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SRP

INSIGHT

CONNECTING THE STRUCTURED PRODUCTS INDUSTRY

EUROPE: SPECIAL EDITION

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Dutch manager opts for capital protection after advisor green light

Van Lanschot Kempen (VLK) is distributing the Index Garantie Note Eurozone 24-29 as a public offer in the Netherlands.

The five-year product is issued on the wealth manager's own paper and offers 105% uncapped participation in the positive performance of the Eurostoxx 50. The structure is VLK's first publicly offered capital protection product since Positive Impact Finance Capped Index Garantie Note ESG Eurozone 22-29, which was issued in collaboration with Société Générale in May 2022.

Even though conditions for capital-protected notes improved significantly in recent times because of increased interest rates, VLK's investment advisors have been reluctant to advise these products to their clients, according to Floris van Iersel (pictured), associate treasury sales, structured products & FX at Van Lanschot Kempen.

"The general opinion [among our advisors] was that rates could increase further, which could have a negative effect on the mark-to-market value of capital protected notes they witnessed with previously issued products.

"Now that the increase of capital market rates might have come to an end, we believe this could be a good time to issue a new capital protected note," said Van Iersel, adding that the new product also provides a rollover opportunity for clients invested in the BNP Paribas/Kempen Garantie Certificaat Ethical Europe 13-24, which matured earlier this month, returning 104.3% of the nominal invested.

VLK's recent public offers have mostly been capital-at-risk Trigger or Trigger Plus autocalls, but the current geopolitical situation has led to more interest from clients for capital protection products, demand for which was also boosted by the rise in interest rates allowing products to be offered with better terms.

"After a long time, we are once again able to offer 100% capital protection, with uncapped participation of over 100%. We recently saw a pickup in demand for capital protected products in the private placement space and therefore decided to launch a product on a public offer basis now," said Van Iersel.

Like many of its products, VLK's current offer is once again linked to the Eurostoxx 50, which closed at 4,635.47 basis points on 26 January – its highest level since 2001 – and remains the preferred underlying equity-index for its clients.

"Dutch investors still have a preference for the Eurostoxx 50 index and other benchmark indices," said Van Iersel.

"These indices are mainstream and easy to understand. More complicated custom-made indices have not really been in demand and the ones that have been used in the past often underperformed the regular benchmark indices.

"We try to standardise our product offering as much as possible for better conviction and storytelling purposes and therefore you will indeed see a limited use of non- benchmark indices in our product offering," Van Iersel concluded.

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We try to standardise our product offering as much as possible for better conviction and storytelling purposes

SIX connects with Deutsche Börse's D7

SIX has partnered with Clearstream to process and distribute reference data of financial instruments. The Swiss financial market infrastructure provider is connecting its Connexor platform for reference data distribution, to D7, Deutsche Börse's digital post-trade platform.

The initiative responds to a regulatory directive introduced in Germany in 2021 (Gesetz zur Einführung von elektronischen Wertpapieren eWpG) which has mandated the standardised and digitalised transmission of book-entries by issuers of financial instruments.

On the back of the German eWpG regulation, Clearstream introduced its digital post-trade platform D7, which now will be connected with SIX' Connexor platform.

"We offer to all our structured product issuers the opportunity to connect to the D7 platform using their existing Connexor interface," André Buck (pictured), global head sales & relationship management at SIX Swiss Exchange told SRP.

The solution, which will be offered by the creation of one single access for product issuers, reducing process costs, will allow issuers to efficiently fulfil and simplify their reporting obligations as well as related procedures by accessing D7 via Connexor, eliminating the need to construct direct interfaces on their own.

"More than 80 international issuers are already using Connexor, and all they would need to do is to tick the relevant box and submit to us the reference data, which will be passed on to the D7 platform," Buck said.

The initiative contributes to digitalisation and standardisation of processes within the European financial market and allows for regulatory compliance, reduction of complexity and minimisation of maintenance-intensive interfaces, standardised and higher reference data quality through reduction of media-breaks as well streamlined product lifecycle management through automation.

Issuers remain customers of Clearstream and their commercial membership remains unchanged.

"We are supporting issuers to streamline their interfaces because building another interface is costly. Connexor is already familiar with such projects, having already built interfaces or converters to players such as Bloomberg, Refinitiv and many others," said Buck.

Francesco Marcon Fiastri, head of sales at Connexor, added: "We leveraged the connection we have with issuers.

"It is an advantage for them to use a one-stop-shop to disseminate data. Issuers are very used to our IBT data format, and as such they asked us to build a bridge to Clearstream's D7 on their behalf, so they would save costs and focus on their core business," said Marcon Fiastri.

The connection between Connexor and D7 will be activated provisionally in the second half of 2024, providing market participants with one single access to fulfil their regulatory obligations.

"It is hard to predict exactly how long such projects will take," said Marcon Fiastri. "This depends on many factors, such as the availability of all the specifications, the data model extensions, connectivity details, specific client requirements, but I am confident that by the end of the year significant progress will be made."

In the second quarter of the year, SIX will introduce an independent valuation service for Connexor platform, a new service which allows platform users to compare structured products and receive product valuations from an independent source.

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We offer to all our structured product issuers the opportunity to connect to the D7 platform using their existing Connexor interface

New distributor enters UK, counterparty pool expands

Hop Investing has entered the UK retail structured products market with a set of products targeted at retail investors.

The company, an appointed representative of Meteor Asset Management, has launched four autocallable products hedged by new UK counterparty Canadian Imperial Bank of Commerce (CIBC) which will act as its preferred issuer partner to build up a "wide range of structured investments spanning diverse risk profiles".

"Our goal is to empower investors with structured products that are easy to understand and use," Sean Harrison (pictured), founder and MD at Hop Investing, told SRP. "We will prioritise clear communication and personalised service."

Harrison and sales director Glyn Richards come from MB Investments, another recent entrant to the UK market which only offers plans backed by Barclays.

Harrison played an integral role in helping MB Structured Investments become one of the largest UK retail structured product providers during a three-year period.

Before joining MB Investments alongside a group of ex-Investec colleagues, he held senior roles at the South African bank including as chief operating officer structured products where he oversaw the product creation, delivery and distribution framework whilst remaining involved in the sales process.

Richards has over 15 years' experience in the financial services sector including senior sales roles at Santander Global Markets and Investec Structured Products where he spent over a decade as part of the structured products team. He joined MB Investments in 2022 before partnering with Harrison to launch Hop Investing.

Practical approach

According to Harrison, there is room in the UK market for another avenue for financial advisers "to gain access to high quality products with exceptional service".

"We want to leverage our experience and knowledge of the market to deliver value to our clients," he said.

Although the initial range is focused on autocallables, Hop Investing will take a practical approach to respond to demand and leverage the flexibility structured products can offer. The company will focus initially on structured notes and expand into structured deposits at a later stage.

"The autocall structure is recognised by advisers and investors and has built a track record over a long period of time but there is also value on other payoff profiles such as digitals and callable," said Harrison. "There is also scope to expand the underlying exposure of our products beyond the FTSE100," said Harrison, adding that working in partnership with a solid issuer like CIBC will ensure consistent competitive pricing.

"We are excited about the opportunity to dedicate ourselves to achieving the best possible outcome for our clients. I have a positive outlook for the structured products market in the UK as structured products offer an appealing proposition and several key features that resonate with investors including protection and consistent returns."

The new Hop Investing products include the UK Annual 100 Kick Out Plan April 2024 linked to the FTSE 100, paying 9.20% pa, and calling at 100% from the second year onwards and the UK Annual 90 Kick Out Plan March 2024 linked to the FTSE 100 offering a potential gross investment return of 7.55% for each year in force from the third year of the investment term.

> Our goal is to empower investors with structured products that are easy to understand and use

Millennium banks on single stocks, tech

Bank Millennium was voted Best Distributor Poland at this year's SRP Europe awards.

In full year 2023, the bank distributed 10 structured deposits with estimated sales of PLN1.3 billion. Most featured the shark fin payoff, and they were mainly linked to single equity indices, ETFs, or equities.

Last year was demanding in terms of structured products due to the rapid changes in the financial markets, although high interest rates and market events allowed Millennium to create attractive products, according to Marcin Serafin (pictured), director treasury department at Bank Millennium.

"We were able to offer investments at attractive levels [...] clients saw this opportunity and sales were high," said Serafin.

Towards the end of the year, the bank started to focus on constructing products linked to tech companies such as Amazon (Globalny Market III), Alphabet (Internetowy Gigant I), and Advanced Micro Devices (Gigant Technologii I).

"We believe that in times were technology is developing so dynamically, these products have great potential and give the client a chance to earn a large profit," said Serafin.

Globalny Market III offers an overall minimum return of 105.1% while the guaranteed coupon for Internetowy Gigant I and Gigant Technologii is 4.2% over a two-year period. In addition, all three products provide 60% participation in the upside performance of the underlying share providing it has not closed at or above 150% its starting level at any time during the investment period. The potential maximum return in that case is 129.99%.

Since August 2023, all of Millennium's products have been linked to single stocks with the exception of Potencjał Japonii IV, which was linked to the Nikkei 225

"In recent months, we have noticed that single stock-linked products are offering more favorable conditions for clients.

"It is very important to us that our products generate the highest possible profit for our clients," said Serafin, who emphasized the importance of the products on offer being easy to understand for the bank's clients.

"At the time of purchasing our products, clients should not only the understand the terms and conditions, but they should also be able to assess the profit potential on their own.

"In this respect, products based on shares of leading global companies that are widely recognised are a better choice than indices and ETFs because clients know exactly in which product they are investing," said Serafin.

Most of Millennium's products in recent times have been knockout calls with a guaranteed coupon, which the bank started to issue in response to situation on the financial markets and were made possible by the high interest rates.

"These products were very popular among client because they could purchase an investment product that offers guaranteed interest, sometimes comparable to an ordinary bank deposit but gives the opportunity to obtain additional interest at a very high level with a 100% capital guarantee on the maturity date," he said.

Serafin refused to be drawn on predicting the main investment themes for Polish investors in 2024, as there are too many variables to clearly determine investor preferences.

"We will try to take advantage of emerging opportunities on the financial markets. There are so many unknowns that we don't have any concrete plans and we will act depending on the current situation," Serafin concluded.

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It is very important to us that our products generate the highest possible profit for our clients

Vontobel leverages Luma engine, expands issuer pool

Vontobel will further expand the issuer offering for dual currency notes (DCN) and discount certificates on deritrade in the coming months as it continues to leverage its partnership with Luma Financial Technologies.

The partnership has been instrumental in 'improving the product offering' on the deritrade platform and has enabled an expanded choice for clients which can access pricing from a broader range of issuers covering various pay-off profiles on deritrade - in 2023, the platform added several new issuers including Luzerner Kantonalbank, Société Générale, UBS and Zürcher Kantonalbank, according to the bank.

"For the last two years we have been working with some specific clients in Europe and elsewhere, who are using the full web platform, but we have also established relationships with some issuers of structured products – leveraging our technology to help their businesses grow," David Wood, managing director, Luma's International Business, told SRP.

"We have been working with Vontobel for quite some time to enhance the Deritrade platform's multi-issuer capability."

Wood noted that Deritrade had many products that Vontobel supported, but as clients moved out towards the different issuers on the multi-issuer side, the number of products supported decreased, "because the issuer connectivity used legacy infrastructure, and the bespoke connectivity was expensive to maintain".

The migration of the multi-issuer capability of Vontobel Deritrade to Luma technology was finalised in March 2024 and under the new set up Luma will provide the full back end to Deritrade with integration to the issuers for pricing and click & trade.

"Instead of having a wide set of products supported by very few issuers, we have helped Deritrade grow the number of products the third-party issuers can support because the Luma technology allows them to do that more efficiently," said Wood.

"Vontobel's Deritrade clients now have an even better service than they had previously because they have more choice, and they can trade with more issuers across a wider product set."

Wood also pointed at another undisclosed French asset manager, with some 360 end clients that use the Luma platform every day, without realising Luma is behind the infrastructure.

New issuers

Luma's focus on providing a standardised integration process for third-party issuers, has allowed deritrade to focus on core platform development including the addition of new members. The Swiss bank has entered into a cooperation with EFG and Chartered Investment for the production and distribution of structured products.

The cooperation covers white-labelling services along the entire value chain of structured products and will commence on the first week of April 2024, when structured products issued by EFG International Structured Finance (Luxembourg) will be available on Deritrade.

As part of this cooperation, EFG will be able to access the Deritrade platform as well as leverage Vontobel's structuring, pricing, issuing, trading, and lifecycle management services.

Otto Huber (pictured), head of structured solutions & treasury at Vontobel, said: 'The partnership [with Luma] will strengthen Vontobel's position as a top provider of structured products across Europe with the broadest and most competitive offering'.

Additionally, Vontobel and Chartered Investment Germany, a capital markets solution provider regulated by the German Federal Financial Supervisory Authority (Bafin), are launching a new production and issuing solution for structured products.

The new solution which will be tested in partnership with EFG as the pilot user is open to additional partners looking to diversify their refinancing activities with structured products without holding derivatives on their books.

Solactive expands single stock range; develops ESG play with UBS

Solactive is collaborating with UK exchange traded products (ETPs) provider Leverage Shares to develop both fixed basket and single stock indices that will underpin Leverage Shares' new suite of long and short leveraged ETPs launching on the London Stock Exchange (LSE).

Solactive will calculate the indices with Leverage Shares providing geared market exposure through various asset classes and long/short strategies.

The ETPs tracking the new Solactive Indices include a 5x long and a -3x short ETPs tracking the Solactive Magnificent 7 Index; a 3x long and a -3x short ETPs tracking the Solactive US Artificial Intelligence Index; a 3x long ETP linked to the Solactive 3x Long IONQ Index; and a 2x long ETP linked to the Solactive 2x Long SMCI Index.

The German index provider also announced a partnership with UBS Asset Management for the launch of the new UBS (Irl) ETF – EUR Ultra-Short Bond ESG UCITS ETF, tracking the Solactive EUR Ultra-Short Diversified Bond ESG Index.

This new index provides exposure to short-term debt securities denominated in Euro, including bonds, bills, commercial papers and certificate of deposits from sovereign, supranational and agency issuers in the Economic and Monetary Union (EMU).

The Solactive EUR Ultra-Short Diversified Bond ESG Index is designed to meet demand for sustainable fixed income investments by combining short duration with responsible investment principles. The index selects debt securities from sovereign, supranational, and agency issuers with a minimum amount outstanding of €100 million and a maximum maturity of six months. For the government debt portion, constituents are weighted based on market value. For agency and supranational debt part, constituents are equally weighted per issuer.

The ETF is available on the Borsa Italiana and Xetra.

'ESG integration in core fixed income strategies is an important trend, and this Index allows transparent implementation at the benchmark level," said Timo Pfeiffer, chief markets officer at Solactive.

Leonteq, Glarner Kantonalbank launch pension savings solution

Leonteq and Glarner Kantonalbank have partnered to launch 'bench' – the first 3a pension savings solution that combines upside potential with a guarantee on the paid-in assets at the time of retirement. The new product is 'purely digital offering' for the Swiss retirement market and offers a higher potential return than a standard 3a savings account, with the guarantee being freely selectable at 80%, 90% or 100%.

The new product 'is the result of a unique collaboration in which Leonteq has contributed its technological expertise and Glarner Kantonalbank its banking know-how,' according to Lukas Ruflin, CEO of Leonteq.

The new solution is based on Leonteq's newly developed technology platform Sigma, which enables automated and scalable administration of pension deposits by the Bench 3a Foundation, as well as a mobile app developed by Leonteq.

DZ Bank deploys new ESG DAX play via discount certificates

STOXX has licensed a new ESG benchmark for the German equity market to DZ Bank. The DAX 30 ESG index was designed to expand the options for ESG investing in German equities and will form the basis for several discount certificates that will be listed on the Frankfurt Stock Exchange.

The index is comprised of the 30 stocks with the best ESG performance score determined by reference to the ISS ESG Corporate Rating and drawing from the largest companies listed on the Frankfurt Stock Exchange, following initial exclusionary ESG screening.

'The index employs the ISS ESG Corporate Rating which enables investors to assess the companies' exposure to ESG factors and risks,' said Serkan Batir, global head for product development and benchmarks at STOXX.

The starting universe for the index is the HDAX, which consists of the DAX, MDAX and TecDAX and currently comprises 101 stocks. Companies that fail the ISS ESG Norms Based Screening assessment are ineligible for inclusion. Exclusion filters are also applied for involvement in the following areas: controversial weapons, tobacco, thermal coal, unconventional oil & gas, civilian firearms, nuclear power and military equipment.

Among the remaining companies, the 60 most valuable companies are pre-selected based on free-float market capitalization. Finally, 30 companies are selected to be included in the DAX 30 ESG according to the highest ESG performance scores under the ISS ESG Corporate Rating.

Lincoln Financial debuts first dual trigger FIA

The US insurance carrier has brought to the fixed index annuities (FIAs) a popular crediting strategy used in registered index-linked annuities (Rilas).

The dual trigger account is now available with all FIA options issued by the Pennsylvania-based insurer tracking the S&P 500, including its flagship OptiBlend.

Like trigger account, the new dual trigger account will credit the trigger rate at the end of the one-year index term if the index doesn't fall. However, the trigger rate for the dual trigger account additionally acts as a downside buffer, allowing the difference to be credited if the index decreases less than the reference rate. Investors are protected from loss with no interest credited if the index drops more than the rate.

The introduction of the dual trigger is a first for the FIA market in the US, according to Kim Genovese (pictured), vice president, annuity product management at Lincoln Financial.

"We're bringing a trigger portfolio to market by expanding our trigger option and leveraging this concept that the consumer has been familiar with from Lincoln Financial for a very long time," Genovese told SRP.

The trigger rate has become the most utilised index account option at Lincoln for its "simplicity" after the insurer pioneered the strategy over 20 years ago, according to Genovese.

Last August, Lincoln Financial rolled out dual performance trigger crediting strategy for its Level Advantage Rila products, which deploy a similar payoff to dual trigger FIAs but offers limited capital protection.

"Over the past 20 years, the S&P 500 has been within negative five percent or higher 85% of the time from a return perspective," said Genovese. "That's really giving the consumer more opportunity to lock in growth with this dual trigger option."

In the Rila market valued at US$47 billion, the dual performance trigger strategy is also referred to as 'dual direction' after being first brought by Equitable in May 2020. The New York-based insurance company added a dual step-up option three years later, providing a fixed return whenever the index return exceeds the downside buffer.

"There is a lot of synergies between FIAs and Rilas, but it really depends on the consumer's preference when it comes to value proposition," said Genovese, citing additional crediting strategies - interest cap and participation rate - commonly seen in both product types.

Besides the dual trigger, Lincoln Financial also launched the 1-Year S&P 500 10% Daily Risk Control Trigger for its OptiBlend FIA to offer opportunities for more growth potential in up or flat markets.

That adds up to a total of 10 account options for OptiBlend, which is designed to be distributed through independent marketing organizations (IMOs), in comparison with Liconln's CoveredChoice and FlexAdvantage series sold by direct channels including advisors, wirehouses, banks and independent planner firms.

Alongside the S&P 500 index, the suite also offers index accounts linked to the BlackRock Dynamic Allocation Index and the Fidelity AIM Dividend Index with a trigger strategy.

OptiBlend, which houses most of the index-linked accounts with surrender periods of five, seven and 10 years, made up two thirds of the total FIA sales volume at Lincoln Financial last year, according to Genovese.

In 2023, the insurer collected US$2.73 billion and US$4.33 billion from FIA and Rila sales, taking a respective market share of 2.8% and 9.1%.

Within the company, the FIA sales volume dropped by 7.8% from US$2.96 billion year-over-year while the market delivered a 20.2% growth, the latest survey by Limra shows.

"The biggest trend we've seen that have helped the [entire] FIA sales grow is increasing utilisation of bonus products and income riders," said Genovese, adding that these products are not offered at Lincoln Financial today.

A bonus FIA offers either an upfront premium bonus or a first-year interest rate bonus. Income riders, known as guaranteed lifetime withdrawal benefit (GLWB), are an annuity feature that provides enhanced lifetime income for an annual fee.

"It's a market we continuously keep a pulse on, but not in the short term," she said. "We want to focus in bringing new value propositions like the expansion of our trigger portfolio."

US Q4 23: momentum wanes despite record year

The US retail market is valued at US$100.5 billion in 2023 despite a slowdown in activity over the last three months.

The US structured products market posted a solid performance with the last quarter of 2023 registering 8,550 structured notes on the Securities and Exchange Commission (SEC) with combined value of US$24.7 billion - sales were up 18.3% higher year-over-year (YoY), according to SRP data.

Among the 14 active issuer groups, J.P. Morgan (US$4.4 billion), Goldman Sachs (US$3.7 billion), Morgan Stanley (US$2.3 billion), Barclays (US$2.1 billion) and Scotiabank (US$2.0 billion) came on top of the league table, with respective market shares of 17.8%, 15.0%, 9.3%, 8.5% and 8.1%.

Toronto-headquartered Scotiabank, officially known as The Bank of Nova Scotia, was the only non-US bank on the top five ranking after noticeably ratcheting up its volume in the last three months of 2023 after posting US$1.3 billion, US$1.5 billion and US$1.4 billion in the first three quarters, respectively.

Morgan Stanley Finance was behind the best-seller for the quarter - Callable Fixed Income Securities - Worst of Option (61775MP59), which was sold at US$124.9m with Morgan Stanley acting as the guarantor.

The one-year fixed coupon notes have the Russell 2000, Nasdaq 100 and S&P 500 as reference assets. The runner-up was the Sustainability Bonds Accelerated Return Notes - S&P 500 (06418G180) which was issued on Scotiabank's paper. BofA Securities and Merrill Lynch, Pierce, Fenner & Smith (MLPF&S) acted as distributors.

The 14-month product features three-to-one leveraged upside exposure to increases in the S&P 500, subject to a capped return of 13.95% and 1-to-1 downside exposure to decreases in the underlier, with up to 100% of principal at risk.

Scotiabank intends to fund projects with the proceeds of the notes as they meet the criteria of eligible assets in the Scotiabank Sustainable Bond Framework Eligibility Criteria. There were additionally US$3.6 billion and US$962.6m principal amount tracking hybrid assets and commodities, respectively. Beyond structured notes, SRP registered 1,343 callable fixed rate notes worth US$16.1 billion - the best-seller in this category was a Callable Fixed Rate Notes (48133PDZ3) issued by JPMorgan Chase Financial which raised US$307.5m.

BofA indices gain traction with new Rila player

F&G Annuities & Life has entered the US registered index-linked annuity (Rila) market with three indices developed by BofA Securities. Fidelity & Guaranty Life Insurance, a wholly-owned subsidiary of F&G Annuities & Life, on Tuesday (13 February) has launched its first Rila, F&G Confidence Builder.

'As investors deal with ongoing market volatility and inflation, F&G has designed Confidence Builder to do just that, helping clients build confidence in their retirement strategy with comprehensive options to personalise the product,' said John Currier (pictured), president, retail markets at F&G.

Rilas, sometimes referred to as buffered or structured annuities, are a type of tax-deferred US annuity that features upside participation and downside protection.

They are regulated at a national level by the US Securities and Exchange Commission (SEC) as well as the Financial Industry Regulatory Authority (Finra), and are capital-at-risk unlike FIAs.

The single premium retail annuity is available through fixed interest strategies and index-linked interest strategies with a one-year crediting period.

The index options include the S&P 500, Russell 200, Nasdaq 100, MSCI EAFE Index and the BofA Hindsight 20/20 index, which is based on the best performance of the BofA MP Growth Index (BOFAMPGR), BofA MP Balanced Index (BOFAMPBA) and BofA Defensive Index (BOFAMPDE) at the end of the investment term.

'The BofA MP Indices are inspired by model portfolio strategies and include equity exposure ranging from 40% to 75% to meet different risk tolerance levels as well as varying allocations to four familiar, commonly used assets,' said William Holligan, managing director, head of structured equity derivatives sales at BofA Securities.

Launched on 7 February 2023, the BofA MP Indices rebalance quarterly and provide exposure to four markets: US large-capitalisation companies, US Treasury bonds, US high yield corporate bonds and gold.

Each index is comprised by the SPDR S&P 500 ETF Trust (SPY), iShares iBoxx High Yield Corporate Bond ETF (HYG), iShares 7-10 Year Treasury Bond ETF (IEF) and SPDR Gold Shares ETF (GLD) with different target weights.

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Limra: indexed annuities see new sales record, Allianz comes on top

The combined sales of fixed index annuities (FIAs) and registered index linked annuities (Rilas) have reached US$143 billion in 2023.

In 2023, fixed index annuities (FIA) sales totalled US$95.9 billion, up 20% from the prior year. In the fourth quarter, FIA sales were US$24.9 billion, a 12% increase year-over-year (YoY), according to the US Individual Annuities Sales Survey released by Limra today (12 March).

'FIA sales by independent agents and independent broker-dealers increased 29% year-over-year and represented more than 74% of the total FIA sales. We continue to see a shift to independent distribution,' said Bryan Hodgens (pictured), head of Limra research at the trade association.

'Rising interest rates helped increase demand for clients looking to protect their principal investment from equity market volatility while benefiting from higher crediting rates.'

In the US, the primary distribution channels for FIAs include independent agents, banks, broker-dealers and captive agents which work exclusively for one insurance company.

Registered index-linked annuity (Rila) sales stood at US$13 billion by the end of the fourth quarter, up 29% compared to the same period of 2022.

This marks the first time Rila sales have surpassed traditional variable annuity sales, according to the survey.

For the full year, total Rila sales were up by 15% to US$47.4 billion in 2023 YoY, a new all-time high. In addition, fixed-rate deferred annuities posted sales of US$164.9 billion, followed by traditional variable annuities at US$51.4 billion, single premium immediate annuities at US$13.3 billion and deferred income annuities at US$4.2 billion.

As a result, total US annuity sales reached a record annual high of US$385.4 billion driven by FIAs, 23% higher year-on-year.

'For the second consecutive year, annuity sales have surpassed previously held records, largely due to broader engagement with independent distribution. Rising interest rates have made annuities very attractive to a larger group of investors who are served by independent advisors and broker dealers,' said Hodgens.

Independent agents' and broker-dealers' sales collectively grew 29% from 2022 and represented 41% of the 2023 sales, according to Limra.

Chicago RIA unveils partnership with iCapital

Keebeck Wealth Management, an independent Registered Independent Advisor (RIA) targeted at entrepreneurs and multigenerational families, has announced a strategic partnership with iCapital. Under the new arrangement, the Chicago-based firm will seek to leverage iCapital's technology platform to broaden the investment opportunities available to the aspiring entrepreneurs, established business owners and multigenerational households it serves.

With a global reach and an alternatives shelf that includes private equity, hedge funds, and structured investments, iCapital has established itself as a major fintech player in the alternatives investment space.

The wealth tech provider's efforts to help advisors extend their portfolio diversification capabilities past traditional stocks and bonds include a move to expand access to its Architect portfolio construction tool announced last week, and a July agreement to integrate its structured investments offering into the Envestnet platform for advisors.The new partnership agreement with iCapital will also support Keebeck's plans to increase its bandwidth to manage client interactions and to supply a comprehensive array of educational resources.

Credit Suisse dodges ETN lawsuit

The Second Circuit Court of Appeals of the US has dismissed a class action lawsuit brought by retail investors over the delisting of a Credit Suisse exchange-traded note (ETN).

In a landmark decision, which gives a significant victory to Credit Suisse, the US Second Circuit Court of Appeals dismissed a class action lawsuit against the bank on 10 February 2024 on the basis that the bank provided 'adequate warnings about the associated risks' of the ETN. The lawsuit, brought by a group of retail investors, claimed that Credit Suisse was responsible for substantial losses incurred due to the delisting of an ETN which prompted investors to scramble to cover short positions at highly inflated prices.

The court, however, found that the Swiss bank had provided sufficient warnings about the associated risks including that the trading price of the ETN could 'vary significantly' from the value of the underlying index it was intended to track 'because the market value reflects investor supply and demand for the ETNs', and advised investors not to hold the note 'for more than a day'.

The legal challenge brough by investors claimed that when the ETN was delisted, it triggered significant financial losses for numerous holders.

The defendants alleged that Credit Suisse had made false and misleading statements regarding the note's value and liquidity and claimed that the bank had failed to disclose the true risks associated with the product.

> Defendants had failed to establish a viable claim for securities fraud

Credit Suisse argued otherwise maintaining that it had fulfilled its duty to inform investors about the potential risks of the product as the ETN's prospectus clearly stated the risks and even cautioned investors against holding the note for extended periods as there was no guarantee that there would be enough long positions available from other places to cover outstanding short obligations.

The court decision also stated that the defendants had failed to establish a viable claim for securities fraud.

'Credit Suisse did not sell any of its 431,350 units of DGAZ between 22 June, 2020 and 12 August, 2020, even though the market price of DGAZ increased from less than US$600 to approximately US$25,000 per note during that period. In other words, Credit Suisse's decision not to sell the DGAZ units it held during this period was a decision to abstain from making a potentially multibillion dollar profit,' it said.

The case goes back to early 2022 after Credit Suisse was served with a proposed class action suit over claims that it caused retail investors significant losses after de-listing the DGAZ ETN in June 2020.

The DGAZ ETN was issued and listed in February 2012 as VelocityShares 3x Inverse Natural Gas ETN and was linked to the performance of the S&P GSCI Natural Gas Index ER (DGAZ) on the NYSE Arca Exchange. The ETN's objective was to provide daily leveraged inverse exposure to the underlying index.

Cboe, MSCI Team launch index options and volatility indices

Cboe Global Markets and MSCI have joined forces to introduce index options and volatility indices. These options, expected to launch on 18 March after regulatory approval, will enable investors to access diverse exposures across international, developed, emerging, and US markets.

'We are excited to expand our Cboe-MSCI toolkit with additional index options and volatility indices, an enhancement that will not only broaden our customers' product choice but also enrich the ways they interact with and analyse the global markets,' said Catherine Clay, global head of derivatives at Cboe.

As part of the plan, Cboe and MSCI will introduce three new index options tied to MSCI's benchmarks including the MSCI World Index, the MSCI ACWI Index, and the MSCI USA Index.

Additionally, Cboe will unveil two new volatility indices, the Cboe MSCI EAFE Volatility Index and the Cboe MSCI Emerging Markets Volatility Index. These indices enable investors to assess market sentiment and anticipate fluctuations with precision.

Solactive remains dominant in Canada, eyes US annuity market

The Frankfurt-headquartered index provider is developing new decrement index solutions featuring technology and single stocks targeted at the Canadian market.

Following its opening of Toronto office in 2018, Solactive has left its mark in the Canadian retail market as the main supplier of underlier assets for structured products.

In 2023, there were 5,102 structured notes issued in Canada, of which 3,320 are linked to 32 Solactive indices, - including the Solactive Canada Bank 40 AR Index, Solactive Canada Utilities 160 AR Index and Solactive Canada Blue Chip AR Index, according to SRP data.

All of these Solactive indices are built with a decrement overlay, which periodically deducts a predefined fee, either in the form of a fixed percentage or index points, from the underlying indices.

Risk management has been the driving force for the use of decrement indices in Canada, which was triggered by a "great reset" during the Covid-19 pandemic. "Perspectives about dividend risk changed drastically," Bernd Henseler, managing director, head of Americas at Solactive, told SRP.

The Solactive Canada Bank 40 AR Index and Solactive Canada Utilities 160 AR Index, the most widely featured underliers, are comprised of high-dividend stocks of leading banking and utilities companies in Canada, which tend to make up a large part of domestic investors' portfolios, according to Henseler.

Outside structured notes, a handful of Solactive indices were deployed via guaranteed investment certificates (GICs).

In 2023, Solactive continued to forge ahead with its decrement range and is now planning to introduce its first batch of technology indices with the synthetic dividend overlay aimed at Canadian investors, according to Henseler.

The new indices will be targeted at structured notes issuers seeking to develop new autocall and accelerator (geared participation) structures.

"One challenge is coming up with a 'technology' definition that resonates with the investor base – be it general industry classification of tech companies or thematic like artificial intelligence and semiconductor's," said Henseler.

The company launched the Solactive Cyber Security Technology Decrement EUR Index and Solactive Cyber Security 15% Risk Control 4% Decrement Net EUR Index in February 2021 and April 2022, respectively.

They have been used by 10 structured certificates across Italy, Czech Republic and Switzerland, SRP data shows.

In Canada, Henseler also highlighted the gradual adoption of single stock decrement indices that measure the performance of single stocks after taking into account dividend expectations.

Royal Bank of Canada (RBC) is currently pitching three structured notes linked to the Solactive Bank of Nova Scotia AR Index after it issued the first three with the reference asset in 2023.

"We have also seen an increasing use of specific filters to apply liquidity constraints, such as market volume, daily traded volume on exchanges and market capitalisation," said Henseler.

An example is the Solactive US Select Infrastructure Index, which went live in January 2022. To enhance hedge capacity and pricing, the index applies minimum average aggregate option liquidity volume and minimum average daily value traded filters.

"Such additional filters are unique features and [aim to] benefit indices that cover a smaller segment or theme of a market," said Henseler.

There are 17 autocallable notes linked to the Solactive US Select Infrastructure AR Index issued by Canadian Imperial Bank of Commerce (CIBC) from March 2022 to September 2023, SR data shows.

The filter for liquidity constraint has also been recently added to some custom indices in Canada, according to Henseler.

US

The German index provider is making headways in the US market by tapping into annuities, which has seen unprecedented growth driven by fixed index annuities (FIAs) and registered index-linked annuities (Rilas) over the last three years.

At present, Solactive primarily acts as a calculation and verification agent for third-party indices developed by investment banks or asset managers.

The index provider is behind several high-profile underlying indices used in FIAs issued by Athene, Delaware Life and American Life.

"We [also] supply index building blocks for multi-asset custom indices, such as the Solactive 10-Year U.S. Treasury Future Index," said Henseler, adding that certain markets may also be represented by Solactive indices in an overall index strategy.

In 2023, FIA sales totalled US$95.6 billion, up 20% from the prior year, while Rilas surpassed traditional variable annuity sales for the first time, reaching US$47.4 billion, 15% higher year-on-year, according to Limra's latest survey results.

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- Combine data sets with other products and visualise it in the context of the larger business

China's snowballs: higher returns mean higher risk

The CSI 500 and CSI 1000-linked snowball products' approach knock-in levels pushes further market volatility.

A mass of snowball derivative products in China have hit the knock-in levels this month as equities kicked off 2024 with a disappointing performance.

Snowball derivatives, known as fixed-coupon autocallable products, have been gaining Chinese investors' traction in recent years. Most of these products are linked to the domestic CSI 500 and CSI 1000 indices – which fell in value by 11% and nearly 15%, respectively over the past month.

The fuse was heated up when a screenshot of a snowball investor Mr Tang's chat history went viral in the Chinese internet community on 17 January. Tang faced the loss of CNY2m (US$282,000) of principal as well as the coupons after his two-year leveraged CSI 500-linked snowball product reached maturity, with the exercise price 25% lower than the strike price.

Despite a singular, rare case, most knock-ins of snowball products concentrated on 17 and 22 January, one China-based asset manager observed.

"The equity index basis – meaning the futures price minus the spot index value – turned negative on those days, making a big swing in the markets," the asset manager told SRP.

There is no official data on the figure of knock-ins that have accumulated. However, analysts from China's Northeast Securities estimate that since the beginning of the month, around CNY60 billion worth of CSI 500-linked products have hit the knock-in level, while the scale of CSI 1000-linked knock-in has reached around CNY62.5 billion.

Market impact

The intense market moves over the last month have caused concern in the industry over whether brokerage houses' hedging activities may have exacerbated market selling pressure. Generally speaking, brokerage houses need to tackle such dynamics by buying the futures in order to hedge the barrier risk.

According to a senior equity derivatives research manager at a European investment bank, the knock-in level for CSI 500-linked snowball derivatives tends to be at around 75% to 80%, while for the CSI 1000-linked sits at around 70% to 75%.

"You buy the futures as you approach the barriers, but then the problem is once you hit the knock-in, the barrier disappears, and your delta reverts back," he said. "In that case, you need to sell a lot of those futures you bought in order to hedge the barrier because you don't need them anymore. This can cause selling pressure on the downside."

On the brighter side, it is also possible that there can be some offsetting between different barrier levels. Meanwhile, when trading those products, dealers could incorporate the barrier shift – moving the knock-in level model basis lower to reduce the amount of futures they have to buy to hedge, added the investment banker.

The China-based asset manager also attributed the greater magnitude of the futures' decline than the spots' to dealers' reduction of the product knock-in positions as the barrier level got closer.

Yet, investors foresee the dealers' standard hedging move like this, and some investors who fear the looming impact may even make changes to their position in the market.

"It mirrors the so-called 'Murphy's Law,'" said the asset manager, who recalled the last time massive snowball knock-ins occurred on 26 April 2023.

A senior equity derivatives trader at one of the Chinese derivatives houses estimated that the total outstanding notional of snowball products sized at

> "There is no official data on the figure of knock-ins that have accumulated
>
> **Senior market source**

around CNY200 billion. This accounts for 20% of the CNY1 trillion of the average daily turnover trading volume of China's stock market.

Many derivatives houses designed those CSI 500-linked snowball products in the post-covid era with a knock-in barrier level of around 5,000, the prior low since April 2022, the trader noted.

"No investor would expect the CSI 500 would revisit this knock-in level again after China gradually reopened in 2023," he said.

Yet the reality went by contraries. With those products moving closer to the barrier level, dealers tended to buy the respective futures at approximately 300%-500% of the outstanding notional to hedge their risks and sell such futures positions subsequently once the barrier level is breached, based on the hedging model's suggestions, the trader explained.

The concentration of knock-in events is not necessarily creating massive selling pressure on the market, considering the non-one-way hedging direction and the relatively small amount of outstanding notional, he noted.

"However, it does create market volatility near the knock-in level, as there are a lot of buying and selling activities from delta hedging of snowballs," he said.

When asked if designing a deeper barrier would make a difference, the trader emphasised that from a financial engineering perspective, it would render an unattractive yield in the relatively low-interest rate environment of 2022 when investors looked to capture a higher yield, as well as in 2023 when Chinese investors yearned about the market look post-reopening.

"Buying and selling pressure co-exists in terms of the impact of snowball knock-in on the futures market," Mingming Yu, an analyst at China-based Cinda Securities, noted in a January research report.

What's next?

Reflecting on the snowball saga in January, the China-based asset manager sees the latest market tension would make it hard to drive new clients on board such products in the near term, while the brokerage houses may also readjust the hedging models with potentially more conservative quotes going forward.

The trader at the Chinese derivatives house sees the risks involved in these products as known risks and manageable for financial professionals.

"What I'm worried about is whether the retail investors know the risk they are bearing," the trader said. "When the clients brought snowball products back then, market sentiment and outlook were good. People never expect the snowball products could actually knock in."

If, after all, there are any takeaways, providing broader and more comprehensive investor education, such as the concept of risk-reward of structured products, is critical, according to the trader.

"There is no free lunch in the world. Higher return means higher risk. Investors who used to enjoy the glory days and exquisite returns of the Chinese equity market need to know the assumptions and risks they are taking," he said.

HK first covered call ETFs listed on the exchange

Hong Kong's first covered call exchange-traded funds (ETF) have been listed on Hong Kong Exchanges and Clearing (HKEX).

The first two new ETFs listed on 29 February – the Global X HSI Components Covered Call Active ETF and Global X HSCEI Components Covered Call Active ETF – were both issued by Mirae Asset Global Investments (Hong Kong).

They primarily invest in constituent equity securities in the Hang Seng Index (HSI) and the Hang Seng China Enterprises Index (HSCEI), respectively.

'The use of covered calls is an increasingly popular investment strategy as investors look to diversify beyond traditional products, navigate potentially volatile markets and hedge downside risk,' Brian Roberts, head of equities product development at HKEX, said in a statement.

A covered call is a strategy in which an investor sells call options on an asset they already own, generating income in the form of a premium.

It allows investors to benefit from potential asset appreciation up to the strike price, and during times of volatility, the options premiums can provide downside protection to investors, the exchange said.

Roberts noted that while this type of strategy typically requires a level of expertise and involves active trading, 'an ETF that incorporates a covered call strategy can help investors save time, generate passive income, and remove the complexity of managing downside risks on their own.'

Along with leveraged and inverse products, ETFs are part of the large umbrella of exchange-traded products (ETP) listed on HKEX.

In 2023, the average daily turnover in the Hong Kong ETP market reached an all-time high of HK$14 billion, up 17% from the prior year, according to HKEX's data. Singapore is also an active market that has seen the covered call strategy implemented through products.

Korean watchdog slams sellers of HSCEI-linked ELS and sets up compensation plan

The FSS' latest investigation revealed that losses from HSCEI-linked ELS this year could reach KRW 5.8 trillion (US$4.4 billion).

South Korean financial regulators' latest investigation showed they had discovered evidence of mis-selling of equity-linked securities (ELS) linked to the Hang Seng China Enterprise Index (HSCEI), products that had previously caused investor losses.

In a results release on Monday (11 March), the Financial Supervisory Service (FSS) stated its on-site inspection of 11 local banks and brokerage houses conducted since 8 January in relation to large-scale losses in HSCEI-linked ELS confirmed 'poor management of sales policy and consumer protection,' 'incomplete sales at the sales system level' and 'various incomplete sales during the individual sales process'.

Losses from such products are set to reach KRW5.8 trillion (US$4.4 billion) this year if HSCEI remains at the current level, with KRW1.2 trillion losses having already occurred in January and February that amounted to a loss rate of 54%, according to the FSS.

The Korean regulators pointed out that some ELS sellers omitted essential check items when analysing propensity to invest and designed systems to enable sales to investors who are unsuitable for high-risk long-term risk products, such as a 'loss tolerance level of less than 20%' and 'short-term investment desire.'

'Elderly investors with poor hearing were asked to respond that they 'understood' the product details, and investment propensity was raised on behalf of investors who had difficulty visiting branches,' they said.

Meanwhile, when the volatility of HSCEI increases, the FSS found that banks and brokerage firms that sold ELS raised their sales goals and designed performance indicators, while some sellers are forced to raise the sales limit for this product.

Disclosure failings

According to the FSS, although the consumer protection regulations and procedures like the Financial Consumer Protection Act have been strengthened since the 2019 derivative-linked securities (DLF) and private equity fund incident, FSS president Bok-hyun Lee (pictured) said in the press that the regulators had found many parts which 'did not conform to these principles and purposes'.

'We are very sorry that such large-scale investor losses have occurred again [following the DLF incident],' Lee said. 'We hope that investors will receive a reasonable level of compensation and that the dispute will be resolved amicably.'

The Korean financial watchdog's latest probe came after losses hit those who invested in the three-year product as concerns over them breaching their knock-in levels loomed, slammed by Hong Kong equities' sluggishness since their early 2021 peak.

The probes targeted ELS sellers involved in five banks (Kookmin Bank, Shinhan Bank, Hana Bank, Nonghyup Bank, and Standard Chartered Bank Korea) and six brokerage firms (Korea Investment & Securities, Mirae Asset Securities, Samsung Securities, KB Securities, NH Investment & Securities, and Shinhan Securities).

Local media reported in January that Kookmin Bank and Shinhan Bank decided to stop selling all types of ELS.

The FSS said it is difficult to determine the specific scale of the violation yet as the applicable laws differ depending on the time of the violation, and the confirmation of specific sales volume by type of suspected violation has yet to be completed.

To resolve the disputes between sellers and investors, the FSS released draft dispute resolution standards based on the inspection results.

The compensation amount is determined by applying the compensation ratio for each investor, calculated by combining ELS seller factors, such as violations of sales principles, and factors considered by each investor.

Lee said that the FSS plans to expedite the dispute mediation process by holding subcommittees for representative cases, while banks and brokerage houses that sold ELS voluntarily can make compensation via private settlement in accordance with these standards.

'After-sale efforts, such as compensation for customer damage by the seller, we plan to take this into account when determining the level of sanctions, such as fines, in accordance with relevant laws and procedures,' he added.

UBP: non-flow activity pushes notional by 30%

The Asia Pacific (Apac) arm of the Swiss private bank has seen its structured products trading notional jumping 30% year-on-year (YoY) in 2023.

Leveraging structured products beyond as traditionally seen yield enhancement instruments during economic woes has brought focus into the industry, including Union Bancaire Privée (UBP).

The Swiss private bank has now focused more on utilising structured products to improve the risk-reward profile of wealth management clients, positioning them as alternatives to cash equity or cash bond, according to Karrie Fung (pictured), head of wealth management sales and execution, Asia at UBP.

"With a lot of uncertainties, there's no conviction in the market, so one of our main objectives for 2023 was to mitigate risk for the clients' portfolios," Fung told SRP.

"For many investors, it's a matter of deciding whether to put their money in a deposit, which is four to five percent per year, or opt for a lower guaranteed return but gain exposure in uncertain markets that have potential upside," she said.

Reflecting on 2023, Fung emphasised that the high-interest-rate environment has boosted the monetisation of structured notes, especially those with 100% minimum redemption features.

The trading notional for structured products at UBP Asia in 2023 soared by over 30% YoY, with the highest growth coming from non-flow products.

According to Fung, fixed-coupon notes (FCN), one of the bank's "bread and butter" products, were well-received but still had the potential to rebound in volume as the equity market swung by low implied volatility in 2023.

Minimum redemption twin-win notes, which wraps the minimum guarantee return and allows investors potential participation in both the upside or downside of the market movement, also gained traction.

New addition

Actively managed certificates (AMCs) linked to structured products managed by the bank's discretionary portfolio management team are one of the newest products on UBP's catalogue - they offer exposure to a basket of up to 50 structured products on indices and stocks. According to Fung, the objective of this product is to generate a regular attractive income while benefiting from a buffer on the downside.

"Traditionally, the fixed-coupon note is quite static – you buy and hold to receive your coupon," she said. "[The AMC] structure provides more diversification in terms of underlying and strike levels, especially when the market changes quickly."

UBP isn't the only one that has foraged into the AMC wrapper over the past year. London-based fund management firm CrossBorder Capital revived the Kintore XAU/FX strategy via a new AMC, issued by UniCredit Bank, as SRP reported in December.

Last April, Timber Finance also partnered with Zurcher Kantonalbank to launch an AMC tracking the performance of the Timber Finance Carbon Capture and Storage Index which incorporates the carbon benefits of mass timber construction.

Geographic-focused strategies

Within the Apac region, investors in Singapore have grown a longer-duration risk appetite compared to those in Hong Kong SAR, where one-year or short-term capital structure is more often seen, said Fung.

With a sluggish year in the Hong Kong equity market, demands for FCNs or accumulators tied to Hong Kong equity underlying dropped. Yet, this prompted Fung and her team to develop recovery strategies depending on the client portfolios.

As the new year kicked off, the bank will be focusing not only on the US markets but also on Asia markets like Japan and India, Fung said.

"If we look at the investor portfolio in Asia, most of them are still US dollar-based," she said. "One approach we can propose to clients is to use the US dollar denomination for structure notes linked to Japanese equity underlying."

"Thanks to elevated USD rates, solutions like minimum redemption note which allows investors to participate in the Japanese major equity index with limited downside risk, remain feasible," she added.

CITIC forays into HK's listed structured product market

The offshore arm of China's CITIC Securities has launched two derivative warrants on Tuesday (27 February), three trading days before the official listing as required by the HKEX.

CITIC Securities Brokerage (HK) Limited will list its first batch of derivatives warrants (DW) on the Stock Exchange of Hong Kong (HKEX) this Friday (1 March), comprising one call and one put linked to Trip.com.

The offshore arm of China's largest securities house by assets, also known as CITIC CLSA, has been working on the launch since 2021 and obtained the licence approval from HKEX as a listed structured product issuer earlier this year, according to Charles Chung (pictured), associate director, equity derivatives listed products trading at CITIC CLSA.

The CI-TRIP@EC2409A has a strike price of HKD460 (US$59) due on 2 September 2024, issuing at HKD28 cents with an issuing size of 40m units, while the CI-TRIP@EP2409A has a strike price of HKD320 due on 2 September 2024, issuing at HKD25 cents with an issuing size of 40m units.

"With our rapid growth in recent years and leading position in mainland China, we wanted to expand our business in the Hong Kong derivative warrants market and strengthen our international presence," Chung told SRP.

According to Chung, the notional of structured products traded by CITIC CLSA's equity derivatives department across onshore and offshore was over US$5 billion in 2022. The notional figure for 2023 is not available yet, but the house has recorded year-on-year growth, said Chung.

With the upcoming new listing, CITIC Securities Brokerage (HK) Limited becomes the 19th issuer in Hong Kong SAR's DW market following the additions over the past year: Korea Investment & Securities Asia which debuted last December and Huatai International in June. It's also the fifth issuer from China after Bank of China International, Haitong International, Guotai Junan Securities, and Huatai.

The Chinese issuer's entry coincides with a challenging equity market in Hong Kong which is struggling to get back on its feet. The city's benchmark gauge, the Hang Seng Index, recovered from its January low to sit around the 16,000 level but was far from its early 2021 peak set at 30,000.

"Although the overall market in Hong Kong is not performing well, we are issuing DWs on the back of the Trip.com stock since it has outperformed this year so far," said Chung.

The travel platform operator's Hong Kong-listed shares have gained roughly 30% year-to-date to an all-time high of HKD376.4 on Monday (26 February) before it slightly retreated. CITIC Securities Brokerage (HK) Limited's DWs are hedged with stocks and options, in line with market practices.

Underlying shift

Chung, who has over a decade of industry experience and joined CITIC CLSA from Haitong Securities in late 2021, has been preparing for the launch along with a team of over 10 at the equity derivatives team, including traders, sales, system developers, and compliance officers.

According to Chung, investor demand for DWs tied to blue-chip stocks such as Tencent and Meituan has declined and shifted towards industry sector focus.

"Market volatility has decreased over the past year, so investors also grew their interest in Callable Bull/Bear Contracts [CBBCs] rather than in derivatives warrants," he said.

CBBCs, also an integral part of the listed structured products in Hong Kong SAR, have a built-in knock-out mechanism. CBBCs' prices are driven by underlying moves compared with DWs, which have the characteristics of time decay.

Following the initial launch of DWs, CITIC Securities Brokerage (HK) Limited aims to expand its product suite by listing CBBC on HKEX later in the summer, according to Chung. Meanwhile, with the US equities' rally that has captured Hong Kong investors' attention, the Chinese issuer also hopes to issue DWs linked to US stocks and indices.

Challenging environment

The listed structured product market in Hong Kong SAR has seen a recovery sign but still has a long way to go compared with its early 2021 peak.

Data from HKEX shows that the average daily turnover for DW stood at HKD5.9 billion (US$694m) in January, slowly recovering from its September and October 2023 low of HKD4.9 billion, respectively.

CBBCs also saw a similar trend, with average daily turnover reaching HKD6.4 billion, sliding from December of HKD6.5 billion but rebounding from the low from last September and October of HKD4.8 billion, respectively.

DBS Taiwan: US tech stock-linked notes in high demand, Taiex rally triggers switch

Taiwan becomes the Singaporean bank's second largest market for US equity-linked note issuance in 2023.

Taiwan embraced a thriving year for its structured notes business in 2023.

SRP data shows that in Taiwan, Singaporean banking giant DBS issued some 6,821 structured notes last year, hitting nearly 1.7 times higher than the 2022 figure, which recorded 2,550 notes issued in the market.

The latest issuance figure also pushed the Singaporean bank claim as the top issuer with a 22% market share in the jurisdiction.

Semiconductors, tech and the automobile industry were the overarching themes of underlying that are often seen in a shared basket of equities, such as Tesla (2,169), Nvidia (2,051), Advanced Micro Devices (2,004), American Airlines (1,115) and Taiwan Semiconductor (705), similar to last year's trends.

Taiwanese investors have a high acceptance of US tech stock-linked structured products, compared with Hong Kong and Singapore's investors and businesses, according to Jennie Huang, treasury and markets head of advisory sales at DBS Taiwan.

The market's astounding performance stemmed from the rally of equities and the higher yield that investors captured from wealth management products versus investment-oriented insurance policy products (ILPs) in the past, Huang told SRP.

"Back in 2021 when the interest rates remained low, those investors who have more conservative views flock money into investment-linked policies," she said, adding that those ILPs, sold by insurance companies, usually offer benefits of investment and life insurance protection and aren't subject for income tax.

"But with the increasing interest rates in 2023 and bull run in Taiwan's equities, we saw some of the investors choose to do early redemption and switch to wealth management-focused products such as structured products as they offer better returns now," she said.

The Taiex, the Taiwan Stock Exchange's benchmark weighted index, rose over 26% in 2023 to 17,930.81, hitting the index's second-largest annual increase. The trend continued in the Year of the Dragon: on Thursday (15 February), the Taiex was up three percent reaching a record high of 18,644.57.

Huang noted that 90% of DBS Taiwan's structured product offerings are equity-linked notes, while the remaining are tied to interest rates.

According to a bank's spokesperson, Taiwan is the second largest market of its US equity-linked note issuance for DBS in both 2022 and 2023. In 2023, its domestic market Singapore remained the largest market, while Hong Kong SAR came in third.

Other issuers such as Morgan Stanley and UBS have also seen their issuance amount jump, a 129% year-on-year (YoY) increase to 4,614 notes and 54% YoY increase to 2,885 notes, respectively, SRP data shows.

DBS' Huang and her team hope that more varied asset classes, such as ESG-focused products and fixed income, currencies, and commodities (FICC), can be introduced to Taiwan in the near future.

"

Investors choose to do early redemption and switch to wealth management-focused products such as structured products as they offer better returns now

Malaysia market overview: cap prot in focus, investment themes diversify

While large-cap equities' narratives are maintained in the Malaysian market, some local stocks' rallies also prompt flows to return to the related structured products at the end of 2023.

Principal-protected structured investments have been revived across structured products markets globally as interest rates stay higher for longer. Malaysia has been no exception.

Maybank is among the Southeast Asian banks to have witnessed investors' risk appetite shift into principal-protected products from capital at-risk structures.

In 2023, Malaysian banks' traded notional for shorter-dated structures such as fully principal-protected sharkfin notes and sharkfin twin-win notes which jumped 283% year-on-year (YoY), according to Sing Foong Ho (pictured), head of equity and commodity derivatives at Maybank Investment Bank (Maybank IB).

"With the heightened interest rate environment, the pricing of equity-linked capital protected investments became generally more attractive," Ho told SRP.

In its home market, Maybank has seen its overall structured product sales volume rise by 33% in 2023 compared with 2022. But that wasn't enough to capture the entire market dynamics in Malaysia over the past year.

Despite the noticeable pivot to principal protection, Ho noted that for those investors that are opportunistic and selective, the autocallable structure remains in favour as it provides "strong income potential" to enhance an investor's portfolio yield, accounting for most of the bank's sales volume in Malaysia.

Equity-linked notes, accumulators and decumulators linked to large-cap developed market equities, especially in the US, Hong Kong and Japan, are also among the popular payoffs structures over the past year, added Ho.

Themes emerge

In 2023 – which saw Malaysia's benchmark, the FTSE Bursa Malaysia KLCI, grapple with a two percent drop to 1,455 – large-cap equities remained in focus for structured products issuance, with the most popular underlying assets being foreign large-cap names.

"Lack of clear trading opportunities coupled with lower volatility in the local stock market prompted us to pivot from our typical issuances over local single-stock underlying, to focus on foreign mega-cap stocks as our underlying stock selections such as Apple, Google and Nvidia," Ho said.

In the meantime, thematic strategies are appearing on the horizon of the Southeast Asia market, surrounding sustainable investing, economic recovery, and next-gen opportunities. This brings more diverse narratives to the market.

"Exchange-traded funds [ETF] and global indexes are increasingly popular underlying assets for these products as investors prefer broader exposures and thematic opportunities linked to the likes of the Hong Kong-China stock market recovery story, and gold price performance over the last year due to dovish pivot in US interest rates and persistent geopolitical risks," Ho said.

Towards the end of 2023, things started to shift back to home - improved flows

"Global indexes are increasingly popular underlying assets for these products as investors prefer broader exposures and thematic opportunities

returned to call warrants and structured products linked to Malaysian equities related to certain sectors that "were enjoying positive news flow," Ho said.

"For example, news on investments and economic developments in Malaysia's Southern region provided a boost to stocks such as Ekovest, YTL and YTL Power as well as some property-related names like UEM Sunrise, SP Setia, and Eco World," he said. "We expect this momentum will continue into 2024."

YTL Power was one of the Malaysian stock market's top gainers, soaring over 250% in 2023, while UEM Sunrise's shares also gained around 219% over the past year, Yahoo Finance data shows.

Philip Lim (right), group head of equity derivatives at Kenanga Investment Bank Berhad, also observed a similar trend with investors shifting their risk appetite towards "more focused trading strategies" over the past year.

"Instead of dispersing their investments across a wide range of warrants, there is a discernible trend towards concentrating on a select few highly traded counters," he said.

Kenanga's structured warrant issuance increased from 210 in 2022 to 261 in 2023, with average daily volume increasing roughly seven per cent year-on-year to 69 million structured warrants, according to Lim.

He noted that the bank's structured warrant market share by issuance in Malaysia increased from around 10% in August 2023 to around 30% in January 2024 – the majority of which it attributed to its issuance of Hang Seng index-related options.

In 2023, the SRP database registered a total of 1,497 structured warrants issued in Malaysia by a group of seven issuers, led by Macquarie Capital Securities which saw 398 warrants debuting last year.

Out of 1,497 structured warrants, 1,155 are single stock-linked asset classes including local e-government services provider MY E.G. Services (58) and resort operator Genting Berhad (34). There were also 334 structured warrants on the back of a single index driven by the Hang Seng Index (222) and FTSE Bursa Malaysia (48).

Additionally, eight ETF-linked structured warrants issued by Macquarie Capital Securities also appeared in the market: six were linked to iShares FTSE A50 China Index ETF (HKD) and CSOP FTSE China A50 ETF (HKD).

Looking ahead

The current challenge of Malaysia's structured product market is that the products are generally sold to wealth management investors, Ho noted.

"We are looking forward to higher adoption rates in other investor groups – institutional investors, asset managers and fund management companies," he said.

The bank has a positive outlook on the Malaysian equity market in 2024 after a period of mixed performances in the past few years and looks forward to bolstering its Islamic structured product offering.

Korea court clears Hana Bank chair for mis-selling DLF penalty

The latest ruling overturns the first trial's ruling in March 2022, which dismissed the bank's then-CEO and other executives' pledge to clear out the penalty for the DLF fiasco.

The Seoul High Court has ruled partially in favour of Hana Financial Group chairman Young-joo Ham (pictured below) in a lawsuit filed against the financial institution in relation to the disciplinary penalty he received from financial authorities over subsidiary Hana Bank's misselling of derivative-linked funds (DLFs).

[We] respect the ruling of the second trial court and plan to carefully review the ruling and decide on future positions, including whether to file an appeal

The Court stated that the existing sanction against Ham was 'excessive' and it was 'necessary to [re-adjust it],' according to a joint statement issued by the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS).

The ruling in the second trial overturned the first, handed down in March 2022. The Court back then ruled against the plaintiffs' appeals – including those of then-CEO Ham and other executives – requesting to clear the penalty, and the cancellation of Hana's business suspension and other dispositions, imposed by the FSC and FSS, on the back of the DLF misselling. In the latest ruling, however, the six-month business suspension remained 'legitimate,' the statement said.

'[We] respect the ruling of the second trial court and plan to carefully review the ruling and decide on future positions, including whether to file an appeal,' the Korean financial watchdogs said.

A representative for Hana Bank could not be reached for comment as of press time.

Local media reported that Hana Bank said it will consider the DLF case as a chance to serve its customers in a 'more thoughtful manner.'

'We will make sure that our internal control works effectively to maximize convenience for customers and other involved parties,' the bank stated.

SRP Europe 2024: VFM can provide a counter argument against proposed commission ban

Panellists shared thoughts on the latest regulatory landscape in European markets during the SRP Europe 2024 conference in London held between 18 and 20 March.

The panel discussion was kicked off by Thomas Wulf, secretary general at European Structured Investment Products Association (Eusipa), which represents 10 European structured products markets, speaking about the industry's differing views on the EU Commission's plan to ban inducement-based sales of financial products.

Back in January 2023, the EU Commission's plan to ban inducement-based sales of financial products from banks and insurance companies raised the industry's eyebrows as several European trade associations noted they would be a 'serious setback' to the EU's capital markets and limit choice for consumers.

Wulf observed that the EU Commission proposed a partial ban, while political groups in Parliament favour a full inducement ban.

Now, with Belgium – the current rotation of the European Union presidency – coming up with a compromised proposal, "you also see on a parliamentary level, one entity, the presidency in charge of the council, finds a compromise between the member states," he said.

"The opinion spectrum is very entrenched," he said. "It's something which I do not see fly, but it's something that is still subject to discussion."

VFM framework

Embracing the value for money (VFM) level, he noted a potential way out for business via the benchmark idea to measure the cost performance ratios against which the products are scored.

"Both the council and the parliament are currently looking for an alternative to the Commission proposal that is somehow less burdened with practical issues," Wulf said. "If you implement the provisions

> Both the council and the parliament are currently looking for an alternative to the Commission proposal
>
> **Thomas Wulf**

proposal and have this naive ambition to establish a quantitative benchmark, across asset classes and markets and jurisdictions, it's almost unfeasible."

While agreeing with Wulf on the idea of value for money, Dario Savoia, secretary general at Acepi, Italy's trade body for the structured product industry, said leveraging data and surveys to monitor product costs and maintain cost controls is one of its priorities, as is "picking out barriers for cross-border banking and financial services".

Patrick Scholl, partner, head of capital markets and regulatory practice at law firm Mayer Brown, noted that using "plain language" in documentation is critical to standardisation. "Our preferences are less regulation and more liberalisation to [help reduce] the problems of costs for documentation," he said.

ESG standards

Looking at regional markets, in Germany, which is a mature market for structured products, the idea of ESG investing remains in focus, said Annekatrin Kutzbach, senior legal counsel at German Structured Securities Association (Bundesverband für strukturierte Wertpapiere or BSW).

She noted that taking ESG information into consideration is crucial as investors are increasingly interested in suitable investments. "Structured products are a good tool to combine with ESG investment… [ESG] transparency and comprehension are crucial, but where do we put this information?" she continued.

"It needs to be inserted in prospectuses. The problem lies in the limitation of the three pages, but also, which information exactly needs to be included. [That] is very much still a debate."

Kutzbach said the German government's recent proposal wasn't being supported in recent industry discussions.

Meanwhile, in the central European market, Michał Karwasiński, a member of the board at the Polish Council for Structured Products, spoke about working with local legislation to establish rules and standards for how structured products can be issued and distributed in Poland.

"We're at the moment where regulation in terms of distribution of structured products is really friendly – that's probably the reason the turnover of listed structured products grew last year," Karwasiński said.

Solactive expands single stock range

Solactive has announced a collaboration with UK exchange traded products (ETPs) provider Leverage Shares to develop both fixed basket and single stock indices that will underpin Leverage Shares' new suite of long and short leveraged ETPs launching on the London Stock Exchange (LSE).

Solactive will calculate the indices with Leverage Shares providing geared market exposure through various asset classes and long/short strategies.

The ETPs tracking the new Solactive Indices include a 5x long and a -3x short ETPs tracking the Solactive Magnificent 7 Index; a 3x long and a -3x short ETPs tracking the Solactive US Artificial Intelligence Index; a 3x long ETP linked to the Solactive 3x Long IONQ Index; and a 2x long ETP linked to the Solactive 2x Long SMCI Index.

The ETPs list on 26th of March on the London Stock Exchange.

SRP Europe 2024: automation – from incremental to exponential

A group of five panellists including fintech companies and banks discussed the transformation brought to the market by technology and automation at the SRP Europe Conference 2024.

Artificial intelligence (AI) has undoubtedly become a buzzword in the fintech world as the buy-side mulls over how technology can help structure existing portfolios and generate dashboards to grow and manage their structured products activity.

However, "AI is not everything", noted Susan Niederhöfer, global head of sales at Frankfurt-based LPA Group.

"In order to increase the level of awareness of the buy-side to use platforms and additional sales channels, [the focus should be on] marketing these instruments and those platforms correctly," she said, noting the importance of automation in streamlining internal processes.

There's been a significant change "from incremental to exponential", specifically from automation of paper-based processes to scalability and growth.

According to Niederhöfer, it's not difficult to offer bespoke products, or "complex products", via platforms, but there are still issues around the lack of consideration for the entire value chain among issuers and manufacturers.

"The more customised something is, the more need you will have for a human being to be part of this value chain," she said.

Nowadays structured product is a "technology-enabled" business, which covers pricing, execution, product creation, distribution to life cycle management, said David Wood, managing director at Luma Financial Technologies.

"One of the unintended consequences of regulation is that it actually forced the industry to go through a much more systematic process in terms of how it runs the [structured products] business", said Wood.

> "[There is] increased attention to the whole life cycle of products as end customers expect a higher level of service than in the past

David Wood

Headquartered in Cincinnati, the buy-side focused fintech provider which now has a global footprint delivers customisable solution to discover, research, purchase and manage structured products.

Regional differences

Wood highlighted common elements across markets - Asia, Europe, Middle East, Latin America, Africa besides US - despite behavioural differences.

"Automated pricing has been very common in Europe and Asia for quite some time. But it was nearly impossible to get an auto price on a multi-issuer platform in the US three years ago," he recalled.

For the US market where Luma currently houses around 20 issuers that provide automated pricing, it is very heavily focused on building and adding distribution process around products, which includes education down to the adviser level.

"We're seeing that flow back down into the European market now," said Wood, adding that a key focus for both markets is an increased attention to the whole life cycle of products as end customers expect a higher level of service than in the past.

Wood noted that there is "a real change" in Luma's home market, which is not necessarily at the same level as in Switzerland where investors can get bespoke products for as less as CHF10,000.

"But the US will get there one day," he said.

Gurpreet Kharaud, global head of equities digital markets at J.P. Morgan, echoed on the regional differences when it comes to usage of structured products platforms.

With the Asian market being the poster child, the US investment banking giant has replicated the model to leverage the same core technology investments in Europe and the US.

One-stop-shop

According to Kharaud, a key factor of automation in Asia is the level of "low touch in zero times", meaning that sales and trading have had "de minimis involvement" in Asia where almost 99% of the bank's structured product trades are transacted via its SI 360 platform whereas the proportion comes to approximately 90% and 60% in Europe and US, respectively.

"Our goal is to have an omni channel approach. It depends upon the market, the client and the appetite," said Kharaud.

Subject to trade volume, J.P. Morgan offers a range of options including multi-issuer platform, application programming interface (API) and email pricer.

Portfolio management and lifecycle management are key to investors from a technology standpoint while issuers' ability to provide markets for secondary also makes a difference and gives an edge, said Elias Milan, global head of exotic products e-business at Société Générale corporate and investment banking.

According to Milan, investor education remains a critical factor to achieve scalability. "Accessibility and suitability of the products and their regulatory path is helping us in this matter," he said.

At ERIYA, a Swiss financial services start-up the aim is to bring one-stop access to structured products and asset-backed securities via an investment factory platform and multi-asset trading services to the buy-side, including asset managers, family offices, independent asset managers, banks and pension funds.

Sandro Schmidlin, managing partner & founder at ERIYA noted that platforms can also help to closely interact with the buy-side from idea generation before the execution.

"Technology for structure products is not only just about the optimisation of the fitted structure, [but also] to define and evaluate the underlying [exposure]," he said.

"Therefore, we have an order system for clients, which is an equity selection tool based on fundamental and quantitative research."

The Swiss firm currently works with 16 companies on the sell-side offering around 20 technology solutions including email processor and optimisation tools.

"What we see from our clients is a demand for a combination of technology and personal advice," said Schmidlin.

SRP Europe 2024: finding the wrapper that suits the circumstances

Funds of structured products were discussed by panellists on day one of the SRP Europe 2024 Conference.

Structured products have gone full circle from being manufactured, sold, or bought to being actively managed within a fund, according to Frank Copplestone, chief executive Levendi Investment Management, whose Levendi Thornbridge Defined Return Fund, launched in 2017, manages assets of over £110m.

"In the last decade we have seen a move away from discretionary fund managers buying individual structured notes to put into a quasi-portfolio for clients, to the handing over the decision making on buying those notes, looking at real diversification, value and origination of your own products," said Copplestone. "This has led to the advent of the fund structure," he said.

Clive Moore, managing director IDAD, and portfolio manager of the company's MGTS IDAD Refined Growth Fund, said UK advisors are moving to central investment propositions or CIPs.

"Advisory firms need products that match their delivery mechanism, are available across platforms, and can be integrated with current valuations.

"Structured product funds are an open-ended delivery of investments. Whatever the wrapper is, it is about finding the one that suits the circumstances, and then delivering the benefits of structured products in a format that suits whichever audience you are talking to and whichever market you are in."

The key is that the industry has gone from a product approach to a solution approach, according to Oumar Diawara, CIO structured products at Ostrum Asset Management.

"[An increasing number of] private banks are looking for a fiduciary partner that will help them build a portfolio, monitor the portfolio, and deliver something that makes sense for the client and not just one individual strategy," Diawara said.

When it comes to the evolution of funds of structured products across various regions, Europe, where the managed portfolio has been around for 10 to 15 years, is ahead of the US, although in the last few years more US issuers have started working with separate managed account (SMA) products, which have caught the imagination of the US market, according to Copplestone.

Several US issuers have brought simple structured product SMAs to the market, including Goldman Sachs which got around US$15 billion for an offered product and more significant issuers and registered investment advisors (RIA) are looking to launch SMA products.

These are essentially the same as the national pension scheme (NPS) products that were seen in Europe 10 years ago.

"That is the first step for end-users, retail clients having a managed solution in the US around structured products. I do believe it is a stepping stone and that in the next five to 10 years, the fund wrapper will be the access of choice around having a professionally managed portfolio," he said.

According to Moore, in Asia and Latin America there is a far greater focus on individual portfolio management and performance rather than on running model portfolios, while in the UK there is much more focus on investments being a solution.

"Clients have a pot of money, and it is about determining what their objectives are with that pot of money and trying to achieve them as easily as possible," said Moore, adding that in the UK there is a slow but persistent move back to fund structures to hold portfolios in.

"That is a combination of changes in tax treatments, and the efficiency of running models within fund structure rather than across multiple platforms with dealing."

When Diawara speaks with clients on structured products, he tells them to break them down into three parts: the strategy, the content and the wrapper. "Some of the strategies we do in Europe are also done in the US, just not with the same wrapper."

When it comes to diversification in funds of structured products, it's not just down to issuer exposure, but also underlying exposure as autocalls are becoming increasingly complex with many linked to a worst-of basket of two or three stocks or indices.

"The underlying dynamics, the Greeks, can move significantly in a worst-of space so there is a lot of focus on looking at the balance between real market delta exposure to underlyings," said Copplestone.

Moore sees most advisors from family offices and private banks running their portfolios with allocation to different buckets, although there are surprisingly still many that run 60/40 portfolios with equities and bonds.

"Most portfolio managers now also have an allocation to alternatives which includes anything else they can't easily categorise as equities or bonds, so the argument would be funds of structured products are kind of hybrid," he said.

Often, as Diawara presents structured products to clients, he projects them as an iceberg, as investors only see the coupon and the risk level of their investment, but not what is below the surface.

"What is not in their mindset is the added value they have, the entry points, the valuation, liquidity, all the components of the structured products that we master, that we are going to manage for the clients.

Looking at 2024 and further ahead, Copplestone does not expect a significant amount of performance in the markets.

"There is uncertainty in the interest rate environment, and I hope that we don't see any more geopolitical risks or any significant central bank interventions. I would ask for a bit of calm in the markets and if this year or next year, we could have modest returns, even single digit returns in the markets, I would be very happy and somewhat relieved," he said.

Moore is also longing for a return to normal interest rates. "Running with three, four or five percent interest rates in major currencies helps the financial system a lot better," he concluded.

"

The fund wrapper will be the access of choice around having a professionally managed portfolio

Frank Copplestone

SRP Europe 2024: moving to a hybrid flavour

Deleveraging, hybrid baskets and the impact of platforms on bespoke structured products.

In Europe, companies are deleveraging, according to participants of the Wide angle: trends and opportunities panel, which kicked off the SRP Europe 2024 conference in London on 19 March.

We start to see much more multi-asset baskets - equity ETFs, bond ETFs bundled together in baskets that are being used as the underlying for structured products - Rahul Vyas, Barclays

The deleveraging is happening economy wide, in private sector companies, the household sector, mortgage lending and credit, said Harry Colvin, director and senior market strategist, Longview Economics, who moderated the panel.

"It is across sectors and hasn't happened since the eurozone crisis and then before that the GFC," Colvin said.

Although the overall picture is uncertain, there are indicators that towards the end of the year there is the potential for more growth.

"Interest rates are going to be higher for longer," said Juan Ramón Domínguez Recio, European head of investment solutions at BBVA, adding that deleveraging is good in the long run.

The current macro environment is also helping to diversify payoffs and underlyings for structured products.

More structured products are having a hybrid flavour, according to Rahul Vyas, managing director, equity derivatives structuring at Barclays.

"We start to see much more multi-asset baskets - equity ETFs, bond ETFs bundled together in baskets that are being used as the underlying for structured products, whilst there is also a flight to safety, with capital protection products linked to gold or gold ETFs," he said.

Moving away from the Greeks, equity, and rates environment, 2024 is a big election year for the US, India, and the UK, and as a result structured products have appeared using underlyings that take advantage or express views on those elections.

Vyas has seen plenty of Trump baskets, comprising companies that will benefit

> "We are starting to see wealth managers design very bespoke structured notes for individual investors
>
> **Rahul Vyas**

from greater exports from the US versus imports, whilst there is also a renewed interest in Indian equities as underlying for structured products.

"We cannot ignore the US tech boom either as the Magnificent Seven remain [popular] underlyings for structured products."

In fixed income, investors are looking for credit-linked product as they as they hope to "lock the carry with longer financing", said Francesco Solazzo, head of investment products and co-head of fixed income solutions, Mediobanca.

"Autocallables are always going to be a staple part of the structured product diet, but there has been a significant shift towards capital protection products, driven by the rate environment," said Vyas who added that equity volatility remains very low compared to history.

"Despite the various geopolitical events taking place across the globe, none of those seem to be a strong catalyst for causing equity implied volatilities to suddenly elevate.

"Having said that, while equity volatility remains low, interest rate implied volatilities are very high and that allowed for better pricing of issuer callable products," he said.

Colving asked panellists whether they had seen any kind of volatility suppression happening because of over usage of structured products.

In Europe and the US, the realised volatility and correlation has been historically low, but in Asia there was a concentration of products linked to the Hang Seng China Enterprises Index, according to Domínguez Recio. "That was a reminder of the times that volatility was mainly driven by our structured products on the Eurostoxx 50 and S&P 500," he said.

Equity valuations in many cases remain high and Vyas believes there are plenty of investors who are still interested in monetizing that remaining uptick in equities, "even if they don't think equities are going to the moon".

"The way I see people doing that, in particular in the US market, is having leveraged exposure to the equity upside, but having a cap, you monetize in an accelerated way," he said.

The emergence of platforms has helped to industrialise and automate the structured product marketplace, panellists agreed.

"We are able to achieve a much greater penetration of structured products and investor portfolios across the globe in a much more efficient way," said Vyas.

Many years ago, standardised structured products with standard features were distributed through providers running campaigns.

They were sold to the broader marketplace, but without any kind of customisation and there were hardly any bespoke structured products.

"We are starting to see wealth managers design very bespoke structured notes for individual investors and they are able to execute that very quickly in a cost-efficient manner through those platforms," said Vyas.

STOXX rolls out Ucits-aligned range, 10% stock weight caps

STOXX has introduced a family of Ucits-capped DAX indices that comply with single-stock weight limits in the European Union directive including the DAX Ucits Capped, HDAX Ucits Capped and CDAX Ucits Capped. 'With the launch of the DAX Ucits series, we are reacting to market needs by providing a solution that especially buy-side clients can benefit from,' said Batir.

Additionally, the index provider has launched the DAX Selection Indices with a maximum component weight of 10% including the DAX 10% Capped, MDAX 10% Capped, SDAX 10% Capped and TecDAX 10% Capped.

SRP Europe Conference 2024

The 21st SRP Europe Conference took place on 18-20 October in London. The 2024 edition brought together around 400 senior executives from the structured products industry for a three event and networking at etc.venues, 155 Bishopsgate in the heart of the City.


SRP
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Awards 2024


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SRP Europe 2024:
Personality of the Year: Thomas Wulf

The secretary general of the European Structured Investment Products Association (Eusipa) is the recipient of this year's SRP Europe Personality of the Year award, after securing the most votes from market participants in the SRP Europe 2024 survey.

> Regulation is not the main issue when it comes to removing bottlenecks

Thomas Wulf has been a driving force for the European structured products industry to engage in the regulatory with one voice. Having trained as a lawyer in Germany his interest has always been driven by political and economic issues hiding behind regulation rather than the legal technicalities.

"While mastering the latter is important it always is the capability to grasp the drivers behind a certain legal issue that tells you why things get stuck or move in a certain way," says Wulf (pictured).

Before joining Eusipa in 2012, he worked at law firm Linklaters where he held several roles in Germany and Belgium for almost seven years after a two-year stint as an analyst EU policy at Commerzbank in Brussels.

"I had the pleasure to position one of the magic circle law firms in their business development efforts across Western Europe something that works a lot easier when you understand what a law firm is actually earning its money with a bit more detail," he says.

In his role at the helm of Eusipa, he has taken on a "wide variety of hugely different tasks and responsibilities many of which are linked to ensuring quite simply that all operations run well". However, on a day-to-day basis most of the emphasis has been coordinating the advocacy, PR and media work.

"This is only possible with the help of many colleagues across the industry engaging on a voluntary basis and of course our collaboration with excellent external service providers who helps us achieving the deliverables our members need while keeping costs down," Wulf says.

How did you become involved in structured products?

Thomas Wulf: Having worked in commercial and managerial roles for a couple of years I wanted to go back or closer to politics again as area that I always had a strong interest in, while not losing all the insights at the commercial end. Structured products issues were back then looking to professionalise the association my predecessor helped setting up and so in the end we found each other.

What is the most important event you have witnessed in the SP space?

Thomas Wulf: Having seen the banking crisis from within at my law firm where as of 2006 in Brussels I was the key account manager of major Belgian financial player Fortis Group (today mostly owned by BNPP) I was impressed to see that it was the structured products business coming up with a market solution for issuer solvability concerns, namely COSI (collateralised certificates) developed by the Swiss and German colleagues and based in ECB-eligible collateral assets safeguarding any investor against issuer default, in case their fear such, for a relatively moderate price.

It is the market's answer to Lehman Brothers. It is luckily not widely known as not many investors seem to have such concerns but it this there and you can have it. Innovative structuring at its best.

What would you highlight as the main achievements of the SP industry over the last few years?

Thomas Wulf: Structured products have as many other asset classes seen a very tight and difficult market environment when central banks flooded the economies with cash, euphemistically called Quantitative Easing. The resulting negative and zero interest rate anomaly hopefully remains a black swan in my lifetime as it turned things upside down across the entire banking industry.

Capital protected products, being one of the main asset classes of the SP industry could not be offered any more. The fact that we successfully managed to get out or this downward spiral still is a remarkable achievement in eyes that is evidence for the resilience of structured products based ultimately on the many different roles they can play in a portfolio.

How would you describe the industry landscape in Europe?

Thomas Wulf: Broady speaking you can distinguish markets between those that have a strong listing and on exchange trading dominance, such as Austria, Germany, Switzerland and Italy.

Others though have traditionally an OTC structure not involving exchanges, such as Belgium or Spain, while some of these markets prefer structured products solutions, insofar as investment products are concerned in the format of tax-privileged wrappers. That relates to insurance products in France or the investment plan format in the UK.

Leverage products on the other hand are broadly similar across all major European markets both in terms of their payoff structures (think of warrants and turbos) as well as their issuance and trading which always is MTF or stock exchange based.

What are the major regulatory changes or issues affecting your/the market now?

Thomas Wulf: We are seeing activity at all ends. There obviously is, quite prominently the Retail Investment Strategy pushed forward to remedy assumed shortcomings or investment bottlenecks in the current PRIIPs, MIFID, UCITS, IDD and AIFMD rules which however is seen as increasingly as a political profiling exercise that does not add much value to really increase retail investment in capital markets.

The feedback which the Commission has encountered both in parliament and council is quite illustrative in that regard.
An area where a lot of legislative activity is going on relates to the ESG area,

What in your opinion are the changes needed to make the structured products market more successful?

Thomas Wulf: I do not think that our prime issue is regulation when it comes to removing bottlenecks in the market. With a few national exceptions we are exposed to the same density and depth of regulation as is the entire financial retail industry.

The ball is clearly in our camp when it comes to re-educate our work force on the benefits SPs can deliver in a portfolio and broader investment context, something that has seen for the reasons discussed above in the previous years not the same amount of engagement. The tide is turning though given the already mentioned market constellation which in many ways is beneficial to our product offering.

Is there a need for an ESG regulatory framework to increase adoption, address greenwashing issues?

Thomas Wulf: We would indeed favour including structured products into the scope of any recast SFDR while doing so necessitates from our perspective a clear definition effort in terms of what constitutes a relevant ESG enhancing impact of a financial product including its components and /or investment context and, once we have that, how such a contribution or impact should be quantified. In our eyes there is no way around bringing SFDR criteria and MIFID target market quantification rules together on this.

Will the new Markets in Crypto-Assets (MiCA) regulation help bring clarity and use structured products to provide access to crypto currencies?

Thomas Wulf: MiCA puts up governance criteria for the issuers and distributors of crypto assets in general, not only currencies. While this surely is a ruleset that brings clarity for offering such assets on the EU's internal market, the main origins of crypto-assets lie outside the European Union. Structured products though can profit from MiCA setting out provisions for consumer and investor protection, such as transparency requirements, which would apply also to structured products offering exposure to cryptocurrencies.

This means investors would have better information about the risks and costs associated with these products, leading potentially to more informed investment decisions.

Neither MiCA nor the structured products investment format does however make obsolete the acceptance of the fundamental challenge inherent to every investment, namely that investors need to form their own opinion about an asset's precise value proposition and potential pricing correlations and resulting fluctuation.

UBS: individualisation is a must have for retirement investors

Pension and life insurance providers of long-term investments and solutions are increasingly looking at structured products to deliver alternatives as traditional products struggle to meet the needs of retirement investors.

SRP spoke to Vincent Idoux, Emea head of equity structured solutions & third-party distribution at UBS Global Markets, about the scope to increase the use of structured products and new wrappers in the European retirement space.

According to Idoux, from a theoretical point of view, structured products offer a unique opportunity to design a non-linear payoff that "can meet different investors' needs" and "can offer a wide variety of solution" at different stages of their life.

"For younger investors, the long time to retirement can make leverage solutions more appealing," he said. "Conversely, investors closer to retirement may be willing to limit their downside exposure while trying to favour higher yield compared to higher participation to the upside, etc."

Idoux also noted that the large variety of payoffs/solutions/underlyings available in the market can also help investors "express their investment views, their appetite for more or less risk and find their preferred exposures across asset classes, geographies, themes, etc.,".

From a historical perspective, structured products have been used by retirement investors for many years and under many different formats.

"This is particularly true for retail and advisory distribution where the end-investor is taking his own investment decision and/or via the large retail distribution networks (institutional distributors and/or IFAs)," said Idoux.

In the accumulation space, most of the activity from retirement investors is around partially protected participation products based on speeder, dolphin and other similar payoff structures which have been used for many years to provide investors with upside participation mostly into equity underlyings, while benefiting from partial protection against downturns.

"These products are seen as long-term investments," said Idoux. "They have usually been mixed with others focusing on improving the yield of investments (CLNs, reverse convertible, autocallable) – while usually also providing (partial) downside protection – to create a diversified offering (especially when the rates were very low)."

According to Idoux, the diversification within investors' portfolio has mostly depended on investors risk profile (active vs. passive, aggressive vs. conservative, their sophistication and their wealth which can increase or decrease their access to a diversified range of solutions.

"In the decumulation space, the use of structured product has been somehow more limited and more variable across markets and clients," said Idoux. "Retired investors with a larger part of their income/wealth generated outside the classic Pillar 1 and 2 retirement schemes have naturally been more active."

In many cases, added Idoux, the structured products used have been more defensive and more oriented towards income (i.e. less participation structures) to meet clients' needs (i.e. generate retirement income).

"The vast majority of these structured products have been classic payoffs, and only a handful of them have been really designed with a proper decumulation objective (e.g. amortisation of the capital paid back as income over the tenor of the solution)," said Idoux.

Evolution

With rates back up to levels that had not been seen for many years, retirement solutions have evolved substantially over the last two years.

Idoux points at two types of products used in the European market before 2022. On one hand, yield products (mostly reverse convertible, autocallable) which helped savers to increase the very limited return paid by classic saving accounts.

"These solutions were wrapped via bank notes or funds depending on the jurisdiction and the distribution channels," said Idoux.

On the other hand, partially protected open-ended participation products in the form of CPPI (and later option-based TIPP) structures.

"Most of these solutions were delivered via protected funds," he said, adding that however, since then end of 2022, and with interest rates going up, "clients have favoured solutions that offer more certain outcomes, especially for long-term investments".

This shift has resulted on a substantial increase of fixed income structured products, including simpler solutions such as fixed rate notes, government bond or credit repacks paying regular coupons. Additionally, products partially linked to inflation have also staged a come-back after a decade.

"Products that mix equity and rates have favoured capital protection and/or protected return above par," said Idoux. "For instance, many products offer 1XX% protected return (potentially inflation-linked) and participation into an equity market from 1XX%.

"The volume invested into TIPPs has materially decreased as they were not offering capital protection – and notes are easier to market when it comes to guaranteeing the capital."

From a wrapper perspective, many retirement products have first been delivered via notes because it is quick to bring to the market, is well known by retail investors and the distribution networks were used to it.

"With the increase of volatility in the credit market in 2023 and some distributors / investors reaching their limits in terms of bank risk, more solutions based on repacks (typically government bond exposures) and/or funds (with or without credit risk) have started to emerge in late 2023/2024," said Idoux.

As payoff structures evolved towards more protection, the underlying exposure of retirement products have also been impacted by long-term trends.

"ESG-tilted underlyings keep progressing and slowly replacing more traditional equity benchmarks," said Idoux. "This is especially true with large retail networks in core Europe."

According to Idoux, actively managed solutions have also become "an alternative for long-term plans and can leverage asset managers' expertise to navigate changing environments".

"QIS strategies have continued to grow, especially in the multi-asset space as underlyings for long-term [investment] options – even though there is still room to grow further in the factor space for instance," he said. "The main hurdle and challenge remains the (potential) complexity of such underlyings which can be difficult to handle for retail networks."

Towards individualisation

Looking ahead, Idoux sees scope for further development and use of structured products to address the needs of retirement investors.

"The market has only very partially addressed the need for (really) individualised solutions, for both accumulation and decumulation," he said.

"Some more complex solutions have started to emerge, but they are still struggling to make their way to the general public – to date they have mostly been focusing on wealthier, more educated investors – and to a very limited scale only."

Despite the opportunities to leverage the flexibility of structured products, the retirement space remains "a challenge for the industry and a problem that will need to be solved if the market wants to be able to properly address the retirement investing problem where individualisation is by nature a must have".

This shift, according to Idoux, will also require some changes for market participants as distribution networks are used to be paid based on commissions (ie. upfront revenues) than on recurring fees.

"On the positive side, long-term individualised plans are more likely to increase customers' loyalty – so the cost of acquiring AuM may become smaller," said Idoux, noting that insurance networks will also "need to reshuffle their offering, adjust their IT systems, and define suitability frameworks adapted to the new products" while banks "will need to keep innovating as they will need to manage more complex, less commoditised products as well as different sources of risks (longer-term, biometric etc.)."

"More fundamentally, a massive effort of education will need to be done towards the general public as individualised solutions necessarily require the public to be more sensitive to the challenges of long-term savings, investment and financial markets."

Cboe: VIX downward trend not triggered by vol-selling strategies

The options exchange concludes that there is no compelling evidence that the growth in products selling options is having a disproportionate impact on the equity volatility market as the decline in equity volatility is in line with other asset classes.

> There has been a shift away from single name underliers towards indices

As market dynamics continue to puzzle analysts and commentators about the reasons behind the downward direction of the VIX index which measures the stock market's expectation of volatility based on S&P 500 index options, Cboe's head of derivatives market intelligence Mandy Xu (pictured) believes that "macro fundamentals – which impact all asset classes – are driving volatility lower, rather than anything equity-specific".

"We do not think the growth in option income yield enhancement ETFs or structured products is a primary contributor to the decline in equity volatility," Xu told SRP.

Instead, she points at the "positive shift in the economic growth outlook from recession to soft landing over the past year that's the main culprit behind the current low vol regime".

Contrary to a recent report by the Bank of International Settlements (BIS), which concluded that the compression of equity market volatility represented by the fall of the VIX index throughout most of 2023 could have been triggered by option dealers hedging equity-linked structured products, Xu believes that a more compelling reason to think otherwise is that "low volatility is not something that we see just within the equity market, but a phenomenon that we observe across asset classes".

In a recent Volatility Insights update – Are option income funds suppressing volatility? - Xu addressed one of the most common questions that Cboe has been getting since the beginning of the year, which is "why the VIX is so low, and if that has anything to do with the growth in the option income ETF and mutual fund space, which admittedly is a big trend that we are seeing".

The large decline in volatility over the last year or so has led investors and analysts to round up the usual suspects of potential drivers – some see the increasing hedging activity around yield enhancement structured products as a reason but other minimised the impact on the basis that in 2023 there was a shift away from yield enhancement towards principal protected structures, and then within the yield enhancement autocall structures, there has also been a shift away from single name underliers towards more indices.

According to XU, an interesting question is why investors still continue to turn to options for income, when they can get four to five percent per annum from treasuries and eight to nine percent from high yield bonds.

"We think that's likely to do with option income being a diversifier against fixed income as the two are typically negatively correlated," she said.

Vol selling

Xu notes that there is clearly more AuM going into products that sell options for income and by deep diving into the strategies deployed by these products the specifics of their impact on volatility can be assessed and see if they were having a disproportionate impact.

"First thing we ought to note is that while these funds have grown six times over the past couple of years, from US$20 billion to US$120 billion in terms of AUM, they don't run the same strategies – some are running overwrite or underwrite strategies on the S&P 500, Russell 2000, Nasdaq 100 indices as well as buy-write strategies on single stocks, particularly mega cap tech names," she said.

This means that there is a diversity of underlying indices and tenors with some funds overwriting through weekly options while others use monthly or even three-month options.

Xu added: "The range of strikes, tenors and underliers means that the impact is actually pretty spread out. It's not all concentrated in one-month trades on the SPX, which is what really drives the VIX."

Another important consideration is that if volatility selling strategies such as autocallable products "were getting too big for the broader derivatives market, you would expect to see volatility risk premium in the market shrink".

"That's the difference between implied versus realised volatility, which should narrow if there are more sellers entering the market," said Xu. "But in fact, what we've seen over the past year is the opposite - the volatility risk premium more than doubled from the year before."

Also, according to Xu, if the number of overwriters coming into the market had increased, "the price of the out of the money (OTM) call options would become cheaper relative to at the money (ATM) options which would result on call skew dropping".

This, however, has not happened as over the past year call skew has actually increased with out of the money (OTM) calls becoming more expensive.

"That's because people are buying upside calls to gain tactical leverage into the equity rally and that has been the dominant force in the derivatives market, not call selling," she said.

In other words, it is macro fundamentals that impact all asset classes which boils down to a shift in terms of economic growth outlook what is really driving volatility lower.

Cboe introduces margin rules for overwriting strategies

Cboe Global Markets has launched an enhanced margin treatment for cash-settled index options aimed at providing greater capital efficiencies for traders. The new margin relief rule offers enhanced margin treatment when writing or selling a cash-settled index option in a margin account against an exchange-traded fund (ETF) that is based on the same underlying index.

In the same way an investor can write an equity call option while holding a long position in the underlying security (i.e., a "covered" call), the rule change allows for writing of index options in a similar manner. An investor, for instance, could write a call option on the Mini S&P 500 Index option (XSP) while having a long position in a corresponding ETF such as the iShares Core S&P 500 ETF (IVV), SPDR S&P 500 ETF Trust (SPY), or Vanguard S&P 500 ETF (VOO) to potentially enhance returns on their ETF.

Given the similar risk/return profiles of writing an index call option (e.g., XSP) against a long ETF position (e.g., IVV, SPY, VOO) vs. writing a covered call, Cboe's rule now treats these index options as protected for margin purposes – and not subject to uncovered option margin requirements.

'Index options can be an excellent trading and hedging tool, offering many unique advantages over existing alternatives,' said Catherine Clay (right), head of global derivatives at Cboe Global Markets. 'For investors with ETF positions, index options allow them to overwrite long positions with the ease of cash settlement, while potentially mitigating risks of early exercise and capitalizing on potential tax advantages.'

BIS: VIX drop fuelled by yield enhancement products

A report released by the international financial institution which is owned by member central banks suggests that the direction of the VIX index throughout 2023 is not a result of the increasing use of 0DTEs but a function of the increasing number of yield-enhancement products in the market.

> The rise of yield enhancing products to the SPX has coincided with the VIX drop

The compression of equity market volatility represented by the fall of the VIX index which measures the stock market's expectation of volatility based on S&P 500 index options throughout most of 2023 could have been triggered by option dealers hedging structured products, according to a report released earlier this week by the Bank of International Settlements (BIS).

The article contradicts the views of market analysts that relate the drop in VIX to the recent rise of trading in zero-days-to-expiry (0DTE) on the S&P 500 index that expire on the day of trading.

According to this narrative, the increase in the use of ultra short-term options 'has drawn trading activity away from the one-month-to-expiry (1MTE) options that underlie VIX, which in turn, 'has decreased demand for one-month options, thereby depressing VIX'.

Grigory Vilkov, professor of finance at Frankfurt School of Finance & Management, and one of the authors of the report notes that the report provides suggestive argumentation to partially explain the VIX dynamics by the supply of volatility by end investors.

"We are not able to establish causality formally, because it is very hard (to impossible) to get sufficient data on synthetic options selling by end investors through all structured products," he told SRP. "The argument makes sense, there is a high correlation between flows into structured products selling volatility and VIX dynamics, and a lot of anecdotal evidence supporting our claim.

"I also feel pretty strong that the VIX going down is not related to the popularity of 0DTEs," he said.

Data from SRP shows that structured products referencing the S&P 500 index in the US represented more than a quarter of the market in 2023 and 2022, compared to only 13.5% of the US equity index products issued in 2021. Vilkov and Karamfil Todorov, doctor in finance at the London School of Economic (LSE) and co-author of the analysis, argue that a more likely reason behind the compression of volatility is the surge in issuance of yield-enhancing structured products.

Structured products linked to the S&P 500 index

		Issuance	Sales	Market share
2023	S&P 500	7,498	32,045.27	26.72%
2022	S&P 500	6,460	32,516.38	28.42%
2021	S&P 500	2,428	14,382.92	13.50%

Source: SRP.com

"These types of structured products provide a yield enhancement by offering higher returns to investors thanks to the sale of options," said Vilkov and Todorov, pointing at covered calls, a popular options strategy embedded in yield-enhancing structured product, which involve a purchase of the S&P 500 index and a simultaneous sale of a one-month call option on the index.

"The product gives an exposure to the index and generates a yield enhancement with the sale of the call option (the premium income), but it gives up part of the upside if the index rises above a threshold, say 5% over the next month."

With this approach, investors effectively take the view that the market will not rise more than 5% over the next month and monetises this view by selling the call option.

Vilkov and Todorov also note that the increasing number of yield-enhancing structured products in the market are also depressing volatility "due to the mechanics of how dealers hedge option exposures".

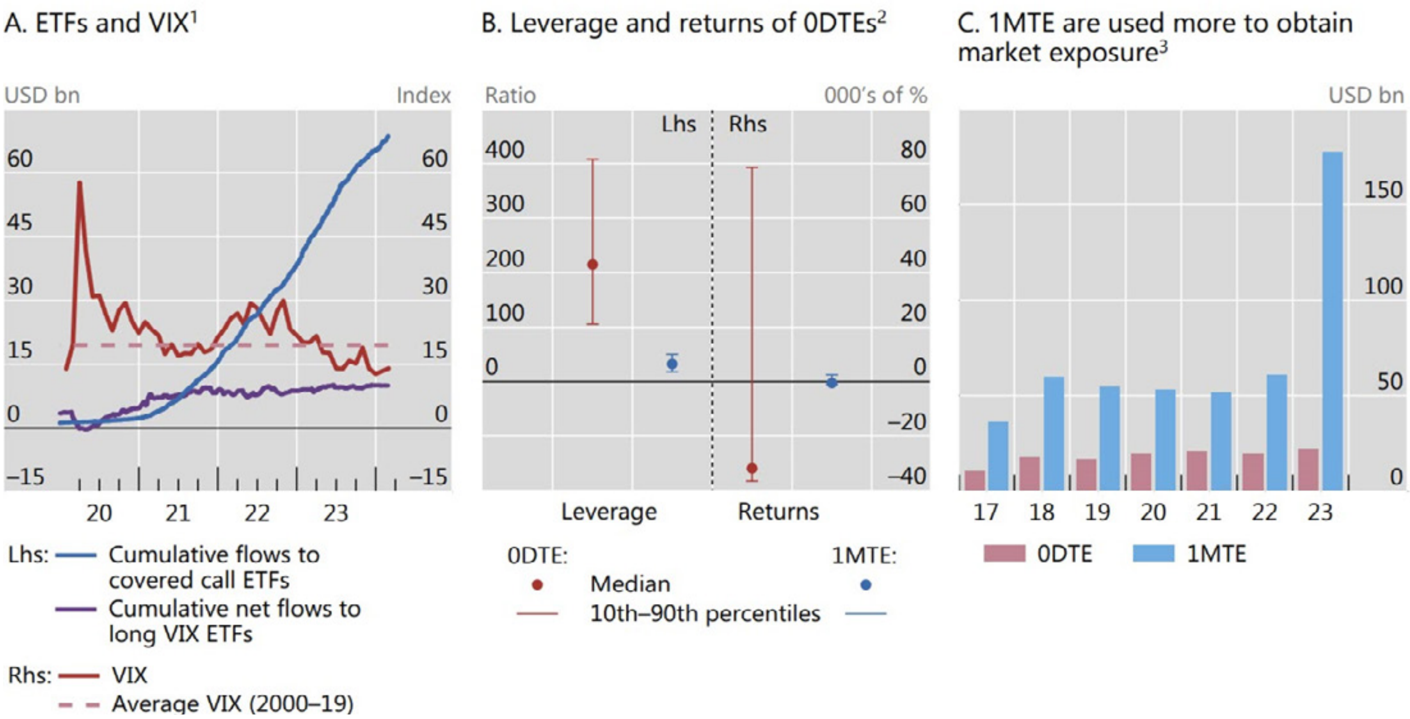
When dealers sell such structured products, they effectively buy an option from their clients and in order to hedge the option exposure, dealers trade in the underlying asset (the equity index) as a function of its price - specifically, traders need to buy when the index goes down and sell when it goes up – a practice known as "dynamic hedging".

"By doing so, dealers act in a contrarian way, effectively dampening the price movements of the underlying asset," states the analysis. "As volatility declines, so does the cost of ensuring against it, as reflected in option prices."

The authors conclude that such market dynamics could explain why the VIX can be depressed even in an environment of heightened uncertainty.

"Suggestive of this mechanism at play, the meteoric rise of yield-enhancing structured products linked to the S&P 500 over the last two years has gone hand in hand with the drop of VIX over the same period," said Vilkov and Todorov.

VIX dropped as popularity of structured products surged



Crypto news

All the latest developments in digital assets from across the globe

UBS completes HK's first tokenised derivative warrant

The Swiss bank is seeking to leverage tokenisation as a new channel for investors to access digital structured products. UBS has launched today (7 February) the first ever investment-grade tokenised derivative warrant on the Ethereum public blockchain network, a first for the Hong Kong market.

Linked to the shares of Xiaomi (HKG: 1810), the new call warrant uses the on-chain issuance product framework offered by UBS Tokenize, the bank's in-house tokenisation service. It is 'the first natively issued warrant on a public blockchain' that was sold to OSL Digital Securities Ltd, a virtual asset platform and wholly owned subsidiary of Hong Hong-listed OSL Group (formerly BC Technology Group)', according to UBS.

Gary Tiu (pictured), executive director and head of regulatory affairs at OSL, highlighted that through the Ethereum public blockchain network, the significance of the product issuance is also tied to the underlying instrument, which is familiar to a broad range of audiences in Hong Kong.

"The product effectively mirrors what you already see in the traditional markets in terms of product features," Tiu told SRP, adding that the maturity of the infrastructure, ranging from technological processes to regulatory infrastructure, remains one of the challenges that the industry would still need to overcome in order to achieve broader adoption of tokenised structured products.

"Hong Kong SAR is leading this role," Tiu said. "I think infrastructure readiness and regulatory infrastructure readiness in Hong Kong is at a very advanced state now. If we compare ourselves to where we were a few years ago, the time is now at a much higher level of maturity for products to be tokenised and to be distributable through the Hong Kong infrastructure [channel], as well as in the near term."

Winni Cheuk, Apac head of sales, public distribution, global markets at UBS, said the new product created natively on a public blockchain in a permissioned environment 'enhances transparency, reduces transaction fees, streamlines settlement processes and allows for more flexible trading hours.'

The tokenised structured warrant's launch took the team about eight to 10 months to prepare for, said Cheuk. "Having market participants, including the banks, brokerage firms, and the licensed entity, to support the liquidity and the pricing of the tokens, are things that need to be developed. But we are in a positive phase."

"Launching this product is the first step to prove that this can happen on the blockchain. Given the amount of flexibility and development on the blockchain, there could be many possibilities from our point of view, such as products' payoff and duration," she added.

The launch also reinforces the bank's position as one of the top issuers of derivative products in Hong Kong SAR and the issuer with the highest market share in terms of net notional value of Hong Kong-listed derivative warrants and callable bull/bear contracts (CBBCs) sold over the last two years.

Patrick Pan, chairman and chief executive officer of OSL Group, which is licensed under the Securities and Futures Commission (SFC), noted that the launch of the new investment grade tokenised financial product is 'another major milestone' in Hong Kong's regulated virtual asset landscape.

'We are simulating the whole product life cycle of an equity-linked structured product token, from token mint, through simulated secondary market transactions, and finally to token burn at maturity,' said Pan.

UBS is seeking to leverage blockchain technology to enable better accessibility through a compatible platform and extended trading hours and tokenisation as a new channel for investors to access digital structured products.

The new tokenised warrants use smart contracts that allow automation, streamline trading and administrative processes, lower handling costs, making it more efficient than traditional channels, stated the bank, adding that blockchain technology provides transparency as all transactions and ownership records can be stored on a decentralised ledger.

The latest offering is part of UBS's ongoing effort to develop its tokenisation services which begun in 2015.

In July 2023, the Swiss bank issued CNH200m (US$28m) tokenised structured notes to Bank of China (International), which became the first Chinese financial institution to issue a tokenised security in Hong Kong SAR.

Prior to that, UBS issued a US$50 million fixed rate note tokenised on a permissioned blockchain in December 2022 under English and Swiss laws. The product was sold to Apac investors through UBS Tokenize for the first time.

'UBS Tokenize is part of UBS' ongoing work in tokenization services and global distributed ledger technology. It supports opportunities across origination, distribution, and custody, initially focusing on tokenization of bonds, funds and structured products,' stated the bank.

Archax debuts capital protect note program

Archax, a UK-regulated cryptocurrency exchange and crypto custody service, has announced the launch of its capital protect note program.

The program seeks to provide a structured approach to digital asset investment, aiming to balance the potential of cryptocurrencies with considerations for capital preservation, the firm said in a statement.

The firm is expanding its product range through its Archax Capital subsidiary to meet the varying needs of crypto investors within a regulated framework.

'The Capital Protect Notes are designed as an alternative for those interested in the crypto market who are also constrained to focus on regulated instruments,' Keith O'Callaghan (pictured), CEO of Archax Capital said. 'By combining traditional financial principles with the digital asset world, we aim to provide institutional-grade, regulated investment solutions through our comprehensive Archax ecosystem'.

The latest development came after the platform announced plans to launch crypto trading pairs against tokenised money market fund (MMF) instruments last October.

HGI launches first tokenised fund in Hong Kong SAR

Asset manager giant Harvest Global Investments (HGI) has completed its tokenised fund issuance in Hong Kong SAR.

The latest development marked the first fixed-income tokenised fund by a Chinese financial institution in Hong Kong SAR, according to the statement from law firm Linklaters that advised HGI on the transaction.

Meta Lab HK, Harvest Digital Assets-backed fintech startup, supported the fund's tokenisation solution.

This tokenised fund is not a structured product under the Securities and Futures Ordinance, however, since a collective investment scheme has been expressly excluded from the definition of structured product, SRP has learned.

Still, the market interest in tokenised assets has grown over the past year: Last December, SRP reported that HSBC will debut a digital assets custody service in 2024 for institutional clients who invest in tokenised securities.

In June 2023, Bank of China International (BOCI) partnered with UBS on the issuance of CNH200 million (US$28m) fully digital structured notes in Hong Kong SAR, also advised by Linklaters. These digital securities are tokenised on the Ethereum platform.

Membrane Labs introduces new derivatives management platform

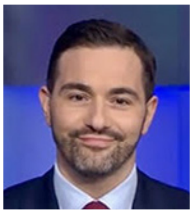
Cryptocurrency prime broker Membrane Labs has launched a derivatives management platform, which aims to streamline the process of managing over-the-counter (OTC) derivatives transactions, announced by the broker led by CEO Carson Cook (pictured).

The new platform, which also facilitates the management of portfolio-level collateral and trade flow settlement, was first used to book a trade between XBTO and Arbelos Markets.

'The seamless integration of booking, managing collateral with smart contracts, and executing trades, coupled with advanced margin functions, is a smart approach to crypto derivatives trading,' Joshua Lim, CEO of Arbelos, said in the statement.

Lim added that the platform is a 'significant step' to improve operational efficiency and risk management in the digital asset space and enhance trade efficiency.

US ETF issuer rolls out Bitcoin covered call strategy tracker



Roundhill Investments, a US-based thematic-focused exchange-traded fund (ETF) issuer, has revealed its Bitcoin Covered Call Strategy ETF (YBTC), which started trading on the Cboe BZX Exchange on 18 January.

The fund employs a covered call strategy on Bitcoin ETF, aimed to 'generate monthly income while providing investors with exposure to the price movements of Bitcoin (subject to an upside cap),' according to the firm's statement.

Roundhill Investments noted that similar to gold, Bitcoin captures investors' attention as an asset that doesn't yield operating profits or cash flows, which puts those income-focused investors in a challenging position.

The largest cryptocurrency by market capitalisation's historically seen volatility may allow the fund to generate options income from its call-selling strategy. In return, the fund seeks to provide current income to shareholders, according to the firm.

'Investors have clamoured for a covered call ETF with exposure to bitcoin and we are proud to be the first to bring such a product to the US market,' Dave Mazza (right), the firm's chief strategy officer, said.

A covered call strategy involves writing (selling) covered call options in return for the receipt of premiums. The seller of the option gives up the opportunity to benefit from price increases in the underlying instrument above the exercise price of the options but continues to bear the risk of the underlying instrument price declining, the statement added.

SEC fines crypto structured product provider

BarnBridge DAO, which runs a decentralised finance (DeFi) protocol, and its founders have agreed to pay US$1.7m to settle allegations from US Securities and Exchange Commission (SEC) that it failed to register its offer and sale of structured crypto asset securities.

The protocol and founders Tyler Ward and Troy Murray agreed on the cease-and-desist orders issued by the SEC without admitting or denying the agency's findings, according to a ligation filing.

According to the SEC's orders, these alleged crypto structured securities, known as SMART Yield bonds, were marketed as 'mirror the safety and security of highly rated debt instruments offered by traditional finance…while still providing the outsized return' through its smart contract protocols based on its whitepaper.

SMART Yield pooled crypto assets deposited by the investors and used those assets to generate fixed or variable returns to pay investors, the US regulators claimed, adding that it attracted more than US$509m in investments from investors.

The SEC also charged the respondents with violations stemming from operating SMART Yield pools as unregistered investment companies. To settle the charges, BarnBridge agreed to disgorge nearly US$1.5m of proceeds from the sales, while Ward and Murray each agreed to pay a US$125,000 civil penalty.

'The use of blockchain technology for the unregistered offer and sale of structured finance products to retail investors runs afoul of the securities laws,' Gurbir S. Grewal (pictured), said director of the SEC's division of enforcement.

'This case serves as an important reminder that those laws apply to all who wish to access our capital markets, regardless of whether they are, or purport to be, incorporated, decentralised or autonomous,' he said.

However, the SEC commissioner Hester Peirce disagreed with the orders, calling out on X that the US regulatory agency's 'imprecise legal reasoning in crypto cases, (…) only adds to the uncertainty for crypto projects in the US.'

Valour plans to launch new physical ETP

Valour, the Swiss exchange-traded products (ETPs) issuer owned by crypto firm DeFi Technologies, has announced its plan to launch a physically-backed ETP in collaboration with The Hashgraph Association (THA).

The product, known as the Valour HBAR Staking ETP, is pegged with decentralised distributed ledger Hedera's HBAR token, according to Valour's statement.

The move marks the Swiss ETP issuer's blueprint for expanding physically backed digital asset products and broadening market accessibility for cryptocurrencies to institutional investors on traditional exchanges like XETRA, the statement read.

Last June, the Swiss issuer launched its first physically-backed ETP, the 1Valour Bitcoin Physical Carbon Neutral ETP. This move aimed to align with ESG goals by funding certified carbon removal and offset initiatives in order to neutralise the associated Bitcoin carbon footprint, according to the firm.

Nexo introduces dual investment product

Crypto lending platform Nexo has unveiled a new dual investment product with two investment strategies – buy-low and sell-high – aimed to address users' varied market perceptions and individual objectives.

The buy-low strategy allows investors to utilise Tether (USDT) to acquire Bitcoin (BTC) or Ethereum's ether (ETH) at the specified target and date, targeting those who anticipate a target price lower than the current market value. Conversely, the sell-high strategy is designed for users expecting the target price to surpass the current market value, involving the sale of BTC or ETH for USDT at the target price and date.

'Dual Investment revolutionises how users engage with BTC and ETH, offering a flexible, intuitive, yet sophisticated platform for predicting asset price movements, all while securing high yields,' Elitsa Taskova, chief product officer at Nexo.

The latest product development comes after the digital wealth platform Yield App introduced dual currency (buy low) and dual currency (sell high) structured products last November. Crypto exchange giant OKX also offers dual investment and other traditional structures such as shark fin and snowball in its crypto product suite.

HTX adds shorter term shark fin structure to crypto pool

Cryptocurrency exchange HTX has added a three-day shark fin structure to its product suite following the launch of a seven-day product last September.

These shorter-term products offer four investment options: bullish BTC, bearish BTC, bullish ETH, and bearish ETH.

Compared with its seven-day product, the shorter-term product can offer 'greater flexibility' if the market experiences 'significant swings and shows profitable short-term market trends,' the exchange stated.

HTX has issued 12 phases of the seven-day shark fin as of 30 November, it added. The exchange added that its HTX Earn has been 'purpose-built to deliver top-tier assets for daily passive income, coupled with a user-friendly interface that ensures a seamless and convenient wealth management experience'.

According to the exchange, Shark Fin products are ideal for risk-averse, conservative investors seeking stable returns.

'This includes professional investors, high-net-worth individuals, and those focused on diversification,' it said.

HK regulator sets out requirements for virtual asset spot ETF

The Securities and Futures Commission (SFC) and Hong Kong Monetary Authority have issued a joint circular over authorised funds with exposure to virtual assets.

In the circular, the SFC detailed the requirements under which the securities regulators would consider authorising investment funds with exposure to virtual assets of more than 10% of their net asset value (NAV) for public offerings in Hong Kong.

'A broader range and a larger number of investment products providing exposure to virtual assets (VA), including VA-related exchange traded funds (ETFs) offered in major overseas markets, are now available to both retail and professional investors, and have become increasingly popular,' SFC stated. 'Demand for these products has also increased in Hong Kong.'

The Hong Kong securities regulators noted that the product management companies should have 'a good track record of regulatory compliance and products are not permitted to have leveraged exposure at the fund level.

Both in-kind and in-cash subscriptions and redemption are allowed for SFC-authorised spot virtual asset ETF, it added.

The latest update followed its circular last November in which the SFC set out requirements for tokenised investment products.

BlackRock, Valkyrie reveal authorised participants for spot Bitcoin ETF

Looking at crypto spot ETF's progress on the other side of the world, a filing with the SEC shows that US asset management giant Blackrock has named J.P. Morgan Securities and Jane Street Capital as authorised participants for its application of spot Bitcoin ETF, which is yet to be approved in the US.

The authorised participant agreement provides the procedures for the creation and redemption of Baskets and for the delivery of cash in connection with such creations or redemptions, the filing stated.

Valkyrie also added Jane Street Capital and Cantor Fitzgerald & Co. as authorised participants for its application for spot Bitcoin ETF, according to another filing with the SEC.

Besides Blackrock and Valkyrie, a flurry of financial institutes, including Fidelity and Invesco, is awaiting their applications to get greenlighted by the SEC, which could be as early as later this month.

UK greenlights crypto ETNs

The UK Financial Conduct Authority (FCA) has approved the sale of crypto exchange-traded funds (ETNs) for professional investors.

'The FCA will not object to requests from Recognised Investment Exchanges (RIEs) to create a UK listed market segment for crypto asset-backed ETNs,' stated the watchdog. 'These products would be available for professional investors, such as investment firms and credit institutions authorised or regulated to operate in financial markets only.'

The FCA is also collaborating with government, international partners and industry to 'develop the UK's crypto asset regulatory regime and lead international standards in this space'.

The decision by the UK regulator was followed by an announcement from the London Stock Exchange which released a 'crypto ETN admission factsheet' showcasing its decision to accept applications for bitcoin ETNs.

SRP's sister publication FOW also reported that Cboe UK will start accepting applications for crypto-linked ETNs.

HK watchdog warns crypto platform Bybit

The Securities and Futures Commission (SFC) has issued a warning against Bybit, the third-largest crypto exchange by volume, noting that it is an unlicensed virtual asset trading platform (VATP) in Hong Kong SAR. The concerned products offered by the exchange are Bybit futures contracts and inverse futures contracts, Bybit options, Bybit leveraged tokens, dual asset, dual asset 2.0, Bybit shark fin, liquidity mining, ETH 2.0 liquid staking, Bybit Web3 staking, Bybit lending and Bybit wealth management.

'The SFC is concerned that these products have also been offered to Hong Kong investors and wishes to make it clear that no entity in the Bybit group is licensed by or registered with the SFC to conduct any 'regulated activity' in Hong Kong,' wrote the warning note.

In the financial hub, crypto-related products may constitute 'futures contracts' or 'securities' under the SFO and if so, dealing in and/or marketing these products – whether in Hong Kong or targeting Hong Kong investors – constitute a 'regulated activity' and require a licence from the SFC unless an exemption applies. 'It is a criminal offence to carry out regulated activities without a licence,' stated the SFC.

In December, Bybit, launched of a knockout-like structured product designed to enable investors to accumulate their crypto holdings during periods of low market volatility.

Regulators shed light on boundaries of cryptoasset rules

The European and Hong Kong regulators continue to move forward in their effort to provide a regulatory framework for issuing and transacting crypto financial products.

The Hong Kong Monetary Authority (HKMA) unveiled comprehensive regulatory standards yesterday (20 February) for the sale and distribution of tokenised financial products by authorised institutions.

The new guidelines aim to support innovation while ensuring robust consumer protection with appropriate safeguards within the field of tokenisation, where real-world assets (RWA) are digitally represented using distributed ledger technology or similar systems.

The guidelines delineate the scope of tokenised products that fall under this new regulatory framework, explicitly excluding products already covered by the Securities and Futures Ordinance and specific regulations by the Securities and Futures Commission (SFC) and HKMA.

Products covered by the new rules include tokenised non-SFO-regulated structured investment products and tokenised spot precious metal but they don't apply to stablecoins. In respect of placing of tokenised deposits by customers, AIs should also comply with the standards set out in the new rules.

'As a general principle, the prevailing supervisory requirements and consumer/investor protection measures for the sale and distribution of a product are also applicable to its tokenised form as it has terms, features and risks (other than any risks arising from tokenisation itself) similar to those of the underlying product,' stated the regulator.

Under the new rules, AIs distributing a tokenised non-SFO-regulated structured investment product are expected to adopt the prevailing supervisory requirements and investor protection measures applicable to the selling of that non-SFO-regulated structured investment product set forth by the HKMA.

Additionally, AIs distributing tokenised gold are expected to follow the same requirements as those governing the selling of gold, which include the Code of Banking Practice, the Treat Customers Fairly Charter as well as any other applicable requirements issued by the HKMA.

'While some tokenised products are basically traditional products with a tokenisation wrapper, there could be situations where the nature, features and risks of a tokenised product are altered by how the product is structured and arranged in the tokenisation process,' state the new rules.

'AIs should ensure that they evaluate and understand the terms, features and risks of each tokenised product, and should exercise professional judgment to ascertain the applicable legal and regulatory requirements.'

In addition to the expected standards set out by the regulator, AIs are also reminded of their obligation to comply with all the applicable legal and regulatory requirements when selling and distributing tokenised products.

According to the regulatyor, before selling and distributing a tokenised product to customers, AIs should put in place adequate systems and controls to ensure that all the applicable requirements are complied with, and implement appropriate additional internal controls to address the specific risks and unique nature of the tokenised product.

'AIs are expected to implement the consumer/investor protection measures in respect of due diligence, disclosure and risk management for tokenised products as set out in the following sections,' it said.

MiCA boundaries

The European Markets and Securities Authority (Esma) is also seeking feedback on the scope of the new EU's Markets in Crypto-Assets (MiCA) Regulation guidelines which comes into effect this year.

'Given that MiCA can impact firms based outside the EU and covers a broad range of cryptoassets, including e-money tokens and asset-referenced tokens, the precise scope will be of interest to a wide variety of businesses,' stated the EU regulator.

As part of the ongoing development of the MiCA regulatory framework, the European Securities and Markets Authority has opened consultations on classifying cryptoassets as financial instruments as well as on reverse solicitation.

Esma clarified that MiCA's regime will not cover all types of cryptoasset products as those that qualify as "financial instruments" will fall under the Markets in Financial Instruments Directive (Mifid 2).

The regulator reiterated that national regulators and market participants should classify cryptoassets as transferable securities if they confer their holders similar or equivalent rights to those granted by shares, bonds, other forms of non-equity securities or other negotiable securities as defined by Mifid 2 including options, warrants and structured bonds.

Under the MiCA rules, for a cryptoasset to qualify as a unit in a collective investment undertaking, 'the project attached to the cryptoasset should involve the pooling of capital from a number of investors for the purpose of investing this capital in accordance with a defined investment policy and with a view to generating a pooled return for the benefit of those investors'.

In addition, for cryptoassets to be recognised as eligible underlying instruments as a derivative under Mifid 2 it should be the 'digital representation of a contract and have an underlying reference which determines its value'.

'Cryptoassets labelled as utility tokens (or anything else) will be treated as financial instruments if they meet the applicable criteria, even if they also exhibit features of instruments regulated under MiCA,' stated Esma.

The guidance also touches briefly on the boundaries of the definition of a "crypto-asset" under MiCA. It reiterates, for example, that the representation of value or rights must be capable of being "transferred and stored" using DLT or similar technologies. It also confirms that digital assets that are non-transferable to other holders or genuinely unique and non-fungible do not fall within the scope of MiCA.

ESMA calls on national regulators to proceed on a case-by-case basis when evaluating whether cryptoassets qualify as financial instruments. They recommend taking a "substance over form" approach which is technology neutral.

Going forward, MiCA will require cryptoasset service providers serving EU clients to be based and licensed in the EU, although an exemption is available for non-EU firms where the services are provided at the exclusive initiative of the client.

However, the regulator underscored that the reverse solicitation exemption is very narrow and must not be exploited to circumvent MiCA. Its draft guidelines now give more detail about how it should be used under MiCA.

Esma also pointed out that regulators need to pay special attention to the online presence of non-EU firms because cryptoasset-related services are primarily offered and marketed through the internet. Both consultations are open for feedback until 29 April 2024.

EBA consults on issuer obligations under MiCAR

Staying in the regulatory space, the European Banking Authority (EBA) launched a consultation on the guidelines for the plans to orderly redeem asset-referenced or e-money tokens in the event that the issuer fails to fulfil its obligations under the Markets in Crypto assets Regulation (MiCAR).

The guidelines are addressed to issuers of asset-referenced tokens (ART) and of e-money tokens (EMT), and to competent authorities under MiCAR.

Specifically, the draft clarifies the main principles governing the redemption plan, such as the equitable treatment of token holders, and describes the main steps for the orderly and timely implementation of the plan, including the communication plan, the content of the redemption claims and the distribution plan.

The EBA will hold a virtual public hearing on the consultation paper on 22 May. Public comments are accepted until 10 June.

StructurPro: falling underlyings

The underlying exposure and the payoff structure are two of the key elements of structured products seeking to invest in the market. But when markets go south protection comes to the fore as a critical feature to minimise the impact of falling underlyings. *By Tim Mortimer*

The product payoff profile can range from having capital protection or being very low risk with defensive features through to leveraged or worst-of or multi-asset with the potential for significantly higher risk.

Much attention is rightly paid to the product payoff but ultimately the performance of a structured product is as much driven by its underlying asset. A product payoff may have a lot of protection built in or be aimed at those with a market neutral or bearish outlook (for example range accruals or bear products respectively). However, for capital at risk products in particular solid performance is required from the underlying to avoid capital losses.

Many investors choose structured products linked to well-known benchmark indices such as the S&P500, Eurostoxx 50 or Nikkei 225. These indices can perform poorly over certain periods which will negatively affect product returns. In this case the investor would not necessarily be unhappy given that they might otherwise have invested directly into such indices and suffer greater losses.

Less obvious choices of underlying assets for structured products pose different questions and we shall analyse two popular underlyings seen in the market that have struggled in recent times. These are the Hang Seng China Enterprises Index and Boeing stock.

The Hang Seng China Enterprises Index (HSCEI) is a market capitalisation-weighted stock index tracking the performance of the largest H-shares in Hong Kong. H-shares are Renminbi-denominated shares of Chinese companies listed on the Hong Kong Stock Exchange. These companies and shares give exposure to the Chinese economy but in a liquid and readily tradeable manner.

Boeing is an American company that designs, manufactures, and sells aircraft rotorcraft, rockets, satellites, telecommunications equipment, and missiles. It is the largest aircraft company worldwide by market capitalisation.

Both the HSCEI Index level and Boeing share price have experienced troubles in recent years. The HSCEI has fallen steadily over the last five years and lost over half its value in that time due to various economic and political issues. Boeing was hit very badly in March 2020 at the start of the COVID pandemic because of interruptions in passenger travel and freight carrying. It fell significantly in that year, and then again in 2021-22 as further economic uncertainty contributed to likely weaker future demand.

Snowball effect

While HSCEI has fallen steadily in the last five years, Boeing stock has been more stable in the last year after its earlier sharp falls. Boeing still has a volatility at over 30% but this is significantly down on its five-year average of over 50%. HSCEI index volatility has been around the 26% level over this time which is much lower but in excess of volatility levels of other indices which can often be below 20%.

Despite this, both underlyings remain popular with structured product investors because they are familiar and the high volatility levels allow attractive yields to be offered on typical capital at risk structured products. With sufficient protection and well-judged timing of entry and exit, these products have a good chance of performing well even during a period of some years that has been mostly challenging. Underlying performance is important since investors have alternatives to both choices if they do not deliver the returns expected.

Figure 1: One and five-year performance and volatility for HSCEI and Boeing. Source: FVC/Refinitiv

Period		HSCEI	Boeing
1 year	Performance	-30.91%	-2.30%
	Volatility	26.03%	30.93%
5 year	Performance	-52.79%	-45.85%
	Volatility	26.59%	51.21%

Source: FVC/Refinitiv

Figure 2: Underlying performance (rebased) of HSCEI and Boeing. Source: FVC/Refinitiv

Source: FVC/Refinitiv

The HSCEI index is extremely popular in the South Korean structured products market. The outstanding notional linked to products containing the HSCEI (single or as a worst-of) is some US$18billion, which puts it at the third most popular underlying in that country behind only the S&P500 and Eurostoxx 50 but ahead of Kospi-200 and Nikkei225., according to SRP data.

Typical products tend to be autocalls of length two to three years, mostly as part of a worst-of. Since the products are relatively short maturity, they can offer good yields but with significant defensive properties, with Autocall levels typically 15% or more below the initial spot level and often declining further. Products struck in the last couple of years will be significantly underwater (as the table above shows the one-year performance was down over 30%). This means that many of these products will not call but with barrier levels often 60%-65% of the initial levels some may avoid capital loss despite the damage caused to Chinese investors in snowball structures.

Many investors will not be getting the returns they anticipated, and this will also affect the market in the short to medium term as money is not freed up for re-investment and investors may look elsewhere. If investors are sufficiently aware of the risks and have diversified, then they may be happy to repeat a similar product given that the index entry level is now much more attractive.

Flying low

Boeing is also a popular choice of underlying in many markets. Germany has the greatest number of outstanding products at some 47000, but with a very small average notional so that it only ranks fourth by sales volume. This is a typical feature of the high issuance German market. The three countries with the highest outstanding volume linked to Boeing are Taiwan (USD 4.1billion), USA (USD 2.6billion) and Switzerland (USD 1.1 billion), according to SRP data.

In Taiwan, 12-month products are very popular so many of them will have lost value because there is limited time for the underlying to recover. In the US there are many seven-year Certificate of Deposits linked to Boeing (often as a worst-of with other popular stocks such as Apple and Ford). A proportion of these have failed to Auto-call in the intervening years since launch in 2017 or 2018 because of underperformance by Boeing or others. At least these products are fully capital protected but the yield enhancement offerings also linked to Boeing will have suffered losses in many cases.

Data from StructrPro shows that for the US market of the 284 products linked to either HSCEI or Boeing some 31% (89 products) have made a loss. This is much more than the US market as a whole where overall only 14% of products returned less than the initial investment. However, despite this proportion of losses the collection of HSCEI and Boeing products have had an average return of -5% p.a. which is much better than the underlyings themselves (down an average 12% p.a. point to point).

These two popular stocks highlight the importance of underlying choice but also that structured products can protect against much of the market falls. As always, understanding of underlyings, diversification and time in the market are the best routes to success.

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

Wide angle: European investors return to benchmarks as decrement weakens

Sales of index-linked products reached US$55 billion in 2023 – down eight percent compared to 2022. The traded notional initially recorded a six percent year-on-year (YoY) growth in Q2 2023 but subsequently fell in Q3 (-14%) and especially in Q4 (-23%) compared to the same periods in 2022.

The more pronounced decrease in the sales volumes in the last quarter of the year could be attributed to the strong stock market performance at the end of 2023, which drove equities near peaks, waiting for the slightest opportunity to correct.

This is why investors have been turning to stocks of quality pulling back from less concentrated indices.

The market share of products linked to an index also fell from 42% of the offering in Q3 2022 to 23% as of Q3 2023. However, here the decrease has been driven by the demand for capital protected products linked to rates (12% of the overall traded notional in 2023 vs seven percent in 2022).

We have clearly seen a general diversification of the underlying asset class mix last year.

The market share of products linked to a multi-index basket decreased too, but managed to somewhat reverse the trend towards the end of 2023.

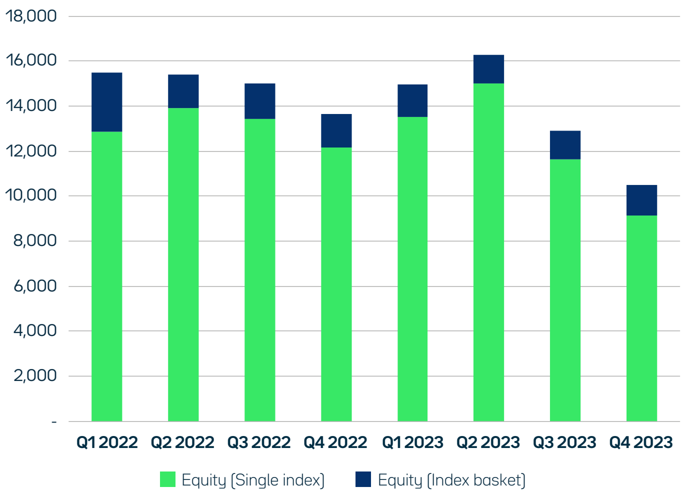
In terms of index type, the industry has benefitted from the rise in interest rates in 2023 to return to traditional indices – benchmarks like Eurostoxx 50, as well as industry sector benchmarks, around the three sectors prone to benefit from the context of rising rates and inflation (e.g. energy sector, banking, basic resources).

On the flip side, we have observed significantly weaker use of indices with synthetic dividend (Decrement). Their sales volumes fell 30% in 2023, while their market share shrank to 25% of the total index-linked offering (down from 33% in 2022).

As it is observable from the chart above, decrement indices deducting the dividend as a fixed percentage have been more impacted from the decrease, down 40% YoY, and with a share out of the index mix, reduced by eight percent.

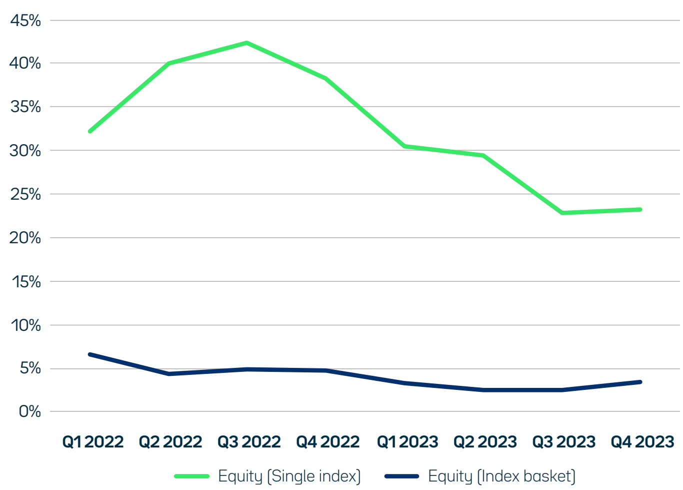
Notably, the market share of decrement indices, deducting the dividend in terms of index basis points, remained unchanged YoY. A reason for this, is the increasing demand for decrement indices, replicating the performance of a single share by reinvesting the gross dividends paid by the stock and detaching a fixed dividend in points.

Europe: equity-linked products - quarterly sales volumes (US$m)



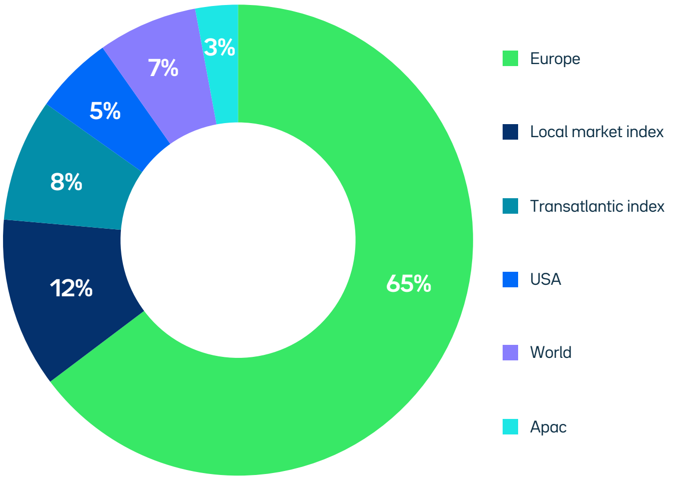
Source: SRP

Europe: index-linked products - market share by quarterly sales volume



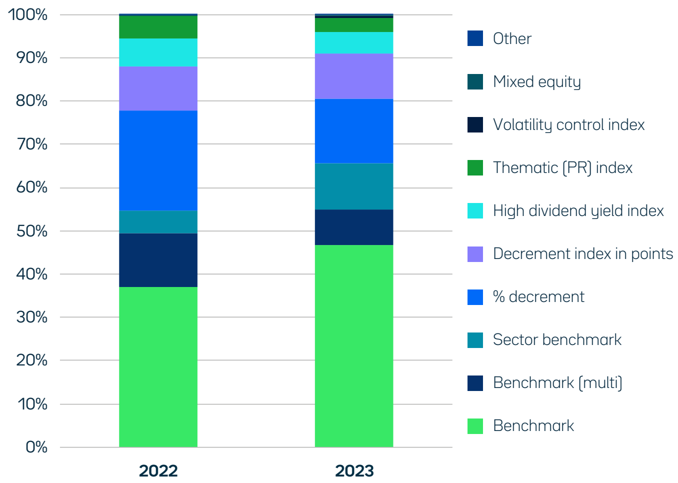
Source: SRP

Europe: underlying single index - region



Source: SRP

Europe: index type



Source: SRP

Using these indices makes it possible to set the level of dividends typically at a level in line with historical dividends, to alleviate trading burden and to obtain a significant pick up on the pricing compared to an investment in the share itself.

There has beeb an increasing demand among private banks, financial advisers or insurerance companies for this type of index. The longer the maturity, the more interesting the pick up is because the forward differential increases.

The chart above shows the mix of index underlying types for several market offer jurisdictions.

Classic benchmark indices have consistently represented the biggest market share across the jurisdictions, somewhat less visible in markets like France and Finland. In Switzerland, the 40% share of products linked to multiple benchmarks is notable.

France remains by far the main market for decrement indices due to its bias towards long-term structured products, e.g. in the life insurance wrapper, for which these indices are most suitable.

Germany and to some extent Italy are also important markets for decrement indices but not Switzerland, where the products' average investment term is short and decrement indices do not really help to improve the coupon or protection barrier.

Beyond France, decrement indices replicating a single share have been increasingly used in Finland with iEdge Fortum Oyj Decrement 0.9 EUR GTR Series 2 Index the most popular.

In terms of regional exposure, just above three quarters of the notional has been linked to Europe-based equities, 12% of which gives access to local markets. In this latter group, products linked to the FTSE 100 accounted for 25% of the notional, followed by FTSE MIB with 20%.

iEdge ESG Transatlantic SDG 50 EW Decrement 5% NTR Index and Solactive Transatlantic Biodiversity Screened 150 CW Decrement 50 Index claimed 21% and 12%, respectively, from the geographically weighted 'Transatlantic' indices which offer exposure to both European and US stocks. The group represent eight percent of the index mix in terms of equities domicile.

A further five percent of the index-linked products target US equities, among which 78% linked to the S&P 500.

Finally, the MSCI World Climate Change ESG Select 4.5% Decrement EUR Index represented 41% of the indices with global exposure.

In terms of investment thematics, just above half of the notional was linked to broad market indices, of which 61% linked to the Eurostoxx 50.

Sustainability remained the most popular thematic with index-linked products although the US$10 billion in sales volumes collected by environment, social and governance (ESG) index-linked products in 2023 was a 33% decrease compared to 2022 when US$15.1 billion was collected.

Here again, MSCI World Climate Change ESG Select 4.5% Decrement EUR Index was the most popular index in this group followed by iEdge ESG Transatlantic SDG 50 EW Decrement 5% NTR Index.

Industry sector index-linked products with strong bias (above 60%) towards the financial sector claimed 14% of index-linked products' notional.

Spotlight on...
top issuers in Sweden

Some SEK6.1 billion (US$580m) was collected from 368 structured products offered to Swedish retail investors in 2023 – down 7.4% by sales volumes compared to the previous year (2022: SEK6.5 billion from 419 retail products).

However, average volumes, at SEK16.4m per product, were slightly up compared to 2022 when products sold on average SEK15.6m.

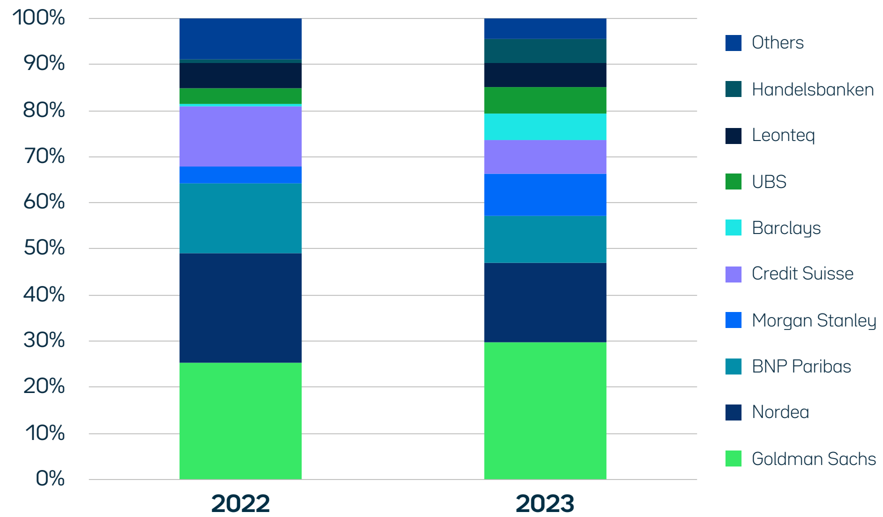
Fourteen issuers were active during the year (2022: 15). They were a mixture of Nordic financial institutions and European and US investment banks.

Goldman Sachs maintained its position as the number one provider, claiming a market share of 29.9% – an increase of 4.6 percentage points year-on-year (YoY).

The US investment bank collected an estimated SEK1.8 billion from 56 publicly offered products, the vast majority of which were distributed via Garantum (54). Goldman's offering included 44 products linked to a basket of shares, with those of Nordea Bank (15 products), Getinge B, Swedbank (14 each), and Electrolux (12) the most frequently seen.

Nordea, in second – the same position it held last year – registered a decrease in market share: from 23.9% in 2022 to 17.2% this year. The Nordic financial services group gathered approximately SEK1 billion from 65 products, with most of its sales coming from 29 credit-linked notes. Asides from its own channels, Nordea's products were distributed via Garantum (30), Strivo (27), and Consensus Asset Management (two).

Sweden: top issuer groups by market share (SEKm)*



Source: SRP

BNP Paribas completed the top three. The French bank, which also claimed third place in 2022, captured 10.2% of the Swedish retail market from 45 products that sold SEK620m (2022: SEK975m from 59 products). Strivo was BNPP's main distributor (25 products), followed by Garantum (18). Morgan Stanley claimed 9.1% market share, up 5.4 percentage points YoY, while Credit Suisse captured 7.2% of the market (2022: 13%). Despite being the subject of a planned merger with UBS announced in March 2023, the Swiss bank issued 33 products worth around SEK430m, the last of which was launched in June via SIP Nordic Fondkommission.

Other active issuers included, among others, Barclays (5.8% market share), UBS (5.7%), Leonteq (5.3%), and Handelsbanken (5.1%). The latter was responsible for the best-selling product of the year which came in the shape of Skala Stena 105 SHBC ST105, a 5.7-year certificate linked to the creditworthiness of Stena. It sold SEK246m during its subscription period in May.

Goldman maintained its position as the number one issuer in Sweden during 2023, ahead of Nordea and BNP Paribas

Spotlight on France...
redeemed vs live products

For the last 10 years France has been a market of autocallable structures, with high annual rates of early redemption and rapid rollover of the nominal invested. This has been possible due to the ability to adapt the asset class to challenging market conditions and different market contexts.

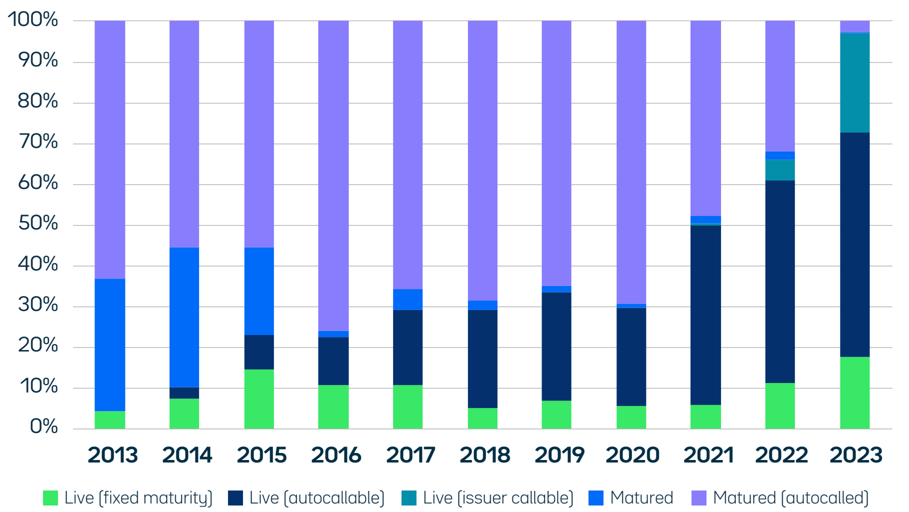
According to SRP data, some 367 structured products worth an estimated €10.1 billion (US$10.9 billion) were issued in France during 2013. Ten years later, the number of issued products registered on the SRP France database reached 4,967, a 13-fold increase, while sales volumes, at €39.2 billion, were up 290%.

Some 68% of the structures on offer in 2013 have since autocalled while a further 30% have matured. For 2014 and 2015, the picture is fairly similar, with the percentage for products that have autocalled at 69% and 63%, respectively, although for 2015 there is still a relatively high percentage of autocallable products that is still live (seven percent).

In 2016, 85% of products issued that year has since autocalled – the highest for the whole observation period. They include 171 products on the Eurostoxx 50, 88 products on the Euro iStoxx Equal Weight Constant 50, 36 products on the Cac 40, and 34 products on the Cac Large 60 Ewer index – one of the first decrement indices used in the French market.

The largely positive market performance in 2019 allowed the early redemption of many products issued in the previous years. Additionally, most products issued since 2017 adopted more frequent early exit windows rather than the annual observation, which had been prevalent

France: redeemed vs live products per year of launch (by sales volume)



Source: SRP

until then. This significantly increased the successful call rate of products during the following years, which remained high until 2020 (between 72 and 80%). However, in 2021 that figure fell significantly (56%) at the expense of live autocallable products which reached 35%, an increase of 20 percentage points YoY.

In many cases, this was not a miss, but a deliberate choice of the providers to adapt the issuance of 2021 (and after) in the context of the rebounding markets after the Covid-19 crisis.

In 2021 we also started seeing the first issuer callable products in the French market, although their numbers – 17 in total of which nine are still live – were quite low. In 2022 and 2023, however, these products saw a noteworthy uptick in both issuance and sales volume: 84 products worth €1.6 billion were issued in 2022 against 184 products that sold an estimated €9.6 billion in 2023. Some 2,284 products worth €14.8 billion have autocalled in France during 2023. This represents 15% of the current outstanding volumes in the end of the year.

Some 2,284 products worth €14.8 billion autocalled in France during 2023, 15% of the current outstanding volume

Product wrap: French fund tracks MSCI social index, BNPP deploys hedge fund strategy

In this wrap, we look at a selection of structured products with strike dates in the first quarter of 2024.

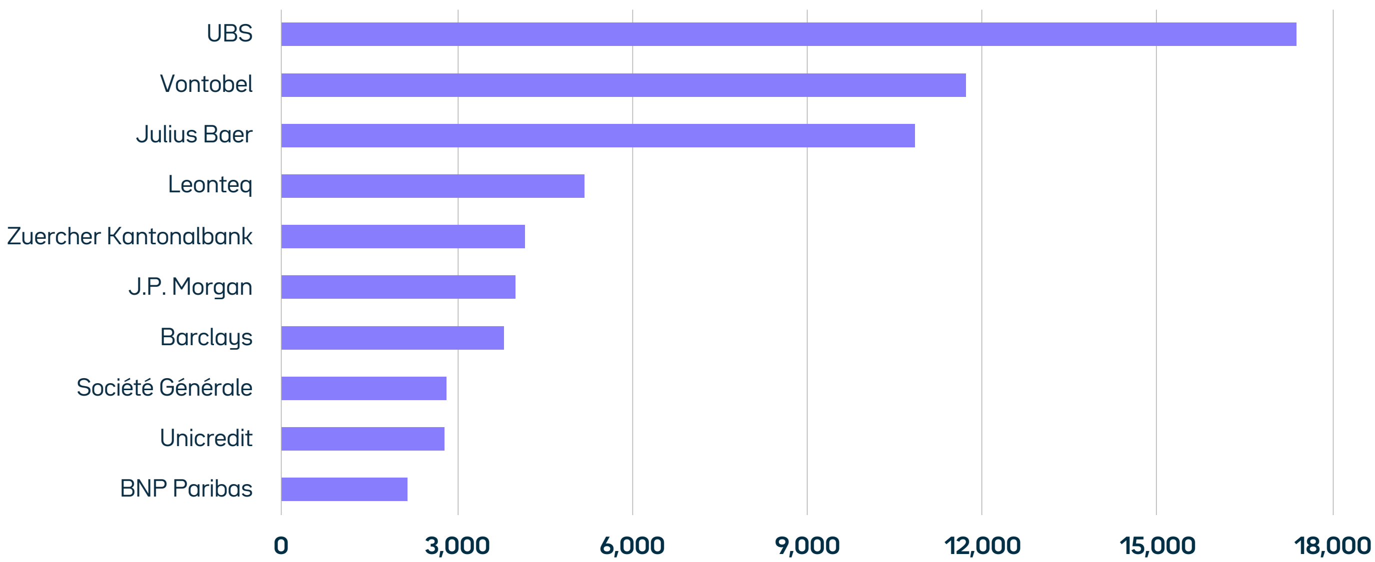
EUROPE

Coralium Juin 2024, an 8.2-year structured fund, collected €35.8m (US$38.8m) via the Caisse D'Epargne network and branches of Banque Populaire in France. The product is linked to the MSCI EMU Social Leaders Select Top 30 5 % Decrement Index, which tracks the 30 largest companies by market capitalisation with the highest social score selected from the 10 most developed countries in the eurozone. The product is subject to annual early redemption (from the end of year two onwards), if the index closes at or above its initial level on any valuation date. In that case, the capital return is 100%, plus a coupon of 8.75% for each year that has passed. At maturity, if the index closes at or above 40% of its initial level, capital is preserved. Otherwise, the investor participates 1:1 in the fall. The product is issued via Natixis Investment Managers International in collaboration with Ostrum Asset Management. Natixis is the guarantor and Caceis Bank the custodian. This product is not listed. Priips Summary Risk Indicator (SRI): five out of seven.

Strivo collaborated with BNP Paribas for the launch of 3000 Fondobligation Idea in Sweden. The six-year certificate is linked to a strategy based on PriorNilsson Idea, an actively managed hedge fund that employs a long/short strategy designed to create positive returns regardless of the development of the market. The fund mainly invests in large companies but can also invest in small and medium-sized companies, predominantly in the Nordic countries and Europe. It was launched in 2006 and has SEK2.4 billion (US$238m) assets under management. The strategy's exposure to the underlying fund is continuously adjusted and has a target volatility of 13%. If the volatility exceeds the target volatility, the exposure to the fund is reduced and vice versa. At maturity, the product offers minimum 100% capital return, plus 300% participation in the positive performance of the fund, subject to 12-month backend averaging. The product is listed at Nasdaq Stockholm and issued at 104.25%. Priips Summary Risk Indicator (SRI): two out of seven.

Crelan collected €120m with Fixed to Floating CMS Linked Coupon Note 2030. The six-year medium-term note (MTN)

Europe: top 10 issuer group by issuance - Q1 2024*



**Excluding flow- and leverage products*

Source: SRP

pays a fixed coupon of 4.25% pa for the first three years of investment. From year four to six, the annual coupon is equal to two times the difference between the 30-year EUR constant maturity swap (CMS) rate and the five-year EUR CMS rate, subject to a minimum coupon of one percent pa and a maximum coupon of five percent pa. The capital protected product was also available via the branch network of AXA Bank Belgium, which has been part of Crelan Group since 2022. Société Générale is the issuer. Priips SRI: one out of seven.

Causeway Securities introduced the six-year Fundsmith Deposit Plan in the UK. At maturity, the potential investment return is 100% of the initial capital, plus 100% participation in the growth of Fundsmith Equity Fund T EUR Acc, an open-end fund incorporated in Luxembourg that invests in equities on a global basis. The return is capped at 145% of the initial capital and the product employs monthly arithmetic averaging over the final year of the plan (13 averaging dates in total). Royal Bank of Canada is the deposit taker while James Brearley & Sons acts as plan administrator and custodian. Subject to a minimum investment of £10,000, the plan is available as a direct. investment; ISA/ISA transfer; offshore bond; and for pensions, companies, trusts, and charities. Priips SRI: two out of seven.

Santander gathered PLN33.7m (US$8.5m) with Capital Protected Notes series 1738 in Poland. The 1.5-year product is linked to the shares of two companies from the telecommunications sector: Deutsche Telekom and Vodafone. At maturity, the product returns 100% of the nominal invested, plus a coupon of six percent, regardless of the performance of the underlying shares. However, providing the worst performing share closes at or above its initial level, an additional coupon of 1.50% is paid. The overall capital return in that case is 107.50%. This product is issued via Santander International Products and listed on Euronext Dublin. Priips SRI: one out of seven.

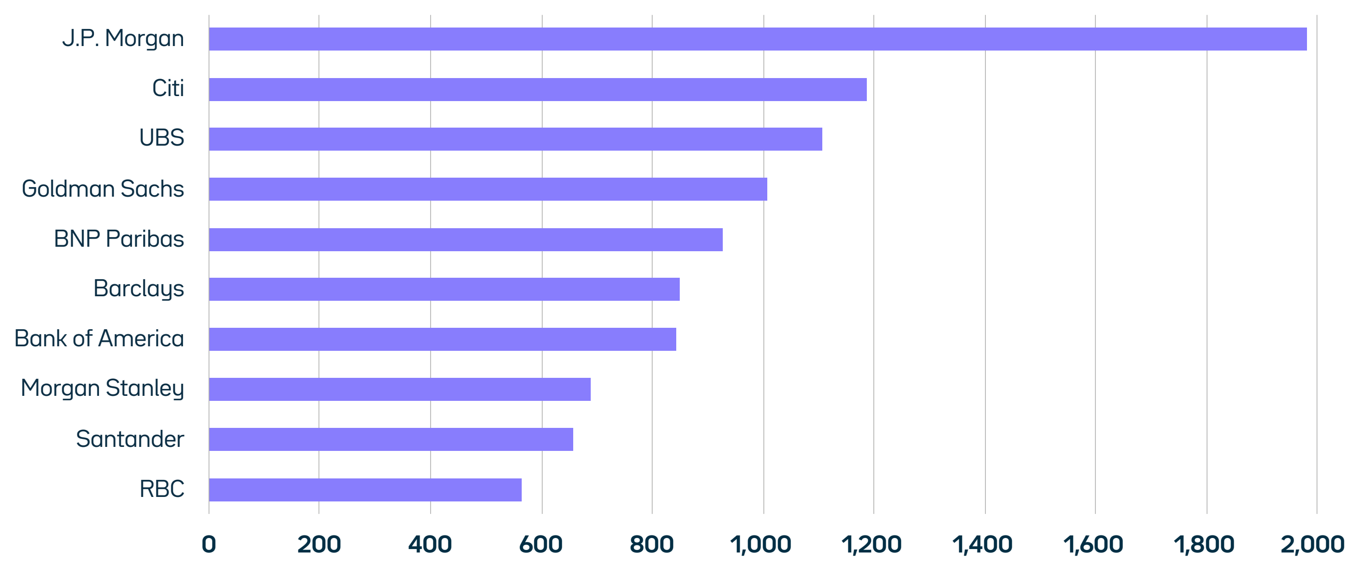
March Vida distributed MultiEstructuras Emisión I 2024 Fijo & Bonus in Spain. The two-year unit-linked life-insurance invests in a structured deposit issued and guaranteed by Banca March. It offers access to the Ibex 35 Index. At maturity, the product returns 100% of the nominal invested, plus a coupon of 3.40%, regardless of the performance of the index. However, if the index closes at or above its initial level, a coupon of 6.80% is paid instead. Priips SRI: one out of seven.

AMERICAS

National Bank of Canada launched an autocallable contingent income note on the Solactive GBS United States 500 Hedged to CAD 2% AR Index in its domestic market. The product has a tenor of seven years and pays a fixed coupon of 8.76% pa if the index closes at or above 70% of its initial price on any valuation date. If, on any annual valuation date the index closes at or above 110% of its starting price, the product expires. Desjardin Securities receives a fee of 0.15% per security sold for acting as an independent dealer.

Bank of America collected US$58m with its Accelerated Return Notes (09710N630) on the iShares U.S. Aerospace & Defense ETF in the US. The 1.2-year registered note participates 300% in the positive performance of the underlying fund,

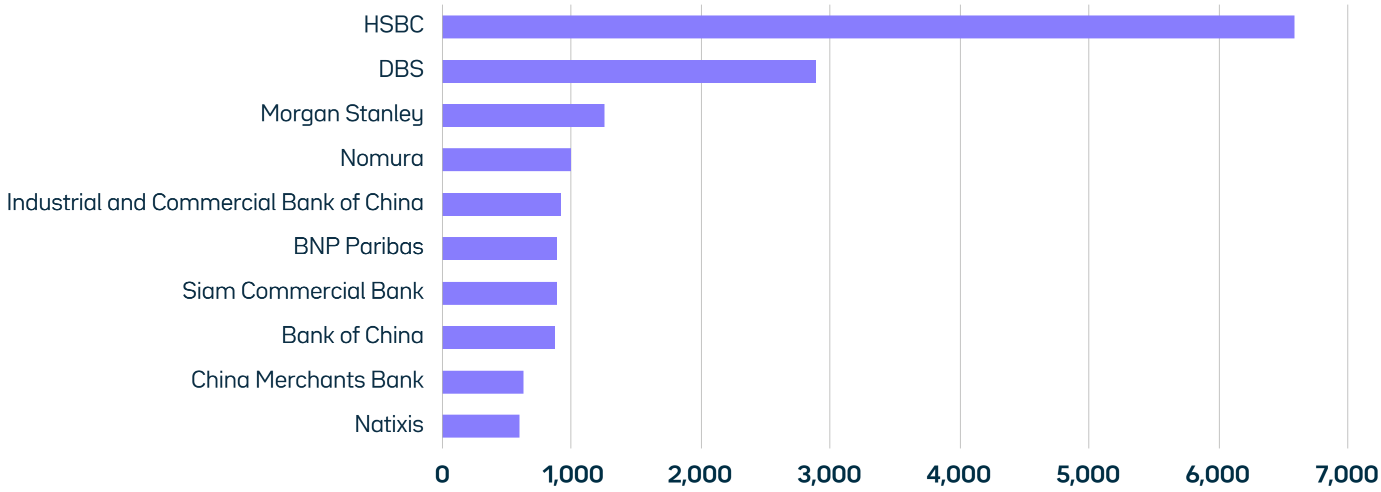
Americas: top 10 issuer group by issuance - Q1 2024*



**Excluding flow- and leverage products*

Source: SRP

Asia Pacific: top 10 issuer group by issuance - Q1 2024*



***Excluding flow- and leverage products** — **Source: SRP**

capped at 13.2%. If the ETF performance is negative, the investor participates 1:1 in the fall. The underwriting discount is US$0.175 per unit and the hedging-related charge is US$0.05 per unit. The initial estimated value of the notes is US$9.652.

Also in the US, **Barclays** sold US$$1.6m worth of Leveraged Notes (06745Q4R7) tied to the S&P 500 Futures Excess Return Index. The capital protected product offers 130% uncapped participation in the index. Agent's commission is 3.625% while the estimated value is US$930.40 per note.

Monex achieved sales of MXN272.7m (US$16.6m) with its Double No Touch note in Mexico. The one-week deposit is linked to the appreciation of the US dollar relative to the Mexican peso. The product pays a coupon of four percent per annum, providing the predetermined barrier is not breached. Otherwise, the product returns 100% of the capital invested.

In Brazil, **Banco Santander** issued China Prêmio Alta, a one-year, capital protected certificate of deposit linked to the Deutsche X-trackers Harvest CSI 300 China A-Shares ETF. At maturity, if the underlying fund closes at or above its initial level, the product pays a coupon of 12.12%.

ASIA PACIFIC

Chugin Securities gathered sales of JPY2.2 billion (US$14.4m) with ノツクイン債/KI M20290326 in Japan. The five-year autocall pays a fixed coupon of four percent pa for the first quarter of investment. Every following quarter, a coupon of the same amount is paid, providing the underlying Nikkei 225 and S&P500 indices close at or above their respective initial levels on the quarterly observation date. The product redeems early if both indices close at or above 105% while at maturity an American barrier of 50% applies. Société Générale is the issuer.

In China, **Shanghai Pudong Development Bank** targeted retail investors with 海浦东发展银行个人银行结构性存款/35D CNY Structured Deposit 21012423. The capital protected product has a maturity of 35 days and is linked to the performance of iron ore. If, on 8 April 2024, the commodity is at or below 101.4% of its initial level, the product pays a coupon of 3.4% pa. Otherwise, the coupon is 0.3% pa.

NH Investment and Securities accumulated sales of KRW106.2 billion with ELB 2468 in South Korea. The one-year product was linked to the shares of Korea Electric Power and Samsung Electronics. At maturity, the capital protected bond returns 103.8105% if the worst performing share closes at or above 300% of its starting value on 29 March 2025. Otherwise, the product returns 103.8095%.

Cathay Securities teamed up with Standard Chartered Bank in Taiwan for the launch of Note 83000240007. The three-month private placement is denominated in US dollars and linked to a Taiwanese government bond.

HSBC issued 股票掛鉤投資2024/Basket DCDC DFBAS2400807 in Hong Kong SAR. The four-month daily cash dividend callable is linked to a basket of three stocks: Tracker Fund of Hong Kong, Ping An Insurance China (H shares), and HSBC (H Shares). The product has a daily autocall condition and at expiry knock-in feature which is set at 78%. The exercise price of each underlying is between 97% and 100% of the initial spot price. The fixed cash dividend rate is equal to 0.97%.

People moves

Exclusive: Barclays' Asia head of EQD structuring departs

The industry veteran was in charge of the UK bank's equity derivatives (EQD) structuring and sales in the region. **Nicolas Reille** (pictured), managing director, head of EQD structuring for Asia and head of EQD sales for Asia ex-Japan, has parted ways with Barclays, SRP has learned.

Reille's registration with Barclays Capital Asia ended on 7 February, according to the Securities and Futures Commission of Hong Kong. In addition, he is no longer registered with Barclays Bank since the same day, records from the Financial Conduct Authority (FCA) show.

A spokesperson at Barclays declined to comment on the matter.

The role has not been replaced, a source familiar with the matter told SRP.

Reille was the manager of several senior hires at the UK bank in the past two years, including Stephane Goursat and Thomas Bord.

His departure coincided with Julien Calas' registration with Barclays Bank, which became effective from 8 February, according to the FCA. Most recently Calas was head of cross-asset structuring for Japan based in Tokyo where he reported to Reille after he joined from Natixis in April 2018.

Reille has over two decades of experience in EQD with a career spanning Société Générale and Natixis besides Barclays mainly in Hong Kong SAR.

He joined Barclays in June 2019 from Natixis and was responsible for growing the bank's equities structuring capabilities in the region. At Natixis, Reille held the role of Asia head of global markets sales and financial engineering for almost one year after serving as Asia head of EQD sales and financial engineering from September 2014 to July 2018.

Reille's exit from Natixis came after the French bank booked big losses from autocallable products in South Korea.

Reille started his career at Société Générale as an equity corporate finance analyst in Paris in 1998 and then moved to the Hong Kong office a year later where he subsequently focused on EQD sales and was promoted to the Asia head.

He left Société Générale in October 2009 and spent nearly five years running his own lifestyle website before returning to the finance industry.

Within the EQD segment, Barclays this month promoted Angad Singhania from vice president to director in quantitative investment strategy (QIS) based in Mumbai.

Last November, Jean-Baptiste Patois, former head of EQD trading, Asia ex-Japan at Nomura, was hired as managing director, head of EQD ex-strategic derivatives, Apac at Barclays based in Hong Kong SAR.

SG bolsters UK EQD sales

The French bank is targeting the UK structured products market as well as the sales capabilities of its digital assets subsidiary which services issuers of digital-native financial products registered on the blockchain.

Peter Degombert (pictured) has been appointed head of cross asset distribution sales UK at Société Générale Corporate and Investment Banking (SGCIB).

Degombert transferred from the Paris office to London at the start of the year to take on his new role. He reports to Haris Contaroudas, head of cross-asset solutions and equity flow derivatives sales, UK, and head of CEEMEA sales at SGCIB, an SG spokesperson told SRP.

Contaroudas reports into Albert Loo, head of global markets, UK, and functionally to Yann Garnier, head of global markets sales and research, for his CEEMEA responsibilities.

Degombert joined the French bank in 2012 as an analyst – cross-asset solutions sales, in Paris, and moved to New York in 2015 as a vice president – cross-asset solutions sales, USA. He returned to Paris in 2021 after being appointed director, cross-asset solutions sales, CEE. The promotion of Degombert coincides with the appointment of Guillaume Chatain as head of sales at the French bank's subsidiary Société Générale-Forge (SG-Forge).

Chatain's appointment is set to 'further bolster the firm's management team, paving the way for an accelerated evolution and expansion', the company said in a statement.

Chatain will have global responsibility for acquiring new customers, build partnerships and widespread the adoption of the EUR CoinVertible (EURCV) as the first EUR stablecoin issued by a fully regulated subsidiary of a global bank - the token was listed in 2023 on Bitstamp. Based in London, he reports to SG-Forge's chief executive Jean Marc Stenger.

Prior to joining SG-Forge, Chatain spent over two years at Coinbase as the head of institutional sales Emea and Apac, after almost four years at the now defunct ResonanceX platform, a digital broker-dealer that introduced with Marex Solutions the first structured product to clear, settle, and receive custody on a public blockchain.

He was the founder and CEO of the platform which ceased operations in Q3 2020.

UBS increases sales capabilities of global markets franchise

The new team includes the appointment of a new global head of structured products, structured finance & solution sales who will be in charge of the bank's 'largest growth engine since the formation of global markets'.

UBS has made several appointments within the global markets franchise to strengthen its sales capabilities, according to a memo seen by SRP.

The internal memo signed by Derek Capanna and Ian Slatter, co-heads global markets sales at UBS in London, notes that the appointments will help to 'continue offering exceptional service and a diverse product offering while rapidly adjusting to changing client needs and market conditions'.

Eric Lafon (pictured) has been appointed global head of structured product, structured finance & solution sales which has become the bank's 'largest growth engine since the formation of global markets'. Going forward, Cecile Retaureau, UBS' global head - financing & solutions sales will report to Lafon.

Lafon was part of the team of senior co-heads of GM distribution alongside Ian Slatter and Derek Capanna, which was appointed in the summer of 2023 as part of the third reshuffle of the UBS senior management team following the Credit Suisse (CS) takeover. Earlier in May, UBS appointed its top senior management team, with almost all top roles going to existing senior UBS executives and board members.

The new global market senior team includes Adrian Boehler as global head of macro sales with Tom Woodhouse leading the unit's Emea rates and fixed income solutions teams reporting to Boehler and Andres Schmitz who remains Emea head of execution sales. Greg Poole, global head of the UBS Knowledge Network will also report into Boehler.

Also, in Emea, Mike Sales retains his role as Emea head of franchise sales with Chris Hunt, head of global markets client office reporting to Sales.

In the US, Dan Murphy remains Americas head of franchise sales with Lauren Macintosh, global head of corporate access reporting to Murphy and Raymond Chan who also remains Apac head of franchise sales. Murphy relocated to New York at the beginning of 2022 as co-head of global markets sales for Americas reporting to Capanna.

Former CS global head of markets re-emerges at Millennium

The former global co-head of investment and markets at Credit Suisse will join the US hedge fund as his predecessor leaves for Citadel Securities.

Kenneth (Ken) Pang (pictured) has been appointed as head of Asia equities at Millennium Management based in Hong Kong SAR, six months after his departure from Credit Suisse, according to sources familiar with the matter.

In the new role, Pang will replace Vikesh Kotecha (below right) at the equities division led by Peter Santoro globally, who joined from Morgan Stanley in 2017.

A spokesperson at Millennium declined to comment on Pang's appointment.

In the meantime, Kotecha has joined Citadel Securities as Asia Pacific (Apac) head based in Hong Kong SAR later this year. He will report to chief executive officer Peng Zhao, said a spokesperson at the Miami-headquartered market maker in an emailed statement.

Kotecha acted as managing director and head of derivatives, Asia, at UBS for two and a half years until he joined Millennium Management in April 2020. Prior to that, he held senior roles at Barclays and the now-defunct Lehman Brothers from 2004 to 2017.

Pang left Credit Suisse during the merger with UBS in August 2023 after his 14 years where his last role was global co-head of investment bank and markets in addition to global co-head of global trading solutions (GTS) and head of Apac markets.

He was registered with Credit Suisse in June 2009 as co-head of equity derivatives and convertibles, Apac, along with Min Park. Both of them had a stint at UBS from April 2006, according to their registration records on the SFC.

Park has remained at UBS after the merger. He was appointed to Credit Suisse markets management committee on behalf of Apac sales mid last year.

Schroders' head of structured funds exits

The UK asset managers has announced four appointments within the risk managed investment (RMI) division as the veteran structurer leaves following a total of 25 years.

Mike Hodgson (pictured) has parted ways with Schroders where he was most recently head of risk managed investments (RMI) and structured funds based in London.

His registration with Schroders became ineffective on 16 February, according to the Financial Conduct Authority.

Hodgson's career at Schroders started in the investment banking unit in 1987 where he ran interest rate derivatives trading. He then became head of structured products and equity derivatives trading in the following years.

In 2000, Hodgson transferred to Citigroup's European investment banking arm traded as Schroder Salomon Smith Barney after Schroders sold its investment bank to Citigroup. Two years later, he moved to ABN Amro as head of equity derivatives structuring and then as head of fund derivative products.

Hodgson returned to Schroders in 2011 to help establish the RMI business before he assumed additional responsibility for its structured funds in 2016, replacing Thomas See.

The London-listed fund manager confirmed Hodgson's departure and four internal transfers within the RMI team in an emailed statement.

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