track bitcoin on a 1:1 basis due to their compounding effect because you get exposure to a futures cash settled contract tracking bitcoin (hence no exposure to bitcoin directly). When you're using derivatives, you will never get a what's called one to one or delta one exposure. As long as investors understand that dynamics, there is no issue!

Asset constituents

Component	Weight
Bitcoin (BTC)	66.98%
Ethereum (ETH)	29.59%
Litecoin (LTC)	0.75%
Chainlink (LINK)	0.64%
Uniswap (UNI)	0.35%
Bitcoin Cash (BCH)	0.44%
Stellar Lumens (XLM)	0.32%
Filecoin (FIL)	0.30%
Axie infinity (AXS)	0.36%
The Sandbox (SAND)	0.27%

Source: Nasdaq

Do you think we will see leverage and inverse ETPs offering exposure to cryptos any time soon?

Laurent Kssis: Leverage/inverse products are in demand by retail investors, but not as much by institutional investors for the simple reason that they understand that leverage creates all kinds of anomalies, particularly in the futures market where too much leverage can trigger margin calls and have those position liquidated, even without notice on digital exchanges.

You've got to be very careful with leverage. We have seen this kind of situation several times with commodity and crypto ETPs as it used to happened 15 years ago in the conventional futures market. This market is much more mature now but leverage in the crypto space is still incredibly risky because of the volatility of the underlying asset and the risk on effect.

What about defined outcome/ structured ETFs? Can they be used to offer access to cryptos once there is sufficient liquidity around options?

Laurent Kssis: There has been some innovation in the market, and this is another example of the cross-over between the structured products and funds or active and passive management. Again, the key factor is to understand how you get some protection using proven structures.

There is scope for adding protection to products offering exposure to cryptos via a covered calls strategy which has been used and has performed reasonably well with conventional indices like Eurostoxx 50. Some of these market cap indices are performing stagnantly and these kinds of strategies offer you up to 4% on top of the core investment with some downside protection. I think we will see more of those structures as the crypto space evolves.

The beginning of the year has been rather choppy for cryptos and digital assets. Where's the market going?

Laurent Kssis: I remain very optimistic about the long-term views of what blockchain and crypto assets as a whole will deliver to investors.

CRYPTO NEWS

Cryptos: Kraken to launch structured products

Crypto exchange Kraken is planning to roll out structured products in its platform to provide a staking yield for institutional investors.

Cryptos: DeFi protocols raising millions for structured products

Decentralized Finance (DeFi) is continuing to gain traction and DeFi protocols are raising millions to offer retail investors better access to the growing market.

Ribbon Finance, a protocol seeking to facilitate access for investors to the complex world of crypto derivatives, has raised US$8.8m after partnering with Paradigm to build new risk products native to DeFi and double down on the project's multi-chain approach.

At the same time, Struct Finance raised US$3.9m to develop structured products in DeFi, which the company will use to build the tools allowing institutions to easily customise interest rate products and to combine them with options to build structured products that are better suited to the profiles of different investors.

Structured products in DeFi allow investors of various risk profiles to participate in the DeFi ecosystem and is boosting investor interest in DeFi.

Some of the protocols benefiting from this growing interest include WonderFi Technologies (Neo:WNDR), Bit Digital (Nasdaq:BTBT), Bitfarms (Nasdaq:BITF) (TSXV:BITF), Coinbase Global (Nasdaq:COIN), and HIVE Blockchain Technologies (Nasdaq:HIVE).

Delta One raises US$9.1m to build DeFi's 'set-and-forget' yield farming protocol

Delta One, a Solana-based DeFi protocol, has raised a US$9.1 million seed round led by Alameda Research and Ship Capital, with participation from Solana Ventures, Raj Gokal, Electric Capital, AlleyCorp, Chris McCann, Joe McCann, and Alfred Chuang.

The funding round will help support Delta One's core development and ecosystem growth for projects looking to integrate with the protocol. The Delta One protocol packages complex yield generation strategies into 'user-friendly structured products'.

Automated delta-neutral strategies require little to no active management, while offering attractive risk-adjusted yield to users, according to DJ Sengh, co-founder of Delta One. The protocol has amassed a waitlist of over 100,000 participants since its inception at the Solana Ignition Hackathon in October 2021.

'Delta-neutral farming is a technique that many hedge funds love to use, but it can require spending hours each day crunching numbers and tracking positions when done manually by retail investors,' said Sengh. 'We believe democratising these strategies through structured products will be a pivotal part of onboarding the first billion users into DeFi.'

Delta One is seeking to build new lending markets, reserve currencies, and novel options products like 'power perpetuals' that compose on top of the existing vaults.

21Shares and ETF Securities launch BTC, ETH tracker funds in Australia

Swiss-based crypto ETP issuer 21Shares, with USD3 billion in assets, and ETF Securities have launched two funds, designed to offer 'simple, cost-effective and direct access to cryptocurrency investments'. Both funds will list on Cboe Exchange (formerly Chi-X). The 21Shares Bitcoin ETF (EBTC) will track the price of bitcoin in Australian dollars.

The ETF is fully backed by bitcoin held in cold storage by Coinbase; the 21Shares Ethereum ETF (EETH) will track the Australian dollar price of ether, which is the cryptocurrency of the Ethereum blockchain, and it is also fully backed by ether held in cold storage by Coinbase.

Hany Rashwan (above), 21Shares founder, said that the firm is focused on creating retail accessible crypto products with institutional grade quality.

'Everyone out there deserves a safe, affordable professional exposure to crypto,' said Rashwan. 'Our mission is to build bridges into the crypto world.'

ETF Securities head of distribution Kanish Chugh noted that bitcoin has been the best performing asset over the past 10 years and ether has been one of the top performing assets over the past five years.

'They may be used as an alpha tilts or side bets in a portfolio. They can also be bought as portfolio diversifiers, as they are completely different asset and uncorrelated to shares, bonds and commodities,' said Chugh.

The net asset value of EBTC and EETH units is calculated by multiplying the coin entitlement of every unit by the price of underlying cryptocurrency as measured by CryptoCompare at 3pm Central European Time, converted into Australian dollars.

21Shares offers over 130 listings with more than 30 products across 10 regulated European and Swiss trading exchanges, including the world's only ETP tracking Binance, four crypto index baskets, and two ETP with investor staking rewards (Tezos and Solana).

Sygnum releases DeFi-based investment plan

Swiss regulated digital asset bank Sygnum has launched a DeFi-based structured investment solution, Sygnum Yield Core AMC. The new actively managed certificate (AMC) generates attractive ongoing returns from yield generating strategies - including staking, lending, and arbitrage - in the growing US$250 billion DeFi market.

The Sygnum Yield Core AMC is designed to deliver risk-adjusted returns while having low directional market exposure. It offers diversified exposure to yield-generating strategies in small ticket sizes, supported by active, ongoing due diligence of the underlying investments.

Investment in the Sygnum Yield Core AMC solution is available for professional and institutional clients directly from Sygnum, or from other banks or brokerages with a Swiss ISIN.

Rigorous portfolio and operational risk management rules will be applied to address both general and specific crypto investment risks, according to Sygnum's head of asset management Fabian Dori (above).

'DeFi markets continue to grow rapidly and offer significant return opportunities,' he said. 'In times of low interest rates, you can put your capital to work in an intelligent fashion and further diversify your portfolio.'

The bank plans to launch further investment strategies as part of its asset management product roadmap throughout 2022.

'These will provide investors with a continually expanding choice of bank-grade solutions across the full spectrum of digital asset investment opportunities,' said Dori.

Sygnum Yield Core AMC is available to professional and institutional clients directly through Sygnum or via other banks and brokers, with an initial minimum investment of ten certificates.

FIS teams with Fireblocks to accelerate crypto adoption in capital markets

US fintech FIS (NYSE: FIS) has partnered with Fireblocks to accelerate crypto adoption within the capital markets industry by enabling firms of all types to access the largest crypto trading venues, liquidity providers, lending desks and DeFi applications. A recent study - The Institutional Investor Digital Assets Study by Fidelity Digital Assets - found that 69% of institutional investors in the US would like to adopt digital assets as a part of their investment portfolio.

Under the partnership, FIS capital markets clients can move, store and issue digital assets, and gain access to self-custody digital asset wallet technology, an asset transfer network and tools to access staking, DeFi and other more advanced forms of digital asset exposure by leveraging the Fireblocks platform.

'As digital currencies become more mainstream, capital markets firms will greatly benefit from a single destination that helps them manage many classes of digital assets,' said Nasser Khodri (right), head of capital markets at FIS.

'The strategic partnership with FIS will bring the Fireblocks technology to nearly every type of buy-side, sell-side and corporate institution in traditional assets,' said Michael Shaulov, chief executive officer at Fireblocks.

Wintermute launches zero-fee OTC platform

Wintermute, a cryptocurrency market maker, has launched an over-the-counter (OTC) trading platform targeting institutional investors.

The new platform, Wintermute Node, is intended to be a one-stop shop providing price discovery, trading and exposure monitoring of digital assets. The single-dealer platform will charge zero fees and allow clients to directly access Wintermute's liquidity over API and web interface.

Wintermute Node appears to be competing against the bevy of other institutional trading platforms on the market for access to crypto order flow – including FalconX and Coinbase Prime.

While the new platform will not charge any fees, all of the orders placed through Node will be executed by Wintermute, giving the firm access to a greater volume of order flow. Users will be shown a bid-ask spread with prices that are identical to the spreads the firm shows to its counterparties across other venues.

The new Node API expands on Wintermute's existing OTC API, which first launched in June 2021.

Abra rolls out Yield and Web3-focused funds

Abra, a crypto wealth management platform, has launched an asset management business, Abra Capital Management (ACM) to offer investors actively managed, structured products and investment funds in addition to the firm's buying, trading, and borrowing services.

ACM will be led by digital asset investing veteran Marissa Kim, a general partner in Abra's new ACM division, Justin McMahan, Abra's CFO, and Bill Barhydt, who will be serving as ACM's chief investment officer and general partner in addition to his existing roles as Abra's founder and chief executive officer.

ACM is launching with plans for five funds. Three of those funds will target yield-generating opportunities in the crypto space for stablecoins, bitcoin and ethereum, and the two additional funds will target early stage token and equity investment opportunities.

'As investor appetite for access to the emerging digital asset economy has skyrocketed, so has the demand for solutions that can help them diversify their exposure and invest in high-growth, yet relatively inaccessible, vehicles. Most exchanges and crypto platforms are limited in the solutions they can offer,' said Bill Barhydt, Abra's founder and chief executive officer. 'Abra Capital Management was created to fill this gap and help high net worth investors easily and efficiently invest in structured vehicles across the entire digital asset landscape. This is a milestone for our company, our customers, and the industry at large, and we look forward to working with investors to take advantage of the tremendous opportunity in this space.'

Marissa Kim recently joined ACM as general partner. Previously, Kim was a founder at Quantum Global Management, an investment firm focused on thematic investments in the Web3 space.

ACM's launch comes on the heels of Abra's $55 million funding announcement in September 2021.

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Netflix: all US products but three sitting on mark to market loss

The US TV and film streaming company Netflix is the latest high-profile name to experience difficulties in the stock market. *by Tim Mortimer*

Its stellar growth in the last few years and high visibility gave it frequent coverage in the financial press. In common with other darling stocks such as Tesla and GameStop it resonated with ordinary investors and was not dependent on the institutional sector to propel it into the limelight.

The main growth period of Netflix started from the beginning of 2020 with the stock at US$330. It reached a high of US$680 in November 2021. Therefore, in less than two years the stock had more than doubled in price compared to a rise in the S&P 500 of less than 50% (which itself represented very strong growth). Netflix was perceived to have been one of the main beneficiaries of the change of working and social habits during the pandemic. This put it in the category of high performing companies such as Zoom which posted standout gains as a resulted of blanket news coverage and increased revenue before falling back after it lost momentum.

A sharp increase in the number of Netflix subscribers led to greater earnings and rapidly increasing market P/E ratings which propelled the stock to such heights. The main rationale was that in the virtual and budget conscious world that consumers now found themselves in low cost technology-based solutions were a clear winner.

However, from the end of 2021 the picture for Netflix changed quite suddenly as can often happen in such investment bubble scenarios. As lockdowns ended around the world and Netflix had arguably reached near realistic saturation levels the momentum of subscriptions shifted somewhat towards decline. This was enough to cast doubt on the stock price which then fell very rapidly. Netflix stock is now currently trading at around US$180, representing a fall of nearly 75% from the peak.

With its high volatility, growth story and brand name in the market it is not surprising that Netflix has proven a popular underlying for structured products in the last few years. Data from www.structuredretailproducts.com shows that there are around 1,250 live products linked to Netflix.

Not surprisingly, the biggest market is the US with over 500 products and a total of US$1.2 billion notional. This is to be expected given the sizeable structured product market in the US and the fact that Netflix is an American company. Other markets with sizeable issuance in Netflix linked products include Spain, Switzerland, Italy, Taiwan and South Korea.

Issuance by product type and characteristics is also interesting. Over half of the Netflix linked products are yield generating worst-of structures. Popular choices to go alongside Netflix are Walt Disney, Amazon, Microsoft, Apple, Alphabet, Meta and Oracle. These products therefore have a technology and entertainment theme, with Netflix arguably sitting in both categories.

Whether the product is Netflix linked only or structured as a worst-of, the most common product types are reverse convertibles, income and snowball autocalls and callables. These are the most popular yield generating products in markets worldwide and make a lot of sense for an underlying such as Netflix. A stock that has risen significantly and that has a high volatility (its one-year implied volatility is now around 50%) is perfect for a yield generating product because of the high yield that can be easily offered and the relatively deep barrier level that can be afforded. In many cases the barrier level can be set at 50% or 60% of the initial stock level.

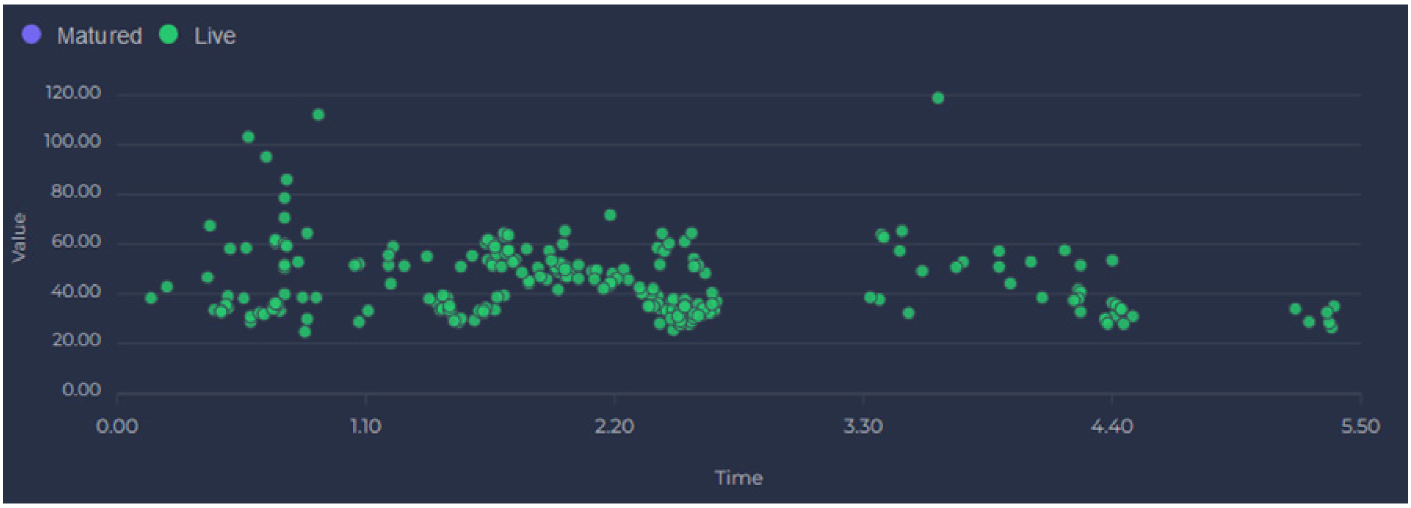
While many investors would not expect Netflix to return to the levels seen six months ago, most would probably trust the stock to be able to comfortably stay clear of the dollar level implied by a deep barrier. A 60% barrier from a strike price of US$180 is down at US$108, meaning that no capital would be lost unless Netflix fell below this level, which the stock has not been at since the end of 2016.

Data from Structpro.com gives an interesting breakdown of recent Netflix linked products, both live and matured. The first point to note is that of the 264 products that have already matured, only one showed a loss.

This was a leveraged return product with a relatively high barrier (75%) and matured with the underlying at 71% of its start level. Much more typical however is the worst of Netflix, Amazon and Meta Income Autocall with a 32% pa. annual income which successfully called after one year. The average annualised return is nearly 25% pa. The income autocall is in fact the most dominant product type accounting for over 95% of all Netflix products. The five biggest issuers of Netflix linked products are UBS, Citi, Credit Suisse, Morgan Stanley and Goldman Sachs.

The picture when analysing live products is rather different. The Structrpro platform makes it very easy to compare results

Netflix - Live Products Payoff Scatter



Source: StructrPro

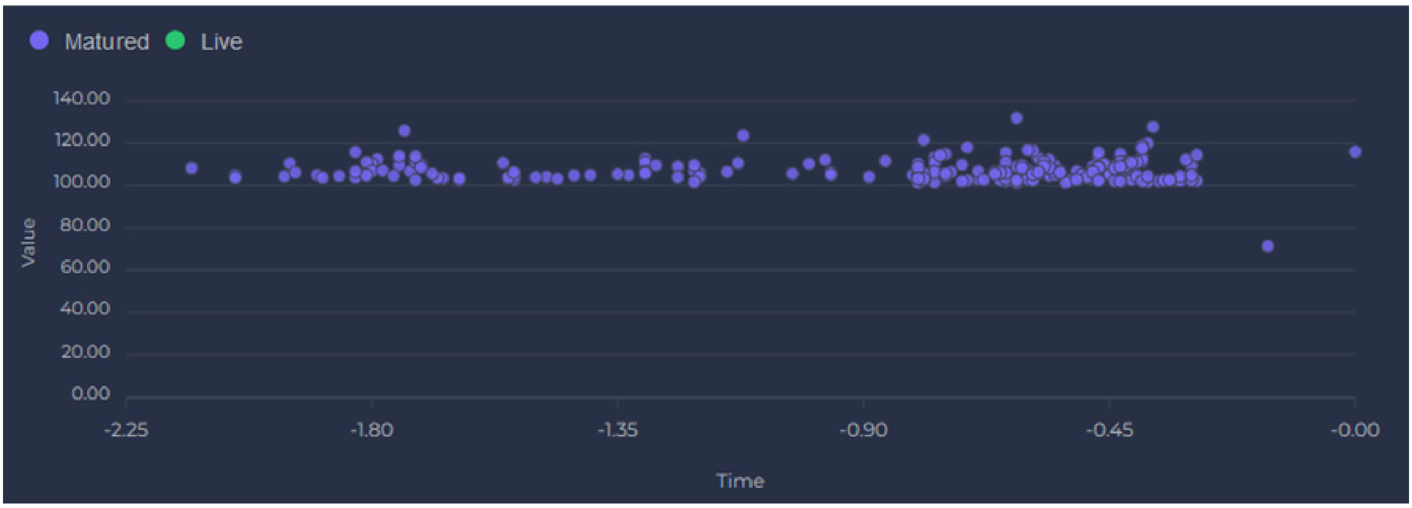
for different portfolios and product sets. Due to the types of products linked to this underlying and the recent decline in the stock price most products that are still live will have suffered mark to market losses.

All products except three are currently sitting on a mark to market loss. The average barrier (and contingent coupon) level across all live Netflix products is 62% as measured at inception (typically in the range 50%-75%) but relative to today's (11 May) market level it stands at 180%. This means that the average product is significantly below its barrier level and is therefore headed for capital loss unless the stock recovers. Similarly, the picture for Auto-calling is as bleak, with the average level required to successfully call being 300% of the current stock level.

It hardly seems possible that such a huge discrepancy between matured and live products can exist, but this is due to a combination of the relatively short maturity of products and the extreme stock price moves that have been seen. Monitoring a client's portfolio in detail is an important exercise in both strong and weak market conditions and this is made easier than ever before with Structrpro.com.

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

Netflix - Matured Products Payoff Scatter



Source: StructrPro

US market update - an integrated picture of the entire market

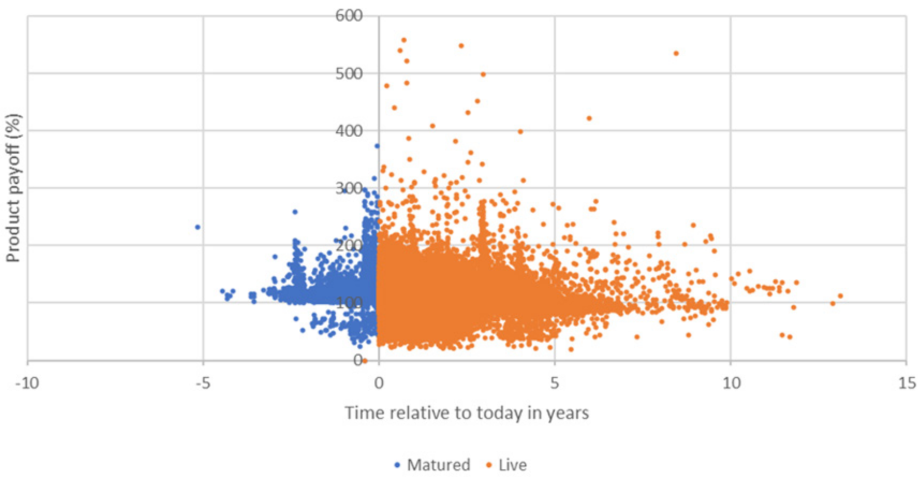
The new service allows users to create portfolios and filtered views of the US database. *by Tim Mortimer*

The combined database and analytics service StructPro (a joint venture between SRP and FVC) is now fully live and producing regularly updated data for the US market and provides clients with the opportunity to analyse a database of over 40,000 products in a way that has not been possible before.

An integral part of the service is to allow users to create portfolios or filtered views of the database to drill down into a subset of their choosing. The two main use cases for this are actual client portfolios by CUSIP or looking at a particular market segment, for example income products linked to a chosen index.

Detailed metrics are shown for every portfolio with charts, tables and the ability to examine individual products. Two important charts on the portfolio report show the distribution of product payoff performances and the key levels of underlyings to which products are linked. This chart shows in granular detail the distribution of product payoff performances for both matured and live products on the StructrPro database. The blue markers indicate previously matured products and show the time of maturity relative to today on the x-axis and the total return (coupons and final payment) of each product on the y-axis.

Figure 1: Distribution of payoffs of matured and live products in US market



Source: StructrPro

The orange markers show live products with the x-axis position being the expected time to maturity (taking into account final market date and any autocall possibilities) and the total valuation made up of previously paid coupons and the current market valuation (independently generated valuations are calculated by FVC for the entire US structured products market for the StructrPro service).

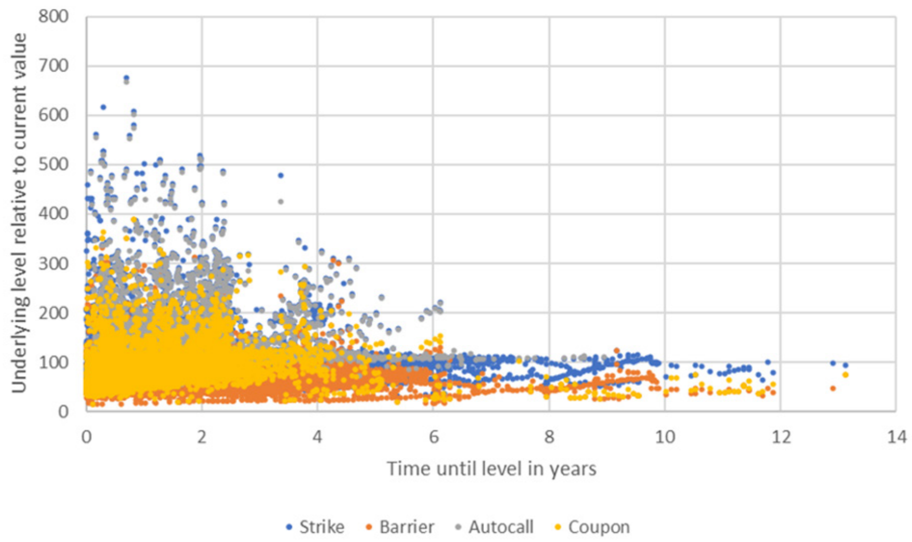
The simple divide either side of the current time point illustrates previous and future maturities and this integrated picture of an entire market or a client's portfolio is one of the central philosophies and features of the StructrPro service.

Figure 2: Average payoff by maturity year

Time in years of maturity relative to today	Average actual or predicted payoff	Number of products
-2	109.11	1,070
-1	108.55	5,276
0	112.55	12,344
1	104.73	11,684
2	104.62	7,170
3	119.15	3,866
4	101.5	2,725
5	96.24	1,470
6	99.53	339

Source: StructrPro

Figure 3: Distribution of key levels for live products



Source: StructrPro

This table gives a further breakdown of the average payoff (actual or predicted) by year relative to today. It shows that the average performance of matured products is significantly above par indicating a positive return, as can be seen from the chart. The picture of live products is rather more variable. This is partly due to recent market conditions and the equity market sell-off that has affected products this year. Some products will experience a lower market valuation as the combined effect of equity falls and increased volatility since the product started.

However, historically it has usually been the case that most of these products will expect to recover to return at least the amount invested. This is due to the risk reducing nature of structured products with their various protection features. It does highlight the need for continued education and explanation from distributors and advisers as to why products can show significant mark to market falls in the short term.

Another useful view for investors is to see the future distribution of key levels for all live products. Any structured product will have one or more of the following levels – strike, autocall, barrier and coupon barrier.

It is almost always advantageous to be above these levels, for example to be above the strike to pay upside and above the next autocall level to successfully call. The same is also true for barrier and contingent coupon levels since if the underlying remains above these levels at the relevant time then capital is protected in the case of a barrier or the individual coupon is paid.

Any of the markers that are below 100% means that if the respective underlying trades sideways or better until maturity then any markers representing barriers will not be breached but an autocall event will be successful and any coupons paid.

As can be seen from the chart, the barrier and coupon markers (in red and orange) are mostly lower than the set of autocall and strike levels.

Further detail can be seen in the table below. The distribution of levels varies quite widely into the next few years, this is a combination of different issuance cycles and market movements since the products were issued. Anticipation of future product maturities and events that directly influence product performance is key to analysing any market or portfolio and is made intuitive and convenient with the StructrPro application.

Figure 4: Breakdown of key levels by years until expected maturity

Years to go	Strike	Barrier	Autocall	Coupon
0	99.46	74.77	114.82	81.67
1	107.47	78.76	125.23	87.28
2	109.07	78.87	133.03	101.81
3	90.21	62.07	120.45	104.87
4	103.12	73.11	153.3	112.65
5	101.38	70.85	129.51	82.37

Source: StructrPro

Product wrap: Hilbert, Citi offer autocall on single stock decrement basket

In this month's wrap, we look at a selection of structured products with strike dates between 17 April 2022 and 14 May 2022.

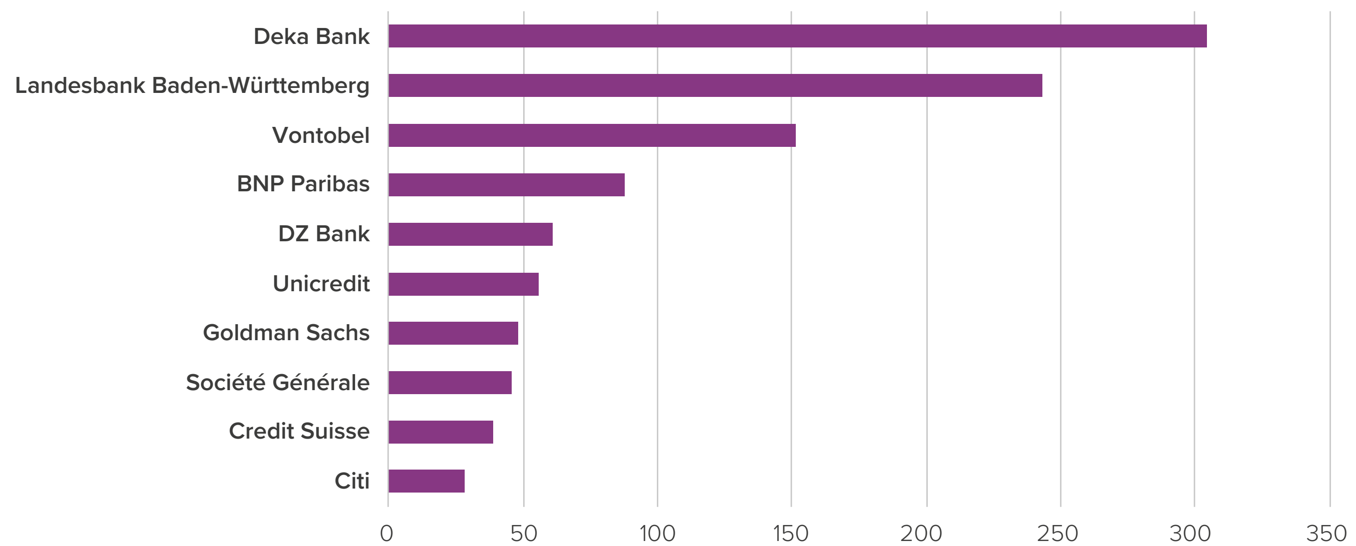
EUROPE

Hilbert Investment Solutions collaborated with Citigroup Global Markets for the launch of Kick Out Series: 3 Stock Fixed Dividend Autocall in the UK. The seven-year plan is linked to three single-stock decrement indices: FTSE HSBC Holdings PLC 5.31% Decrement Act-365 2021 Jul01 Index, FTSE International Consolidated Air 4.52% Decrement Act-365 2021 Jul01 Index, and FTSE Vodafone Group PLC 6.56% Decrement Act-365 2021 Jul01 Index. It will mature early if the closing levels of all three indices are at least equal to the relevant starting level on any semi-annual measurement date. In that case, investors receive a fixed coupon of 11.5% for each semester that has passed since the start date. At maturity, if the final level of at least one of the indices is below 50% of its starting level, the investor participates 1:1 in the worst performing index. Hilbert receives a one-off distribution fee of 2.5% to cover the costs for marketing the plan. The product is listed in London. Priips Summary Risk Indicator (SRI): six out of seven.

Deutsche Bank collected €29.9m with Interest Linked Bond Callable 2032 in Belgium. The 10-year, euro denominated medium-term note (MTN) is the bank's first interest-linked product since September 2020. It features the steepener payoff and offers a fixed coupon of two percent per annum for the first five years of investment. The following years, the product offers an annual coupon equal to two times the difference between the 30-year EUR constant maturity swap (CMS) rate and the 2-year EUR CMS rate. The minimum capital return is 100%. Société Générale (the issuer) has the right to call the product (annually) from the end of the fifth year onwards. A distribution fee of maximum five percent and a structuring fee of up to 2.50% is included in the issue price of 102%. The product is listed in Luxembourg. Priips SRI: one out of seven.

Matmut Patrimoine distributed Complice Perspectives Avril 2022 in France. The 10-year product offers access to the Euronext VE Eurozone Social Focus Decrement 5% Index, which makes its debut on the SRP database. The index was launched in July 2021 and tracks 50 stocks from the Eurozone 300 Index that are selected by Vigéo Eiris based on their score on the social

Europe: top 10 issuer group by issuance - 17 Apr 2022 to 14 May 2022*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

pillar. The product is subject to quarterly early redemption (after the first year) if the index closes at or above its initial level on the validation date. In that case it offers a coupon of 2.50% for each quarter that has passed. At maturity, if the index is at or above 80% of its starting price, the product offers 100% capital return, plus 2.50% per quarter elapsed. If the index closes below 80% but above 60% of its initial level, the product returns 100% of the nominal invested. Otherwise, the investor participates 1:1 in the fall. The product is listed in Luxembourg and accessible via a life-insurance policy from Cardif Assurance Vie. Crédit Agricole CIB Financial Solutions is the issuer while Crédit Agricole CIB acts as the guarantor. Priips SRI: six out of seven.

Danske Bank launched 0CFD Osakeobligaatio Teollisuus 4 in Finland. The five-year medium-term note (MTN) is linked to an equally weighted basket comprising 10 stocks: A.P. Moller–Maersk, Bouygues, Metsä Board, Holcim, Siemens, Saint Gobain, Deutsche Post, Valmet, Vinci, and Wärtsilä. At maturity, it offers 100% capital return plus 125% of the rise in the basket, subject to 12 months backend averaging. The overall maximum return is capped at 140%. The product is issued at 112%. The issue price includes a structuring fee of up to 0.40% pa. Commission of up to two percent is not included. The product is listed at Euronext Dublin. Priips SRI: two out of seven.

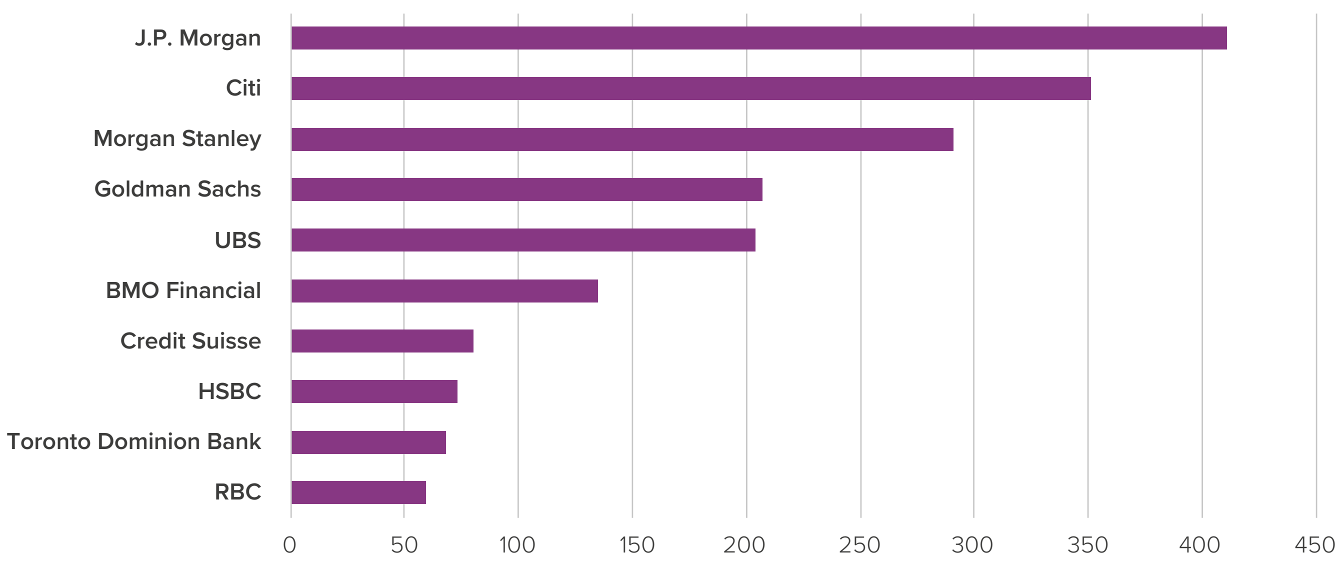
Strivo teamed up with Morgan Stanley for the launch of 2629 Indexbevis Sverige Platå in Sweden. The five-year MTN participates 275% in the positive performance of the OMX Stockholm 30 GI 3.5% Excess Return Index, subject to 12 months backend averaging. The return is capped at 20%. Capital is at risk if the final index level is below 75%. The issue price per note is 94.25% of par. SEB is the paying agent. The product is listed in Luxembourg and Stockholm. Priips SRI: four out of seven.

Landesbank Baden-Württemberg (LBBW) launched the Deep-Express-Certificate in Germany. The six-year certificate is tied to the idDax 50 ESG NR Decrement 4.0% Index, which is licensed exclusively to LBBW. It replicates the performance of the Dax 50 ESG NR Index, while assuming a constant markdown of four percent per annum, accruing on a daily basis. The product will be redeemed early (annually) if the index closes at or above the step-down redemption barrier, which starts at 100% and subsequently decrease by five percent per year. At maturity, if the index closes at or above 55% of its starting level, it offers 127% capital return. Otherwise, the investor is paid out in ETFs (Lyxor 1 Dax 50 ESG (DR) Ucits ETF). The product can be traded on the exchanges of Frankfurt and Stuttgart. The entrance fee is 4.01%. Priips SRI: four out of seven.

NORTH AMERICA

Goldman Sachs collected US$477,000 with Leveraged Buffered Notes on a weighted basket comprising three indices (Russell 2000, Nasdaq-100, Eurostoxx 50) and two exchange-traded funds (Invesco S&P 500 High Beta ETF, iShares MSCI Emerging Markets ETF) in the US. If the final basket level is greater than the initial level, the product participates 200% in the rise, capped at the maximum settlement amount of 127%. If the final basket level declines by up to 10% from the initial basket level, the investor will receive the face amount of the notes. The estimated value is approximately US$965 per US$1,000. There is an underwriting

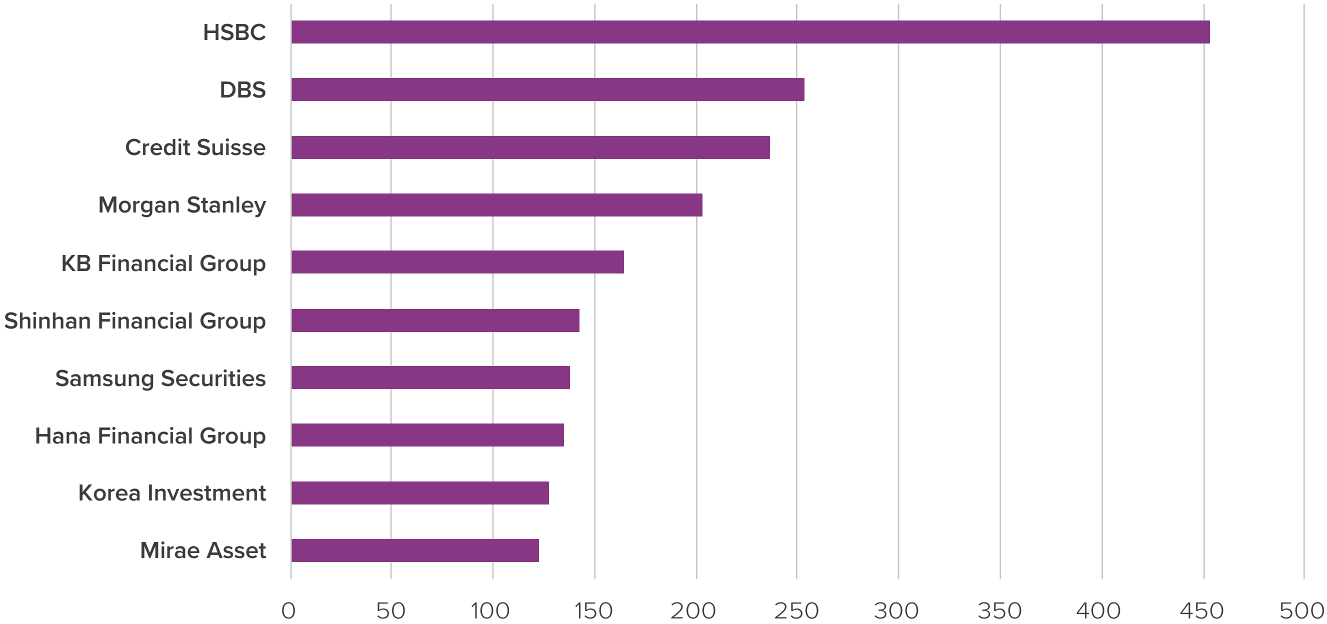
Americas: top 10 issuer group by issuance - 17 Apr 2022 to 14 May 2022*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

Asia Pacific: top 10 issuer group by issuance - 17 Apr 2022 to 14 May 2022*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

discount of 0.80%. Goldman Sachs will pay a fee in connection with the distribution of the notes to Simon Markets, a broker-dealer affiliated with GS Finance Corp.

Also in the US, **UBS Financial Services** sold US$7m worth of Trigger Absolute Return Step Securities linked to an equally weighted basket of five indices: Eurostoxx 50, Nikkei 225, FTSE 100, Swiss Market Index (SMI), S&P/ASX 200 Index. At maturity, if the final basket level is greater than or equal to its initial level, the product offers a capital return of 100% plus the greater of a coupon of 46% or 100% of the rise in the basket. If the final level is lower than its initial level by 25% or more, the investor participates 1:1 in the fall. Otherwise, the capital return is 100% plus 100% of the absolute value of the fall in the underlying over the investment period. Morgan Stanley (the issuer) will pay UBS a fixed sales commission of 3.50% for each security it sells. The estimated value is US$9.282.

ASIA PACIFIC

DBS Bank sold 系列3026期18个月人民币结构性产品/ 18M CNY Note 3026 (ESAZ) to retail investors in China. The 1.5-year wealth management scheme is linked to the CSI 300 Index. At maturity, the product offers 100% capital return, plus a coupon of four percent pa if the index closes at or above its initial level. Otherwise, the coupon is 0.1% pa.

HSBC Bank issued 股票掛鉤投資2022/Basket DCDC ELI DFBAS2201252 in Hong Kong SAR. The three-month equity-linked investment (ELI) is tied to a basket comprising the shares of Tencent Holdings and XiaoMi Corporation. The product has a daily autocall feature that is triggered (from 3 June 2022 onwards) if both shares close at or above 99% of their starting level. At maturity, capital is protected if neither share has fallen below 78% of its initial price.

Gungin Securities, a subsidiary of Gunma Bank, achieved sales of JPY760m (US$6m) with 複数指数連動/KI M20250417 in Japan. The three-year registered note is linked to the Nikkei 225 and S&P 500. The product offers a fixed coupon of 2.65% pa. for the first quarter of investment. Every subsequent quarter, a coupon of the same amount is paid if both indices close at or above 80% of their initial price on any quarterly valuation date, or 0.5% pa otherwise. The product has a knockout feature that is triggered if both indices close at or above 105% of their price on the first quarterly valuation date (the early redemption barrier decreases by three percent per quarter). Société Générale is the issuer.

Kiwoom Securities marketed New Global 100tr Club ELS 365 in South Korea. The three-year security is linked to two shares from the semiconductor sector: Micron Technology, Advanced Micro Devices. Every six months, the product has the potential to redeem early if both shares close at or above the predetermined step-down barrier. At maturity, it offers 100% capital return, plus a fixed coupon of 58.8% if the worst performing share closes at or above 70% of its initial level. Capital is preserved providing neither share has fallen below 40% of its initial level at any time during the investment period. UBS is the derivatives counterparty.

People Moves

Barclays poaches senior GS strats executive, adds to QIS push

The UK bank has poached a senior strats executive from Goldman Sachs to head up its quantitative trading unit, as part of the UK bank's plan to builds out its equities business.

Aytac Ilhan (left) has joined the UK bank as head of quantitative investment strategies (QIS). She will have responsibility for automating platforms for the Corporate and Investment Bank's (CIB) index business and developing investment solutions for clients. Based in London, Ilhan reports to Ashish Prabhudesai, Barclays' global head of equity derivatives.

Ilhan joins from Goldman Sachs where she was a managing director, global head of systematic trading strategies (strats) desk and head of Europe, the Middle East and Africa (Emea) equity derivatives desk strats.

Paul Leech, co-head of global equities, said the appointment reflects the bank's investment in talent to grow its businesses across the CIB division to remain 'a global leader in QIS, both in the breadth and depth of our offering and in the volume of transactions that Barclays has executed with clients'.

Ilhan joined Goldman in 2006 as an executive director and was promoted to managing director, head of Emea equity exotics and hybrids desk strats, in 2012. Prior to joining the US investment bank, Ilhan was a lecturer at the University of Oxford.

Barclays is expanding its equities unit as some rivals including Deutsche Bank and Credit Suisse scaled back. Goldman, on the other hand, has seen several senior strats executives parting ways with the bank over the last couple of years following the restructuring of the unit in 2019 which saw Stefan Bollinger, former co-head of global sales systematic trading strats alongside Thalia Chryssikou moving to the bank's buy-side business as co-head of private wealth management (PWM) for Emea.

Chryssikou is now solely responsible for Goldman's sales strats and structuring unit globally across equities and fixed income currencies and commodities (FICC) following the departure of Stacey Selig who served as the co-head of global structuring for the global markets division, in early 2021.

The US bank also saw its head of equity structuring for Europe, the Middle East and Africa (Emea) and systematic strats in London, Tom Leake, leaving in Q1 2021 to join Capstone Investment Advisors as head of solutions.

Over the last decade, retail and institutional investors have increased their interest in QIS driven by several features such as access, liquidity, cost-effectiveness and transparency, said the bank in a statement.

Barclays recently announced Q1 2022 earnings, with CIB income increasing 10% to £3.9 billion. Global markets income increased 26% to £2.6 billion driven by strong performances in FICC and equities - FICC income increased 37% to £1.6 billion, mainly in macro, and equities income increased 13% to £1.05 billion driven by derivatives.

Goldman bolsters Emea PWM

Goldman Sachs has appointed **Rob Mullane** (left) and Tristan Blood as the co-heads of platform and client strategy for its private wealth management (PWM) business in Europe, Middle East and Africa (Emea).Mullane and Blood report to Chris French and Stefan Bollinger, co-heads of Goldman Sachs Private Wealth Management for Emea. The roles, which are based in London, are newly created and are aimed at expanding the private bank's management responsibilities and contribution to 'building and delivering high-quality investment solutions for clients,' as the bank continues to scale its European business and extend its capabilities across the region.

Prior to his appointment Blood headed the equity solutions group for PWM in Emea, specialising in single stock risk management and equity derivative investment strategies. He joined Goldman Sachs in 2005 in the equities division before joining PWM in 2006 where he ran the securitized derivatives platform for five years. He was made managing director in 2015.

Mullane, who joined the US investment bank in 2007, was named managing director in 2012. He has spent the last nine years as head of Emea alternative capital markets group. Prior to that, he was an executive director in the alternative advisory group within the PWM business.

HSBC poaches wealth veteran from StanChart

HSBC China has appointed **Jany Ying Wang** (left) as managing director, head of investments & wealth solution, wealth and personal banking (WPB), effective from 15 March.

Wang reports to Trista Sun, head of WPB at HSBC China, according to an HSBC spokesperson.

Wang joins from Standard Chartered Bank (SCB) where she worked for four years with last role being managing director, head of products & segments for retail banking. Prior to that, she spent 12 years at Citicbank China where she started as a management associate in 2004 in Singapore and moved to China in 2006. She then became vice president, head of treasury and depository products in 2010 before taking up the role of head of retail banking in 2015.

During her tenor at SCB, Wang headed the personal segment, with partnership team, call center and digital banking reporting to her. Under her leadership, the UK bank launched a partnership with Ant Financial for bulk acquisition of mass market customers, according to the spokesperson.

At Citibank, she played a role in milestone projects like the launch of qualified domestic institutional investor (QDII) programme and onshore mutual funds distribution as well as the establishment of a research & advisory team and a wealth planner team.

'She will be responsible for bringing wealth solutions through investments and insurance products, platforms and insights to our clients across the full continuum, from mass affluent to ultra-high net worth," said the HSBC spokesperson.

Additionally, SRP has learnt that Jenny Wang, the former head of customer value management and marketing, WPB for China, has relocated to Hong Kong SAR.

Structured product specialist joins Save

Financial products architect **Mohamed El Hioum** (left) has joined Save to further develop its accounts and portfolios, including an upcoming ESG investment strategy.

Based in New York, El Hioum will work with the firm's partners and providers to expand its account offering and enhance existing financial products. He will report to Michael Nelskyla, CEO at Save.

El Hioum joins from UBS where he spent the last two years as solutions specialist at UBS Evidence LabSolutions. Prior to that El Hioum was a senior technical advisor at specialist index provider MerQube for almost two years in charge of developing the analytical framework for options-based indices with intra-day calculation and dissemination capability.

He joined MerQube in October 2019 from Forte Securities where he had spent almost a year as head of US structured products. Previously, El Hioum was executive director, cross-asset risk premia structuring for the Americas and head of US dynamic strategies structuring at UBS Securities. He also worked at Deutsche Bank Securities for over 10 years where he held several senior roles including director, head of US equities structuring (2012-2016) covering retail and institutional clients, director, head of US quantitative innovation products (2008-2012), and vice president, retail and institutional structured products (2006-2008).

Before that, he was a vice president at Merrill Lynch, a project manager at MSCI and a senior product manager at OTCfin.

J.P. Morgan expands strategic equity business

Cassinello Herrera (left) will be leading the Private Bank's strategic equity business across the UK and Emea. He is tasked with delivering bespoke hedging, financing and monetisation solutions, and joins a team of experienced investment and lending advisors.

Prior to joining the J.P. Morgan Private Bank, Cassinello Herrera was an executive director on the J.P. Morgan Corporate & Investment Bank's strategic equity solutions team since 2019 where he developed and executed equity derivatives for corporate clients and family offices, including hedging, financing, stake-building and structured buybacks, and disposals. Before that, he spent the previous nine years with UBS Investment Bank in a similar role, with specific responsibilities for Southern Europe and South America.

EQD fintech boosts product team

The Israeli fintech firm has brought five recent hires to bolster its securities financing and equity derivatives (EQD) platforms in London. The business covers OTC equity exotic products such as call vs call, quanto forward spreads, outperformance, best or worst of payoffs on index and single stocks underlyings and crash puts. The new team reports to **Michael Sabbah** (above), who joined earlier this year as head of equity derivatives. Myriam Laroqua joined as senior EQD sales trader from Commerzbank where she ran the Emea EQD flow and delta-1 sales desk for 10 years. Previously Laroqua worked in BNP Paribas based in Paris.

Michael Dryden has joined as EQD sales trader. He joined from Citigroup, where he served for nearly six years on the EQD sales desk in London. In this role, he worked on a range of flow products (delta-1 /volatility/exotic/hybrid) whilst covering institutional clients in the UK, Switzerland and the US.

Nora Assad-Russo is now the head of product on EQD having joined from Morgan Stanley where she worked for six years on the equities trading floor in London, managing cross functional projects for front-office risk. Assad-Russo participated in the front to back workflow at the bank and traded both listed and OTC products.

Ryadh Bakiri is appointed as sales trader on securities financing. He joined from CACEIS, where he was responsible for securities finance & repo desk in Luxembourg for six years. As a front-office sales, Bakiri covered clients from regulated funds to institutions located in France, Luxembourg, Belgium and the Netherlands.

In addition, Brendon Johns has joined as product on securities financing, bringing 12-year experience in securities finance in various roles including managing the total return swap, repo and securities lending book for Macquarie in South Africa and serving on the executive committee of the South African Securities Lending Association (SASLA).

Abrdn appoints Asia Pacific investment director

Abrdn has appointed **Raf Choudhury** (left) as investment director on the Asia Pacific multi-asset investment solutions (MAIS) team.

In the newly created position, Choudhury will assume the portfolio lead for Abrdn's Australian multi-asset funds and its managed accounts capability. Choudhury will report to Irene Goh, head of MAIS – Asia Pacific, and will be a member of Abrdn's Asia Pacific and Global MAIS teams.

He will be responsible for providing customised cross-asset solutions to meet Australian clients' complex needs and will also be contributing investment insights to the broader MAIS teams that should translate into portfolio strategies.

Choudhury joins Abrdn from State Street Global Advisors where he held a range of portfolio manager roles over a 17-year period in both the UK and Australia, and most recently was State Street's head of investment strategy & research for Australia.

CAT adds new hires to serve insurance companies and brokers

CAT Financial Products is offering customised investment solutions to insurance brokers and insurance companies as it continues to expand its activities. Under the management of **Gianni Maleleo** as head of customised investment solutions, the firm is seeking to expand the new business line which 'will be strategically expanded with immediate effect'.

Based in Zurich, Maleleo will report to Roman Przibylla, chief distribution officer and partner of CATFP, who joined the Swiss financial boutique earlier this year to expand the offering to asset managers, banks and institutional investors.

Maleleo, a veteran in the insurance solutions business, joins from Leonteq where he led sales of insurance solutions for eleven years after managing various branches and general agencies in the financial sector.

The new business headed by Maleleo will be supported by Tina Del Tufo who also worked for Leonteq since 2011.

New hires at Citi Australia's markets and research business

Eight new hires are set to join Citi Australia's markets and research business functions providing specialist capability to help meet increased client demand.

Howard Ilderton (left) joined the bank as head of linear product and trading for Australia and New Zealand. Ilderton rejoins Citi from Credit Suisse where he was leading the Japan prime and Apac securities lending team. Prior to these positions, Ilderton was part of Citi's prime and D1 team from 2007 to 2014.

Senior trader Will Buttigieg will join Citi's equity trading team in July, after 17 years at UBS in Sydney where he has held various trading roles in equity derivatives and facilitation.

In mid-June Norbert Wong will join Citi's prime services team in a client facing stock loan and Delta 1 sales role. Wong has held previous roles at Credit Suisse and Macquarie Bank.

Allan Newsome has joined Citi's low touch electronic execution team after relocating from Citi in Hong Kong SAR where he has been working in Citi's prime team, responsible for regional hedge fund clients. Newsome has worked in London and Hong Kong SAR in both buy and sell side roles and will provide additional capacity as Citi expands on its diverse and growing client base.

Research analyst Howard Penny has joined Citi's real estate team. Penny joins from Anchor Capital and has experience spanning the primary and secondary markets with roles at Morgan Stanley and Macquarie Bank, and as a portfolio manager with Anchor in South Africa.

Tom Wallington has joined Citi's industrials research team. Formerly at Forecast Global, specialising in commercial energy modelling and data analysis, Wallington also worked at AME Group as a natural resource and energy research analyst.

Other hires into Citi's research business include Jacob Loi, who has joined Citi's technology team, and Donna Fu, who joins Citi's insurance research team. Loi was formerly an investment analyst with VFMC's external mandates equity team, while Fu joins from PWC where she is worked as a senior associate in the actuarial consulting division.

J.P. Morgan hires Asia fixed income specialist

J.P. Morgan Asset Management (JPMAM) has appointed **Jonathan Liang** as head of Asia ex-Japan investment specialists at its global fixed income, currency & commodities (GFICC) group, based in Hong Kong SAR.

He reports to London-based Travis Spencer, international head of investment specialists, and will be leading the investment specialist team in Asia to promote GFICC's investment capabilities and strategies to existing and prospective clients across funds and institutional channels in the region.

Liang has two decades of experience in the asset management industry. He joins JPMAM from Alliance Bernstein where he was senior investment strategist for fixed income in New York and Hong Kong since 2006. Previously, he held similar positions at Oppenheimer Capital (Allianz Global Investors) and Jennison Associates in New York and Value Partners in Hong Kong SAR.

As of 31 December 2021, the GFICC group at JPMAM had $752bn in fixed income and currency assets under management, according to the bank.

HANetf makes two major hires

European 'white label' UCITS ETF issuer HANetf has announced two appointments.

Torsten Dueing joined as head of ETC structuring. Reporting directly into **Manooj Mistry**, COO, het oversees the further development and growth of our ETC products including commodities, carbon offsets, crypto and other alternative assets.

Previously, he worked for Nomura with responsibility for the development and product management of index-linked quantitative strategies globally. He also had experience at Credit Suisse's commodity division before moving to the quantitative/systematic investment strategies desk.

The firm has also appointed Vincent Chen as business development director, overseeing the sales in Asia, Emea and North America.

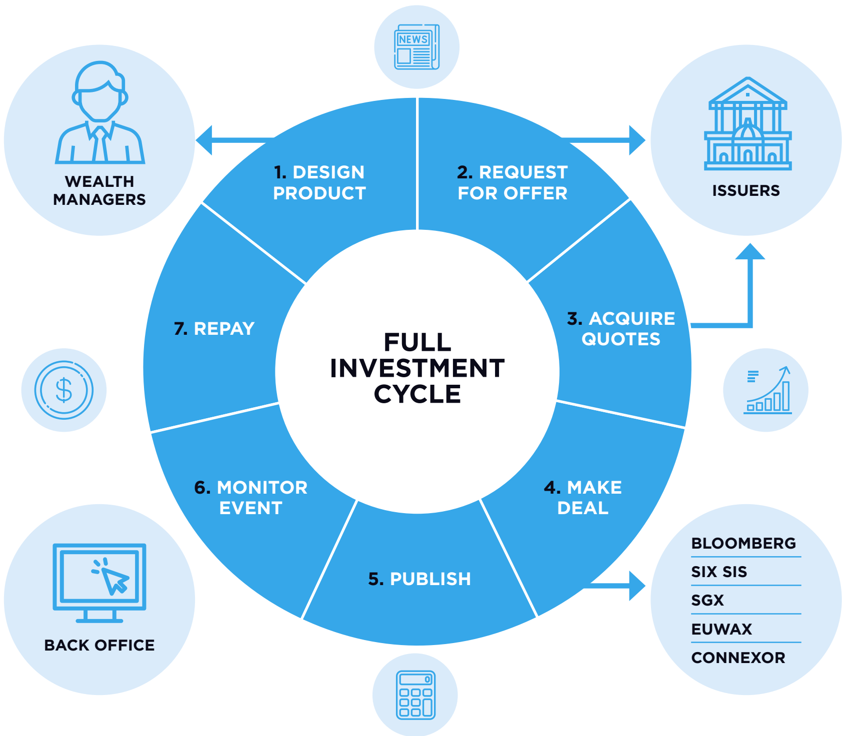
Prior to that, he was executive director at Krane Funds Advisors focusing on business and product development in Asia and Europe after serving as head of index & quantitative investment in ICBC Credit Suisse (International) where he developed its offshore ETF business in Europe and North America.

SRP NEW LIFECYCLE MANAGEMENT PORTAL

SRP has entered into a joint venture with FVC to design a lifecycle management portal with a single sign-on, to be powered by SRP database. Technical specifications allowing eligible SRP subscribers to access the portal with their existing SRP access credentials to be announced during the SRP Americas event in September.

The purpose of the lifecycling portal is to provide a complete structured product selection, monitoring and analysis system. The portal will have different use cases depending on client and jurisdiction. Its primary function is as a fully featured structured product management tool for advisers, brokers and smaller buy-side firms such as discretionary fund managers and family offices.

Initially the valuation service will cover live products on the US database across the most popular payoff types such as Autocall, Reverse Convertible, Leveraged Upside, Participation, Digital and Twin Win across a large selection of underlyings, issuers and maturities covering thousands of live products. This new valuation service will then be rolled out to other markets globally in 2022.



KEY BENEFITS OF THE LIFECYCLE MANAGEMENT PORTAL INCLUDE:

- ✓ Direct structured product governance tool for financial advisers and brokers. Typically, there are three layers to usage for a medium to large company – firm wide compliance, by adviser and by individual end client.
- ✓ Dynamic product reports: Reports for each individual structured product in the universe will be updated and produced on a regular basis (at least weekly). These will be based on the successful adviser facing Structured Edge report concept that has been used by thousands of advisers in the UK for the last twenty years. **And more...**

FOR MORE INFORMATION PLEASE CONTACT:

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