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INSIGHT

CONNECTING THE STRUCTURED PRODUCTS INDUSTRY

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Eusipa: additional RIS disclosure, reporting obligations will hit end-investors

The European Council (EC) has under the Belgian presidency decided on a general approach to the retail investment strategy (RIS) and is ready to move forward with what has been agreed on the technical side of the updated guidelines.

"The next step is for the proposal to be negotiated with Parliament, which will need to formally decide in September whether they continue to file, which we expect they will," Thomas Wulf, secretary general at the European Structured Investment products Association (Eusipa), told SRP.

The EC RIS proposal published last week, which includes a proposal for a regulation amending the Priips regime and a new Omnibus directive amending several European regulations doesn't provide the full picture yet, but some fundamentals of the new provisions are already known by the European structured products industry.

According to Wulf, the decision to scrap a European-wide inducement ban is an important aspect of the proposal, which now however, includes, as suggested under the EC position, a broader list of provisions that set out details on when inducements can be charged.

"You could call that a sort of inducement governance, which we had already seen coming, and which still needs to be negotiated between Parliament and the Council, given the quite substantial deviations between the two positions," said Wulf.

"On the value for money provisions, we are very likely to end up with a quantitative benchmark to be used by regulators as a supervisory or at least market screening tool, given that both Parliament and Council would like to see such an instrument in place."

In terms of best-interest considerations, any new provisions will have to be negotiated as the European Parliament has already voiced that it does not want to have a mandatory offer of other products that have features deemed unnecessary to the initially advised product.

Wulf noted that the EC, however, would now support an approach which basically says that "a product cannot be considered suitable (a technical term under Mifid) if it has non-essential features, unless there is a specific justification for offering it".

"The obvious elephant in the room for that approach is the question of what a non-essential feature is," said Wulf.

Hurdles

Looking at the current state of the discussion, Wulf pointed at a number of challenges to overcome given that "the implementation of many provisions would require a huge data mapping and mining exercise based on unclear legal terms and thus inviting many potential misinterpretations and mistakes, which in itself could be a strong deterrent to capital market engagement".

"We have concerns about the use of quantitative benchmarks, because of the risk of comparing apples with pears," Wulf said.

"From our perspective, that is something that needs to be assessed really carefully, because structured products as an asset class already come in different wrappers."

Wulf concluded that as an industry body, Eusipa more generally supports any initiative to bring more retail investors and cash assets to the capital market, but as stated jointly with other industry associations before, "there are severe doubts about whether the RIS provisions actually make access for retail customers easier".

"We have concerns about the use of quantitative benchmarks, because of the risk of comparing apples with pears

FSMA: structured products become simpler

The Financial Services and Markets Authority (FSMA) did not ban any structured products in 2023 as they were deemed less complex than in previous years.

According to the Belgian regulators annual report, structured products commercialised in 2023 were generally less risky than in previous years: their tenors were shorter; the vast majority was denominated in euros; almost all products that struck during the year were fully capital protected; the most used underlying asset to determine the payoff formula were interest rates; and less products were linked to a house or proprietary index, which includes at least one additional mechanism.

As a result, in 2023 the regulator did not deem any products 'too complex' for retail investors, unlike previous years. In 2022 for example, five products linked to proprietary indices were banned by the FSMA while 20 products were banned in 2017.

"Distributors of structured products have acquired a good knowledge of the moratorium – in particular in counting mechanisms," a spokesperson for the FSMA told SRP.

> We have the capability to compare products and identify the impact of costs on the final return

"It is therefore not surprising that the number of requests for analysis has decreased, as has the number of products that are considered particularly complex," the spokesperson said.

To protect investors, the FSMA introduced a moratorium on the distribution of particularly complex structured products in June 2011.

The moratorium, which is observed by almost all providers of structured products in Belgium, sets several criteria – including the accessibility of the underlying – to avoid the commercialisation of overly complex structured products. In addition, it aims to provide investors with a better understanding of the costs, credit risk and market value of structured products.

Since the launch of the moratorium, 6,586 structured products have been commercialised in Belgium. Of these, 3,362 products worth a combined €62.3 billion (US$66.8 billion) are covered by the moratorium. The remaining 3,224 products are issued under the opt-out regime that allows distributors not to apply the moratorium to investors holding at least €500,000 in deposits and financial instruments at that institution.

Belgium market posts solid volumes, hopes to profit from maturing government bond

Fifty-seven structured products worth €1.1 billion (US$1.2 billion) were issued on the Belgian primary market during the first quarter of 2024, according to the latest figures released by the Belgian Structured Investment Products Association (Belsipa).

Sales volumes fell by 10% quarter-on-quarter (QoQ) and were down 42% compared to the high of Q1 2023 when €1.8 billion was collected from 60 products.

In Q1 2024, €909m of primary market turnover came from products offered to retail investors while €45m was invested in private placements (Q4 2023: €1.1 billion and €41m, respectively). Some 84% of the primary market turnover (€895m) complied with the FSMA moratorium, while the market share for products sold outside its scope almost doubled: from 2.8% in Q4 2023 to 5.5% this quarter (€59m).

The stock markets continue to offer attractive investment opportunities, according to Florence Devleeschauwer, chairwoman of Belsipa.

'Interest rates have remained high, providing a particularly favourable environment for structured investment solutions, which explains the enthusiasm of investors in recent months for these types of products,' she said.

Filip Gils, Belsipa's vice-chair added: 'Today's markets provide an almost ideal environment for structured products to play out their benefits. Our asset class offers the perfect alternative to a direct investment in the underlying shares or bonds, especially as retail investors' investment appetite will remain high.'

The highly subscribed one-year government bond issued in 2023, which attracted an issuance volume of almost €22 billion and led to extreme low sales of structured products in Q3 2023, will soon mature, 'making it worth to rethink our asset class', according to Gils.

UK provider revives commodities after almost 10 years

IDAD launched the Oil Memory Income Plan May 2024 in the UK. The three-year plan is hedged by BNP Paribas and linked to the price of WTI crude oil. It has been constructed to offer a potential memory coupon of 9.16% p.a. if on any observation date, the price of WTI oil is above 75% of the initial strike level.

If the price of WTI oil is above 50% of the strike level, full capital will be returned. In addition, the product will mature early if the underlying commodity is at or above its initial start level starting from 12 months. If the price of WTI oil is below 50% at maturity, investors' capital will be at risk.

"The heyday of commodity structured products was around 2005-2007 when [issuers and investors] traded large volumes across a number of underlying commodities," Bevan Goulden, institutional solutions, IDAD, told SRP.

"Since then, we have seen far fewer products, mainly due to investor appetite — investors have just been less excited about the asset class, with the exception of precious metals," said Goulden.

"More recently, energy and industrial commodities are more in the forefront of investors' minds, likely due to big moves during and in the aftermath of the pandemic and more recent geopolitical events.

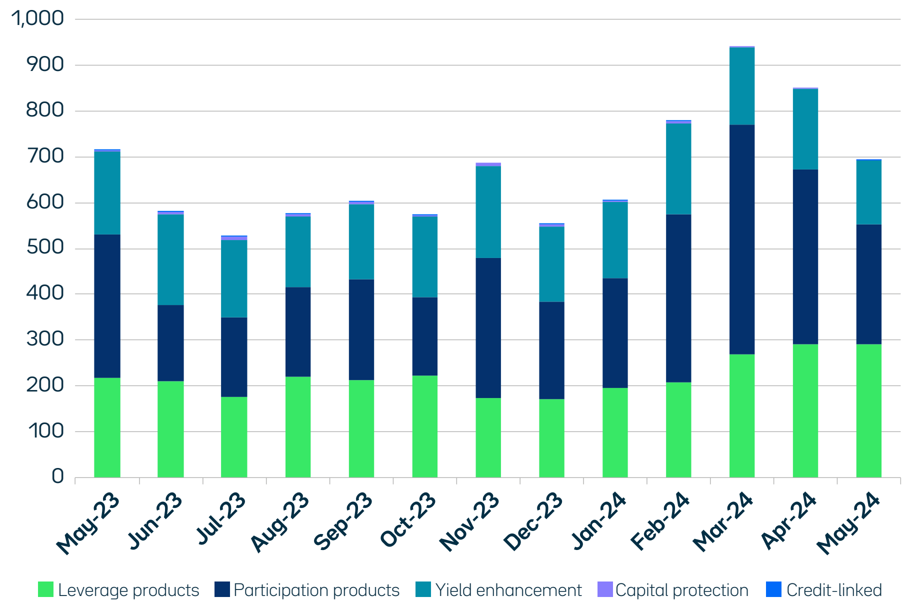
"Pricing is also now attractive, especially on oil-linked products, due to the Brent & WTI forward curves being in backwardation," he said.

SRP data shows that this is the first commodity-linked play to be marketed in the UK market in the last 10 years.

Swiss turnover slows down despite friendly markets

Turnover for structured products traded on the SIX Swiss Exchange reached CHF693m (US$784m) in May – down 19% compared to the previous month and a decrease of 3.1% year-on-year (YoY).

SIX Swiss Exchange: turnover structured products by category (CHFm)



Source: SIX Swiss Exchange

Turnover for structured products traded on the SIX Swiss Exchange reached CHF693m (US$784m) in May – down 19% compared to the previous month and a decrease of 3.1% year-on-year (YoY).

Some CHF618m was traded on exchange, down 16% month-on-month (MoM); the over-the-counter (OTC) business, at CHF76m, fell by 36%.

The total number of tradeable structured products increased by 3.9% to 63,053. Of these, 49,585 or 78.6% are leverage products (April: 47,099); 11,326 are yield enhancement products (April: 11,455); 1,719 are participation products (April: 1,731); 318 are capital protection products (April: 310); and 105 are products linked to reference entities (April: 103).

There were 9,455 new products listed during the month – down 8.2% from April but an increase of 22% compared to May 2023 when 7,845 products were listed.

Ninety percent of the new listings were leverage products (8,463 products, up 23% YoY). Other listings included 962 yield enhancement products (+3.2% YoY); 16 participation products (-5.9% YoY); and 12 capital protection products (-14.3%).

May had 20 trading days with an average of 1,861 trades and an order size of CHF17,227 (April: CHF19,080). The total number of trades stood at 36,220 (April: 39,086), which included 20 mis-trades (41).

French manager creates transatlantic index

Federal Finance Gestion has partnered with Solactive to develop an index with a transatlantic theme.

> We wanted to give specific expression to our ESG commitment with an even more elaborate index

The Solactive Transatlantique Planete Index takes its constituents from a universe of US, French and German companies and has been live since 14 July 2023. It was developed based on the work and expertise of Federal Finance's cross asset solutions and ESG teams, and especially created to serve as underlying for the company's new range of structured funds.

The first fund linked to the index is Autofocus Ambition Planete Juillet 2024, a nine-year autocall for which the marketing campaign started on 13 May. It offers a potential annual coupon of seven percent and has a European soft capital protection barrier of 60%.

"After almost two years of using our range of PAB indexes we developed with S&P, for which we collected €750m, we wanted to go further on the ESG side as well as the geographical diversification," said Mathieu Migault (pictured), fund manager at Federal Finance.

In addition to the usual elements of Paris-aligned benchmark (PAB) indices such as reduction of carbon intensity, decarbonisation trajectory, exposure to high climate impact sectors and specific elements to Federal Finance Gestion like controversies and science-based target initiative (SBTi) certification, the investment manager added elements about the respect of the planet in the form of a 'Mean species abundance intensity' filter on land artificialisation and activity-based screening on genetically modified organisms (GMO) and pesticides.

After screening the providers and in collaboration with a counterparty, Federal Finance chose Solactive as index provider and ISS/Iceberg Data Lab as data providers.

"We wanted to give specific expression to our ESG commitment with an even more elaborate index," Migault said.

After developing indices on France – S&P France 40 Paris-Aligned Transition ESG 5% Decrement Index – and core Eurozone – S&P Core Eurozone 50 Paris-Aligned Transition ESG 5% Decrement Index – the transatlantic thematic was a natural extension, according to Migault.

"The portfolio of our clients is mainly based on European assets, so the integration of American stocks represents diversification, especially in a dynamic area. The drawback of this diversification is the lack of PEA status, which is a strength of our structured products in fund format," he said.

STOXX expands ESG offering with dividend points play

STOXX has debuted the Euro Stoxx 50 ESG Dividend Points (DVP) index that calculates the dividends paid out by constituents of the Euro Stoxx 50 ESG index during the annual period. The index will allow the construction of hedges around dividend payments in the Euro Stoxx 50 ESG. According to the index provider, Eurostoxx 50 Index Dividend Futures and Euro Stoxx 50 Index Dividend Options have long been a trading staple on Eurex.

Nearly 500,000 Euro Stoxx 50 index dividend futures traded on average every month this year through April, for a total 2024 notional volume of €29.7 billion. Futures based on dividend points indices are popular derivatives that allow investors and traders to gain targeted exposure on corporate payments. This means investors can hedge their portfolios' dividend risk, separate from the underlying share performance.

Nomura returns to US public market, global EQD push gains momentum

The Japanese bank aims at 5-7% market share in the SEC-registered note space in the next three years.

Nomura is back in the US public market with a clear objective - to extend the success of its equity derivatives (EQD) business in Asia Pacific into the US as the sole Asian issuer of structured notes registered with the Securities and Exchange Commission (SEC).

Following nearly an 18-month preparation, the Japanese lender has traded two autocallable notes with US$1m notional each on 17 May after filing its registration statement to the SEC a month earlier.

The bank is set to issue its third note tomorrow (14 June) via Nomura America Finance LLC (NAFL), the issuance entity of Nomura Holdings, which will be one-year note with an up-and-out option linked to the stock of Arista Network.

"NAFL's primary focus in the US historically was on fixed income products," Jason Jerutis, executive director, head of structured notes sales for Americas, told SRP. "A lot of the advancements in technology has made it a lot easier for us to rationalise why we should be in the market right now."

Global push

The former Merrill Lynch structured derivatives sales left the US bank after 20 years to join Nomura early last year as the Japanese bank kicked off its equity derivatives strategy across the globe in an attempt to seize more market share.

In Europe, the Japanese lender has made headway with repackaged structured notes in the insurance segment, as SRP reported last month.

"By putting our best foot forward on income-based strategies, we're looking to gain momentum and get to a snowball effect by next year," said Jerutis.

The last time Nomura was seen in the registered note space goes back to January 2016 when NAFL issued a cash-settled exchangeable note worth US$1.1m due to expire on 22 January 2023 under its senior global medium-term note program, SEC filings show.

The US registered structured note market has become too big to ignore with its total traded notional exceeding US$100 billion in 2023, an increase from US$93.5 billion in 2022, according to SRP data.

Not yet halfway through the year, the total traded notional has reached nearly US$60 billion, on the paper of 14 issuers comprising of five US banks, five Canadian banks, two British banks and one Swiss bank in addition to Nomura, SRP data shows.

"We found the opportunity compelling to look at the US market size and what's happening in the registered space," said Alex Micalizzi, managing director, head of structured notes trading at Nomura. "It appeals to us from a risk and a funding perspective. A 5% to 7% of market share would be a viable plan over the next three years."

The market share would translate to US$5 billion to US$7 billion traded notional based on last year's size, putting Nomura in the middle of the league table, according to SRP data.

"I think the flow of structured notes will continue to increase," said Jerutis. "I expect to see a greater adoption of technology overall including in portfolio management, which helps investors understand how [structured products] fit into their portfolio with their stocks and bonds,"

Beyond the registered note segment, the Japanese bank has an established footprint in SEC-exempted notes, known as Reg S and Rule 144A offerings, which are sold to offshore and qualified institutional investors, respectively.
Over the past year, Nomura has issued approximately US$700m and US$2 billion notional notes under Reg S and Rule 144A, respectively.

"We want to be cross asset in the future but have an equity-driven focus in the short to medium term," said Jerutis.

The sales head points at technology as the main catalyst for Nomura's growing registered note business. "As the market grows, there's going to be greater need for us to be plugged into the market to provide indication quickly and execute trades in a scalable way," he said.

Maiden trades

Without a wealth management arm in the US, the Japanese lender has focused on "providing competitive pricing and bringing a unique regional credit diversification" for investors, said Micalizzi, who also joined Nomura from Merrill.

The first two public trades were both reverse inquiries. With a one-year tenor, the autocallable contingent coupon barrier notes are linked to stock baskets – one consists of Apple, Cisco System and IBM while the other note is referenced to Apple, Cisco and Dell Technologies, according to SEC filings.

The senior unsecured notes are fully and unconditionally guaranteed by Nomura Holdings with Nomura Securities International acting as the calculation agent as well as hedge provider. Deutsche Bank Trust Company Americas acts as trustee, as well as paying and transfer agent.

"As our registered phase takes up, we expect it to account for 60% of the business while Reg S and 144A notes make up the rest," said Jerutis. "We are making a big push on all fronts."

New Rila hedged by BNPP debuts Nasdaq custom play

Sammons Institutional Group (SIG) has added a new custom index in partnership with Nasdaq and BNP Paribas to its registered index-linked annuity (Rila) shelf.

The Nasdaq-100 Max 30 Index (NDXMAX30) is now exclusively available on the LiveWell Dynamic Annuity, which makes it the only Rila on the market offering a 30% volatility target index.

'We're pleased to build upon the success of the LiveWell Dynamic Annuity by adding this new index to the lineup,' said Greg Bonzagni (pictured), vice president and head of distribution at Sammons Institutional Group (SIG).

Launched in July 2022, the LiveWell Dynamic Annuity sold US$48.6m in the first quarter of 2024 after posting US$119.4m for 2023, according to Limra's US Individual Annuities Sales Survey.

The tax-deferred annuity with principal at risk is issued by Midland National Life Insurance Co, a division of SIG, which is a wholly-owned subsidiary of Sammons Financial Group.

BNP Paribas is the derivative manufacturer. 'The design was informed by the bank's experience in creating [and] distributing retail structured products, featuring a modified version of the truVol Risk Control Engine that has been optimized precisely for buffered derivative structures, a first of its kind for Rila investors,' said Ryan Cullen, head of equity derivatives (EQD) insurance solutions sales at the French bank.

Going live on 23 April, the Nasdaq-100 Max 30 Index is designed to deliver exposure to Nasdaq-100 futures while targeting a volatility level of 30% by using the truVol Risk Control Engine to adjust exposure to the Nasdaq-100 Futures Excess Return Index daily.

The truVol Risk Control Engine is designed by Connecticut-based Salt Financial as a proprietary risk management tool to target volatility in risk-controlled index strategies powered by higher frequency data.

The mechanism generally increases exposure to the underlying index when volatility falls and decreases exposure when it rises. It is also employed by the Nasdaq-100 Volatility Control Series that went live last October targeting annuity carriers.

LiveWell Dynamic Annuity enables investors to participate in upside growth potential while offering partial protection during market downturns through floors and buffers on 1-, 3-, and 6-year cycle terms. It is not available in New York.

The existing index options are the S&P 500, MSCI EAFE Index and Russell 2000. Optional riders of return of premium death benefit and waiver of surrender charge rider are available.

Transamerica debuts new prop index

Baltimore-based Transamerica has expanded its partnership with FT Indexing Solutions by bringing the First Trust Equity Edge Index to its flagship Rila - Transamerica Structured Index Advantage Annuity – on an exclusive basis. The Rila product has surpassed US$1 billion in sales in its first two years, according to the insurance carrier.

The index provides additional exposure to U.S. equities that exhibit high quality and value, consistent with a balanced investment approach. 'First Trust Equity Edge provides investors with access to growth potential with limits to downside risk, which is consistent with Transamerica's mission to help people make the most of what's important to them,' said Liza Tyler, Transamerica's head of annuity solutions.

The First Trust Equity Edge Index features a unique blend of US equities 'that demonstrate high quality and value'. It combines two equally weighted methodologies and is sourced from the Value Line Dividend Index, a benchmark of the highest-yielding stocks in the Value Line universe and the Nasdaq US Rising Dividend Achievers Index

Exclusive: Morgan Stanley structured note sales head exits

The structured derivatives sales veteran for North America is leaving the US bank in the next few months.

Larry Wilson (pictured) managing director, head of structured note sales for North America at Morgan Stanley based in New York, is set to part ways with the bank, SRP has learnt.

Morgan Stanley declined to comment on his departure. His next move remains unclear at the moment.

In his current role, Wilson is a member of the Global Equity Operating Committee, ISG Diversity Committee and IED Diversity Committee at the US bank. He reports to Iliana Bouzali, managing director, global head of equity derivative distribution.

Wilson's registration with Morgan Stanley is still effective, Finra's BrokerCheck shows.

Last June, Wilson was appointed as a member of the board of directors of Morgan Stanley Finance, the issuance entity for the US bank's registered structured notes, according to the issuer's 2023 interim financial report.

He also serves on the board of directors at PGA Reach Trustee and Digitalundivided, a non-profit startup that leverages data and advocacy to catalyse economic growth for Black and Latin women entrepreneurs.

The structured products sales veteran joined Morgan Stanley from J.P. Morgan in late 2018 after 16 years of service - his last role was managing director, head of North America retail distribution, structured investments.

Prior to that, he led the bank's structured investments distributor marketing (SIDM) and equity derivatives sales to insurance, pensions, endowments and foundations, following Scott Mitchell's appointment as head of equity derivatives sales for North America.

SG revamps Americas ECM team

Société Générale (SG) is revamping its equity capital markets (ECM) offering in the US with the addition of three new individuals, according to an internal memo.

Nicholas Cunningham has been appointed as a senior banker in ECM. He will be focused on the industrial sector and financials sponsors. Elsewhere, Ashish Sanghrajka has joined the French bank as senior banker in ECM, focused on healthcare while Thomas Feuerstein has relocated from the bank's Parisian arm as senior banker in ECM focused on technology.

In addition to his sector focus, Feuerstein will also work to enhance connectivity for the bank's European clients into the US equity capital markets, according to the memo.

David Getzler will remain in his current role as head of ECM US. Cunningham, Sanghrajka, Feuerstein and Getzler will report to Jeff Mortara who joined SG in May from UBS as global co-head of equity capital markets.

Mortara is based in New York and reports to Carl Bassili and Bruno Magnouat, co-heads of SG's Investment Banking Division within Global Banking and Advisory, and regionally to Guido van Hauwermeiren, head of global banking and advisory, Americas.

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Société Générale Americas continues to enhance its equity value chain, combining top-tier equity research provided by Bernstein with industry leading execution, equity derivatives, prime brokerage and now, a considerably strengthened ECM capability,' said the memo.

'This offering provides our corporate, sponsors and private clients with important market insights and access to a broad range of equity, equity linked and derivatives markets.'

Luma's Latam plan sees focus on Flex option platform in Brazil

The US fintech company is making headway towards stage three of its business plan in Latin America (Latam).

The Brazilian and Mexican markets have taken the centre stage at Luma Financial Technologies after the company took the lead in serving Latam investors based in the US and onshore investors in other Latam markets.

For the Ohio-based fintech company, its third stage for Latam kicked off with a platform designed to scale the flexible exchange (Flex) options market (Mercado de Opções Flex), which is 'the fast-growing unfunded structured options market in Brazil', according to Fernando Concha Bambach (pictured), sales head for Latam at Luma.

"The idea of internationalising Luma was seeded in 2020, starting from Regulation S, [which allows US structured notes to be sold offshore]," Concha Bambach told SRP.

In Brazil, the platform aims to facilitate distribution for advisors and streamline operations for broker-dealers in the Flex options space.

The move was also driven by regulatory tailwinds from the Comissão de Valores Mobiliários (CVM) last year, which ended legal exclusivity between certain broker-dealers and their associated financial advisory groups from 1 June 2023.

"We saw this as an opportunity to bring forward this first open architecture platform for Flex options in Brazil," said Concha Bambach.

With a local entity presence, Luma built up the platform in two and a half months before rolling it out on 9 February.

Morgan Stanley is the first market maker onboard while two others are in process, according to Concha Bambach, a former Banco Santander sales and structurer.

Launched in 1993 by the Cboe Options Exchange, Flex options are customisable across asset classes in an over-the-counter (OTC) environment. In Brazil, they are traded on the Brasil, Bolsa, Balcão exchange (B3)

The São Paulo-based exchange reported BRL250 billion (US$48 billion) traded volume of Flex options in 2023. Approximately BRL106 billion came from Flex options on stocks, guaranteed by B3, a central counterparty (CCP), a 24% increase from 2022. Commodity underliers contributed BRL31 billion.

Investors range from retail, domestic private banks, independent asset managers and institutional investors, according to Concha Bambach.

Monex debuts CMS play

The Mexican issuer's activity in 2023 was again dominated by FX trades but interest rates saw a revival and gained more visibility after a quiet period. "Interest rates-linked products represented 10% of our issuance in 2023. The impact of these products on the overall sales volume was very positive," Alan Huitrón Fernández, senior rates derivatives trader at Monex, told SRP. The Mexican issuer racked up MXN27bn (US$1.6 billion) of notional raised with its traditional TIIE28 notes while Sofr-linked notes raised over MXN500m - all the interest rates-linked notes issued by Monex in 2023 had an average tenor of 140 days, approximately.

Huitrón notes that it has been a year since the Bank of Mexico set up the Interbank Equilibrium Interest Rate (TIIE) at 11.25% which "forced us to slow down its traditional TIIE-linked issuance and look for alternative nodes in the TIIE curve with specific volatility via constant maturity swaps".

"This is how the new CMS 26X1 came about. The change in TIIE level provided us an opportunity to restart our interest rates-linked issuance," said Huitrón. The new note looks at a 26x1 volatility reference and will pay a 11.40% coupon if the TIIE rates remain within the 26x1 range.

NEWS | APAC

StanChart Korea puts US$100m aside to compensate HSCEI autocall investors

The contingency plan comes after the UK bank's Korea unit sold US$900m worth of autocallable products tracking the HSCEI.

Standard Chartered Bank Korea (SCBK) has put US$100m aside to redress investors as part of the compensation scheme in accordance with the Korean financial watchdog recommendations regarding the disputes over the embattled equity-linked securities (ELS) tracking the Hang Seng China Enterprises Index (HSCEI).

The UK bank stated in its Q1 earnings release that its Korea unit sold a notional value of approximately US$900m ELS products tracking the performance of the Hong Kong benchmark index, which had suffered a massive tumble since its 2021 peak before its recent recovery.

'Due to the performance of the HSCEI, some ELS have matured at a loss, and it is anticipated additional customers may redeem ELS at a loss,' Diego De Giorgi (pictured), Standard Chartered Group's chief financial officer, wrote in the earnings review. 'The provision reflects those ELS portfolio losses for which SCBK is expected to compensate customers based on the level of the HSCEI as of 31 March 2024.'

The value of anticipated losses is subject to fluctuation as ELS mature in various dates through March 2025, stated Standard Chartered in its earnings report.

The UK bank's groupwide operating income was up 17 % year-on-year (YoY) to US$5.2 billion in the January through March quarter, according to its earnings report. However, operating income in its Korea unit – which accounted for more than five percent of its revenue share – was down five percent YoY to US$296m.

While the group's underlying return on tangible equity (RoTE) increased by 330 basis points to 15.2% due to higher profits, the bank stated that underlying profits were offset by a negative movement in debit valuation adjustment (DVA) and the ELS provision and restructuring, which makes the RoTE on a reported basis to increase 50 basis points to 13.5%.

SCBK is one of the top five banks that sell ELS products to retail investors in the country and is being investigated by the regulator over alleged mis-selling earlier this year. Following the Financial Supervisory Service (FSS)'s two-month probe finding out local sellers mis-sold the products and mapping out a drafted compensation guide in March, the UK bank's Korea unit is one of the banks that have agreed to compensate impacted investors, local media reported.

A spokesperson for SCBK didn't return a request for comments on the progress of the compensation plan.

The UK bank's Korea unit is grappling with the latest earnings season due to the ELS incident, but so are other local banking giants.

KB Financial Group said its net profit in Q1 2024 dipped 30.5% YoY after the KRW634 billion worth of ELS compensation costs took a hit despite a reduction in provisioning costs and stable growth in core income. Hana Financial Group, which had a 6.2% YoY drop in its quarterly net income, said its provision for ELS compensation amounted to KRW179.9 billion (US$121 million).

Market rebounds

Triggered by the sluggish performance of the Hong Kong benchmark index in 2023, worries about HSCEI-linked ELS approaching loss territory have loomed over the Korean market since late last year.

The Korean regulator estimated earlier this year that losses from HSCEI-linked ELS this year could reach KRW 5.8 trillion (US$4.4 billion) if the index maintained its then-current level. KRW1.2 trillion losses had already occurred in January and February, amounting to a loss rate of 54%.

Yet with the Hong Kong stock market starting to head north since February, the HSCEI has shown positive signs as it outperformed the S&P500 and Eurostoxx 50 since. Over the past month alone, it rose over 19% to 6,964.99 as of Monday's closing.

The magnitude of provisions SCB Korea and other banks have incurred in Q1 2024 appears to be "smaller than our estimates in general," Matt Choi, director and Heakyu Chang, senior director at Fitch Ratings' Financial Institutions team, told SRP.

"We see a potential that the banks could reverse some provisions (i.e. recoup some losses) in the next few quarters if the HSCEI index (i.e. the base index) remains at the latest level or maintains its recent upward trajectory," Choi said.

Chang added: "As the banks already incurred estimated losses for the relevant products sold, it is unlikely to create the overhang issue unless the index resumes a significant drop."

T+1 settlement: HK structured notes issuers stick to T+2, accumulators' legacy dividend issue drags on

As the US enters a new era of a faster settlement cycle, the Hong Kong structured products market remains in the T+2 settlement timeframe as some accumulators pivot.

The US equity market's recent transition to the quicker T+1 settlement timeframe has prompted a discussion in Asia on the implications of cross-border trading and its impact on structured product transactions.

In Hong Kong SAR, where the equity market relies on the T+2 settlement timeframe, many houses remain in the structured products' settlement at the current T+2 timeframe, sources said.

"[The switch from T+2 to T+1] is tailor-made based on the need of the distributor," a Hong Kong-based senior sales at an investment bank told SRP. "[For structured products] in a note format, there is no demand for moving to the T+1 settlement for now. We are all following the current practice or existing practice, which is T+2 or T+3."

For over-the-counter (OTC) exotic options transactions including accumulators, decumulators and vanilla options, about half of the distributors the bank worked with have moved to the T+1 settlement cycle, while the remaining half that are concerned about the delayed settlements are sticking with the existing T+2 framework, the source said.

"For some of the distributors who are more ready to move to T+1, we make sure that our documents, i.e. legal agreements, are in place and in line with what we want in terms of the operations," added the source.

With the shift to a quicker settlement cycle, the bank has updated its auto email pricer on the IT front accordingly when dealing with price discovery requests sent by a counterparty; however, no pricing model update is needed based on its existing pricing protocol.

In order to settle T+1 with pre-matching in central securities depository – Depository Trust Company (DTC), the shift to the settlement cycle requires a tight deadline.

A senior source from another investment bank cited a Depository Trust and Clearing Corporation report that buyers and sellers need to put in instructions to clearer before 9 p.m. Eastern Time on T+0, which is within five hours after Hong Kong's market close. The pre-matching process helps to project stock movements and thus reduce the settlement fail rate.

"DTC will still entertain delayed instructions coming in on T+1, but the expected fail rate will be much higher," the source told SRP.

"Due to time zone difference, it is very hard for Asian businesses to communicate fixings and commit to the five-hour allocation deadline," said the source, adding that most Asia participants are still settling US- and Canada-exposed accumulators on T+2 as a "compromise" to maintain low fail rates for the time being.

Dividend payments

For Asian participants who moved forward to the T+1 timeframe, there is an ongoing discussion on whether product providers or investors who are entitled to receive the final dividend payment would remain if the ex-dividend date of the underlying shares fell within the T+2 timeframe.

This issue is not new but came up frequently as an inquiry from different distributors before the US switched to the T+1 settlement – most banks already have protocols to tackle various scenarios on the matter, sources said.

From the legal standpoint, Minny Siu (pictured) and Richard Mazzochi, partners at King & Wood Mallesons, Hong Kong, who specialise in structured derivatives, pointed at the dividend payment entitlement as an old conversation in the markets that are not in the T+1 cycle, such as mainland China, which is on a T+0 settlement timeframe.

Siu and Mazzochi told SRP that the legal dividend entitlement is subject to the agreement's terms and can be varied on a case-by-case basis.

"On the retail side, you have a more extensive disclosure to deal with different situations such as during an intervening period with extensive contractual provisions defining whether investors are entitled to, and the procedural requirements for investors' claims on, [the dividend payment] or they will not be included to capture this kind of right," Siu said.

"[For some privately placed structured notes' cases], there could be clear positions saying that for any entitlements with a record date falling on after the final valuation day should be excluded [from investors' final settlement amount]."

China's snowballs move to alpha territory

Chinese investors in index-linked autocalls known as snowball derivatives have benefitted from the change of direction of the underlying indexes which have triggered positive payouts.

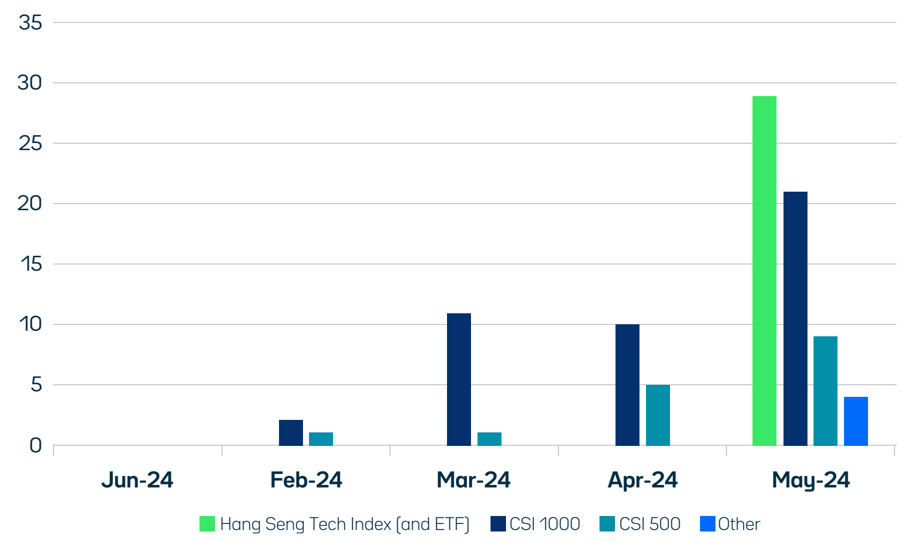
Nearly US$2.8 billion worth of China's snowball derivatives have reached knock-outs this year, according to data compiled by Galaxy Technologies as of the end of May.

China saw a massive of snowball structured products reach knock-out levels last month as the domestic equities saw a rebound from their February low.

Some 63 outstanding snowball products hit their knock-out level in May, doubling the entire knock-out amounts seen so far this year, data compiled by Galaxy Technologies on 8 June showed.

The 93 outstanding snowball products that hit knock-out levels at the end of May had an estimated valuation of nearly CNY 20 billion (US$2.8 billion), a spokesperson at the Chinese structured product pricing service provider told SRP.

China's snowball products: products that hit knock-out level in 2024 by underlying asset



Source: Galaxy Technologies

According to Galaxy Technologies, 29 products tracking the performance of the Hang Seng TECH index (and its ETF) and 21 referenced to the CSI 1000 index triggered their knock-out coupons. Nine CSI 500-linked outstanding snowballs also knocked out delivering gains to investors.

Many of the outstanding products knocking out last month were products issued earlier this year, particularly those tracking the CSI 1000 and CSI 500, respectively, according to Galaxy Technologies.

"Many snowball products tracking the CSI 1000 index provide an annualised coupon rate of over 30%," the spokesperson said.

Despite the CSI 1000's disappointing performance at the beginning of the year, the China market gauge has raised by over 21% since its low on 5 February to hover near the 5,200 level by Tuesday's close.

The Galaxy Technologies spokesperson noted that due to equities slightly picking up in March, there was an increase in the number of products tracking CSI 1000 that triggered knock-outs compared to February.

Issuance weakens

On the issuance side, there was "almost no new issuance" of snowball products in May, reversing the 50 to 60 snowball product issuance trend seen each month since last December, the spokesperson said.

The halting of the new issuance has not come as a surprise. The industry has followed the guideline published by the Asset Management Association of China on 30 April, which curbs hedge funds' snowball product investments to 25% of the fund asset unless each of the professional investors puts in a minimum investment of CNY10 billion. The move was seen by the industry as the official halting of the snowball products in the retail market as, in the past, the minimum investment for each individual professional investor started at CNY1 million.

Also in April, the China Securities Regulatory Commission (CSRC) issued an internal guidance on risk management A-share linked over-the-counter (OTC) derivatives products to local brokerage houses to tighten new exposure to these products, following a 40% high coupon rate offered by these products.

"[With no new issuance in May] the total outstanding notional of snowball products definitely lowered a bit," said the spokesperson.

Year to date, snowball products in China have been on a rollercoaster, starting with the downfall in the equity market in January which pushed hundreds of a CSI 500- and CSI 1000-linked products breaching into knock-in levels or Vega territory.

Industry sources estimate that the total outstanding notional of snowball products is around CNY200 billion.

Singapore firm partners with Kepler to enter structured products market

Conduit Group, a Singapore-based financial services firm, is expanding its investment offering in the city-state through a partnership with independent European structured products provider Kepler Cheuvreux Solutions.

The firm now offers tailor-made investment solutions, including structured products issued in an open architecture across various asset classes; actively managed certificates (AMCs); quantitative solutions; as well as marketing & digital services to optimise the commercialisation of products within distribution networks, training of financial advisors, and digital portfolio monitoring through KCS Blue, Kepler Cheuvreux Solutions' web platform.

'This partnership is a valuable addition to our investment toolbox,' said Paul Durrant, CEO Conduit Group. 'The research and engineering expertise of Kepler Cheuvreux will enable us to continue providing unique and differentiating investment solutions to our clients.'

Jean-Pierre Ané (pictured), deputy group general manager, head of business development, added: 'This partnership enhances Kepler Cheuvreux Solutions' global footprint. This collaboration is a perfect synergy, promising substantial benefits for both our organizations and the local investor community.'

Natixis taps Bofa's Apac EQD distribution head

The equity derivatives structuring veteran relocated from Singapore to Hong Kong SAR to take a new job with the French bank.

Arnaud Davoust (pictured), a former Bank of America managing director, joined Natixis Corporate & Investment Banking (Natixis CIB) this month as managing director, head of equity derivatives sales and structuring, Asia Pacific, according to the French bank.

Davoust will relocate to Hong Kong SAR from Singapore and will be responsible for driving the overall Asia Pacific equity derivatives product structuring and client strategy for the French bank. He reports to Eric Elbaz, head of sales and structuring, Asia Pacific and globally to Guillaume Calvino, global head of equity structuring, the latter who took the newly-created role in October 2022.

Prior to joining the French bank, the senior equity derivatives structurer had been with Bank of America for almost five years, starting as managing director, head of Apac EQD distribution based in Hong Kong SAR before relocating to Singapore in October 2022 with an additional new role as head of Singapore equities besides his then-existing role.

His license with Bank of America Merrill Lynch ended in March, according to the Monetary Authority of Singapore's (MAS) records. A spokesperson for Bank of America declined to comment on Davoust's replacement for his last role.

Prior to the US bank, Davoust worked at Société Générale Corporate Investment Bank for 13 years, with his last role serving as managing director, head of financial engineering for Japan based in Tokyo.

He started his career at the French bank as an equity derivatives structurer in July 2006 before becoming the head of cross-asset pricing, private wealth management in Paris in July 2010. He relocated to New York in July 2013 for the head of cross-asset pricing, Americas role.

'Asia Pacific is a key growth area for the equity business line, across all its product pillars – including multi-asset investment solutions,' Natixis' Calvino said in a statement.

Spotlight on the Magnificent 7 – defensive structures cash in on Nvidia's performance

We analysed the performance of US structured notes linked to shares of Nvidia, which saw its market value plunging 13% earlier this week.

On Monday (24 June), Nvidia's stocks lost traction as a roughly US$430 billion of their market value were wiped out after a three-day rout which triggered speculation that the tech industry rally driving the bull market was due for a breather.

In the structured products market the Nvidia stock remains widely featured and is the only company share in the top 10 underlying ranking globally with more than 2,600 products worth an estimated US$6.4 billion year to date. SRP data also shows that there are more than 31,000 live products linked to the Nvidia share (excluding flow products) worth an estimated US$41.7 billion across markets.

Looking at the performance and projected path of live and matured structured notes linked to Nvidia shares in the US market, it can be concluded that the tech stock is delivering value to investors.

Live products

Our sample portfolio comprises 356 live structured notes linked to the performance of the Nvidia stock, either on its own or as part of a basket, with striking dates from 21 November 2021 to 3 May 2024.

StructrPro's payoff scatter shows that 304 of the live notes are on track to deliver gains of 15.5% per annum on average while 52 notes are projected to incur in capital loss.

Goldman (17% of the live products) Scotiabank (16%), and J.P. Morgan (14%) are behind the highest number of live products linked to Nvidia.

The majority of the live structures linked to Nividia were wrapped as income autocall products (72%) followed by growth autocalls and leverage return structures with eight percent of the offering each. The highest expected return, however, will come from dual directional structures (155.9%) followed by leverage return products (54.1%) and callable structures (46.9%).

Structrpro data also shows that 75% of the live products linked to Nvidia are at risk income structures with an average projected return at maturity of 12.1% while 24% are at risk growth structures which are expected to deliver 32.6% return at maturity; one percent are protected growth structures which are on track to deliver 17.1% return at maturity.

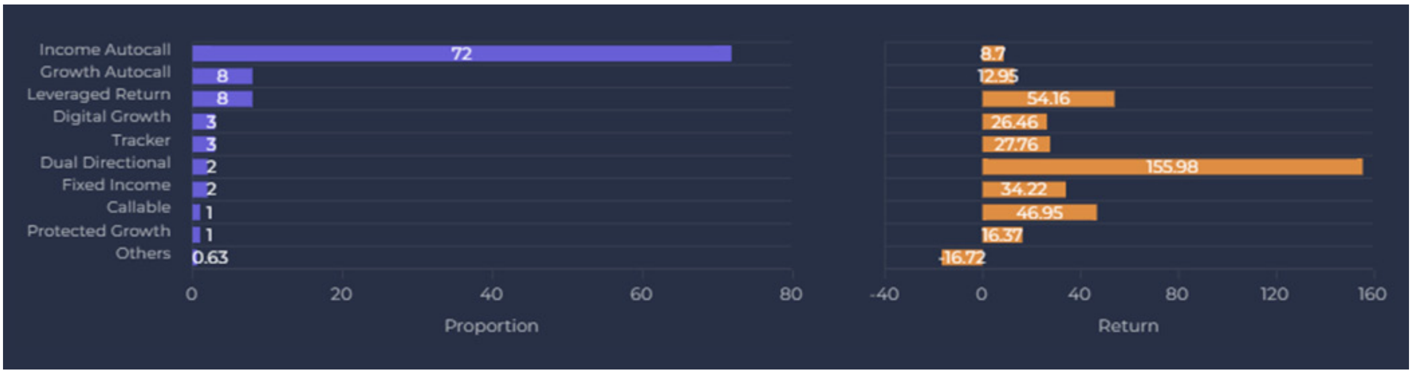
The highest number of maturities are set to be triggered early in H2 2024 while the highest number of products linked to Nvidia is set to mature organically in H1 2027.

The Return Optimization Securities - NVIDIA (90303R204) issued by UBS Financial Services in July 2022 is set to deliver the maximum product payoff of 230.34% in July 2027. The five-year leverage return growth product sold US$623K promised to pay a capital return of 100%, plus 500% of the

Payoff scatter

Source: StructrPro

Product types



Source: StructrPro

rise of the Nvidia share over the investment period, subject to a maximum overall return of 230.34% after a 126.068% participation cap is applied.

By key levels, the coupons for 217 live products are at 62.07% of the initial underlying level on average while the autocall level for 229 live products is at 102.03% of the initial underlying level. There are also 265 products with an average barrier level at 58.62% of the initial underlying level.

Expired products

The sample of matured products linked to Nvidia includes 1,049 products that have been either redeemed early or matured organically – StructrPro shows that 987 products delivered gains while 55 delivered a loss with the remaining seven products returning the capital invested.

The average return amounts to 8.78% pa while the investment duration lasted around six months.

On an annualised basis, approximately 25% of the expired products delivered a return of 12.5% while a quarter of them delivered 15% to 17.5%.

Additionally, more than 10% of the products matured generated a return of 10% pa. Only 3.8% of the matured products linked to Nvidia delivered a loss.

A portfolio breakdown by issuers shows that UBS was behind the highest number of maturing products (22%) which delivered a 12.1% return on average; followed by J.P. Morgan with 16% of the products matured and 10.9% return on average; and Goldman Sachs with 14% of the maturing products and one of the lowest returns on average at 5.74%.

By product type, the highest returns were delivered by defensive autocall structures (32.2%) followed by leverage return (22.5%) and growth autocallables (21.7%). The best performing structure among the matured products linked to Nvidia was the Trigger Jump Securities - NVIDIA (36259L576). This product which had a three-year term and a digital payoff structure matured organically in September 2023 delivering the highest possible payout at 174.5% (20.3% pa).

Key levels

FEATURE	INITIAL (%)	CURRENT (%)	NUMBER
Coupon	58.79	62.07	217
Autocall	99.86	102.03	229
Strike	100	97.88	350
Barrier	57.83	58.62	265

Source: StructrPro

SG-FORGE: blockchain can foster transparency on ESG

The subsidiary of the French bank expects an exponential growth in the number of issuances and the traded notional via blockchain as the cost of issuance, settlement, clearing and reconciliation will be reduced significantly.

> Structured products are the right financial instruments to start experiencing blockchain as a new infrastructure for securities to be issued, traded and settled

Following his recent appointment as head of sales Société Générale-FORGE's SRP caught up with Guillaume Chatain (pictured) about the progress of blockchain in the structured products market and the activities of the subsidiary of Société Générale dedicated to cryptoassets.

According to Chatain, in 2023, there were 12 issuances of bonds on chain for a total notional of roughly US$800m, compared to eight issuances for a similar amount recorded this year.

"On the bond side, a few large banks have entered the space," he said. "There's a potential for these numbers to grow exponentially the number of issuances and the traded notional."

However, Chatain noted that there are several reasons behind the slow progress and adoption of blockchain technology by investment banks as despite the benefits for end clients and issuers "the market is still at a 'J curve' stage where there are still a few hurdles associated with the adoption of blockchain technology".

"One of them is the lower level of standardisation in market practices when it comes to trading digital assets," said Chatain.

"Another is related to booking that still need to take place both on the blockchain and using TradFi rails in parallel. Investors want to see all their assets or investments in the same place, so you need to keep using the traditional model involving intermediaries, and the blockchain which is fairly automated but still adds to the cost."

This environment, according to Chatain, will change when large custodians incorporate digital assets natively.

"If you were to use only blockchain technology today, you would make savings on CSDs, custodians, and some intermediaries, and these are mostly fixed cost," he said.

"But in the future, assuming global adoption we would be able to remove all the work behind the settlement, clearing and reconciliation and the costs associated with life cycle management by using a settlement instrument such as our stablecoin EURCV together with smart contracts."

In other words, the full life cycle could be automated and the issuance costs would be reduced significantly.

Efficiencies

Going forward, Chatain is confident that market participants will engage further on blockchain technology for structured products to enhance distribution and improve operational efficiency.

"The adoption is gradual and the full benefits will materialize when a significant portion of the market will operate issuance, settlement and transactions on-chain," he said.

"Structured products are the right financial instruments to start experiencing blockchain as a new infrastructure for securities to be issued, traded and settled. The fact that issuers also provide liquidity on their own structured product issuances facilitate the adoption."

The bottom line is that blockchain-based securities allow for faster settlement, reduced reconciliation cost and increased product transparency (including ESG disclosure) with public blockchains.

"By reducing operational costs at scale, this new infrastructure will enable issuers to reduce costs and minimum issuance size. As a consequence, new distribution channels could be opened," added Chatain.

Cryptos

On the increasing visibility of cryptos as an asset class and the opportunities to access these new assets via structured products, Chatain points at the current state of the listed products market where since Jan 2024, the 11 ETFs on bitcoin have gathered around US$60bn AuM.

"This is a clear illustration of the appetite for this new asset class by retail investors and increasingly by institutional investors as well," he said.

In Europe, the regulatory framework with MiCA will provide clarity to market participants and allow the ecosystem to grow further in a compliant and harmonised manner.

"We view this as a positive development to foster adoption and the deployment of new products and services by crypto-native companies as well as financial institutions," said Chatain.

Solid foundations

Societe Generale-FORGE which obtained its regulatory license approval as a digital asset service provider (DASP) with the Autorité des Marchés Financiers (AMF) in France in July 2023, has supported the issuance of several products.

These include a four-year €5m (US$5.9m) autocall euro medium-term notes (EMTN) linked to a custom index in 2021 and the first digital green bond issued by Societe Generale as a security token directly registered by SG-FORGE which was fully subscribed by AXA Investment Managers and Generali Investments through a private placement in 2023 - the green bond token represented a €10m senior preferred unsecured bond with a three-year tenor.

The proceeds will be used to finance eligible projects as defined in SG's sustainable and positive impact bond framework.

"The idea behind this deal was to use a digital asset for the settlement of these instruments directly on chain to make the settlement more efficient," said Chatain. "While we used central bank digital currency (CBDC) in past experimentations with Banque de France, this time we used EUR CoinVertible (ticker: EURCV)."

The first institutional-grade stablecoin launched in April 2023 by SG-FORGE, to settle the transaction, has roughly €11m in circulation and "is expected to generate efficiencies with on-chain settlement".

SG-FORGE decided to use the Ethereum public blockchain to take full advantage of open-source technology, public blockchains composability and the security that is brought by a public blockchain, according to Chatain.

"This is a first step towards using blockchain as a data repository and certification tool for issuers and investors to foster transparency on ESG and impact data on a global scale," he said. "In the smart contract of the digital green bond, information on the carbon footprint linked to the digital bond is available in open access.

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We view this as a positive development to foster adoption and the deployment of new products and services by crypto-native companies as well as financial institutions

BofA: there is room for innovation around multi-asset, global indices

Bank of America (BofA) has 14 indices referenced in the US annuity market with nearly US$24 billion in assets.

> As carriers refresh their index line ups, we have seen demand for indices with higher expected allocations to equities and either minimal exposure to bonds, or sophisticated duration management overlays

This year marks the US bank's 10th year anniversary in the country's annuity market as an index and hedge provider since the debut of its ML Strategic Balanced Index for fixed index annuities (FIAs).

Since then, BofA Securities has made significant headway with its indices being referenced across FIA, registered index linked annuity (Rila), index universal life (IUL) and structured settlements – assets linked to the 14 BofA indices featured in the annuity market stand close to US$24 billion.

"As carriers refresh their index line ups, we have seen demand for indices with higher expected allocations to equities and either minimal exposure to bonds, or sophisticated duration management overlays," Gabriel Lettieri (pictured), managing director, head of Americas insurance solutions at BofA, told SRP.

Intuitive and explainable approach to index construction approaches are increasingly valued over back-tested returns.

In 2023, FIA sales increased 20% to US$95.9 billion in the US year-on-year while Rila also delivered a record high sales of US$47.4 billion, at a slower rate of 15%, according to Limra.

The bank has observed higher allocations to both fixed rate and capped exposure to equity benchmark indices over the last three years.

For FIAs, the volatility target or custom index allocations have dropped to 29% in the last quarter of 2023, compared to 33% in Q3 2023 and 60% in Q3 2021 based on the quarterly sales volume, according to annuity research company Wink.

The decline is mainly due to a shift towards market-cap weighted equity benchmarks in a high interest rate environment and underperformance of multi-asset indices, which results from eroded diversification benefits of US treasuries.

"As advisors and agents work with clients to rotate out of legacy products with limited growth potential, we believe the perceived simplicity of both fixed accounts and equity benchmarks have taken on greater importance," said Lettieri.

Meanwhile, there is room for innovation around multi-asset and global indices. "US equity market outperformance may not last forever, and it's important to be prepared for macro shifts through

BofA indices referenced in the US annuity market*

CARRIER	INDEXV	ANNUITY TYPE	ANNUITY TYPE
Athene	S&P 500 FC TCA 0.50% Decrement Index	FIA	23-Jun-23
Mutual of Omaha	BofA U.S. Agility Index	IUL	03-May-23
The Standard Insurance	BofA Global MegaTrends Index	FIA	17-Apr-23
F&G	BofA MP Growth Index	Rila	07-Feb-23
F&G	BofA MP Balanced Index	Rila	07-Feb-23
F&G	BofA MP Defensive Index	Rila	07-Feb-23
Ibexis	BofA US Strength Fast Convergence Index	FIA	22-Aug-22
Pacific Life	BofA Iris US Sectors Index	FIA	27-May-22
Independent Life Insurance	Franklin BofA World Index	Structured Settlement	01-Nov-21
American Equity	BofA Destinations Index	FIA	04-Jun-20
Athene	Nasdaq Fast Convergence Index	FIA	29-Jan-20
National Life	Merrill Lynch GPA5 Index	FIA	05-Sep-18
Athene	Merrill Lynch RPM Index	FIA	01-Mar-16
Corebridge Financial	ML Strategic Balanced Index	FIA, IUL	12-Aug-14

**As of 2 May 2024; compiled by SRP*

tactical diversification," noted Lettieri, in anticipation of a return of diversification as a strategy in a lower interest rate environment.

"This shift has benefitted our suite of Fast Convergence (FC) indices, all of which feature high volatility targets and high average equity exposure while referencing well-established equity benchmarks," said Lettieri.

Introduced by BofA Securities in 2020, the FC technology is the first intraday volatility targeting approach in the annuity marketplace, according to Lettieri.

One flagship index powered this technology is the Nasdaq Fast Convergence Index which includes a 12.5% volatility target. The Nasdaq 100-linked index is just behind the best-performing one-year participation FIAs in 2023, and products linked to the idnex have posted the highest average credit at 26%, a recent research report by TIS shows.

"One of the major benefits of volatility control is the ability for policyholders to access differentiated strategies in terms of both assets and asset allocation," said Lettieri.

In addition, banks and asset managers can apply techniques or technology used by institutional investors in rules-based indices, such as the analysis of high frequency data and selection of individual stock or sector through machine learning, said Lettieri.

"One of the major benefits of volatility control is the ability for policyholders to access differentiated strategies in terms of both assets and asset allocation

SRP France Conference 2024: structured products USP validated by rates environment

The all-terrain characteristics and adaptability of structured products have been proven in the higher rates environment over the last two years which has been reflected on the changes seen in the product mix in France.

The rise in rates and its impact on the supply of structured products and their attractiveness in recent months was the focal point at the Exploring product characteristics in the current conditions panel discussion during the SRP France Conference 2024 which took place in Paris the last week of June.

Antoine Boisset (second on the right), associate director, Silex Finance, kickstarted the conversation noting that the rise in rates has changed drastically the product mix over the last two years.

"Everyone has been affected by this. It's not that it's replaced the autocall products we sold until now, but it's more of an addition. It has also attracted a number of clients who weren't adept or who didn't want to use structured products because they deem them too complex or had a bad experience before the 2011 ACPR directive.

According to Boisset, being able to guarantee capital and offer levels of coupons that were almost equivalent to those we could have in equity, between 6% and 8% was "quite impressive", and allowed distributors to earn money and bring new investors.

"There has been a big evolution over the last two years in the type of rates products we have distributed," he said. "We started leveraging on the rate curve. Then, at the peak of the rates, we made a lot of guaranteed capital products and guaranteed coupons.

"At the moment, we are playing the rate drop through bearish structures. The uncertainty of a sudden sharp rate drop that we had anticipated in 2023, which seems to be less important than we thought, continues to allow bearish structures to be very attractive. Especially since there is not much conviction on the markets at the moment."

Oumar Diawara, CIO structured products, Ostrum Asset Management, noted that the increase in rates has triggered more activity from investors that did not know that these products also generated performance on the low rates environment.

"The current levels have allowed us to improve the features of autocall products and are making our funds very attractive to the end investor," said Diawara. "On the other hand, we were able to complete

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At the moment, we are playing the rate drop through bearish structures

Antoine Boisset, Silex Finance

the range with 90% and 100% capital protected solutions, which also allowed us to bring in new customers with risk aversion.

"Investors can now build a portfolio with a mix of autocall solutions on one side, with different sub-assets, different barriers, which will allow me to generate profitability, and 90%/100% capital protected structures to ensure a more stability in the portfolio."

All-terrain

The change in rates has also highlighted the unique selling point of structured products as an all-terrain solution that can adapt and extract value from different market environments.

The change in interest rates triggered a new market configuration, as it is somehow a novelty after many years in a negative rates environment - Nathalie, Rouault, BBVA

"It is an asset class that allows to generate performance, especially when you do not have too much conviction," said Nathalie Rouault, head of cross asset sales investment solutions for France, Belgium and Luxembourg at BBVA.

"The change in interest rates triggered a new market configuration, as it is somehow a novelty after many years in a negative rates environment."

However, Rouault noted that regardless of the increase in issuance of fixed rate products, most of the demand remained focused on autocall structures "which continued to deliver consistent returns regularly and better terms".

"Our customers were also looking for a certain diversification, which is still one of the first roles of structured products, with guaranteed capital products which clearly benefitted from the increase in rates," she said. "At the beginning of the year, there was also a reimbursement on Fixed Rate Notes, which allowed us to introduce products with longer maturity, and above all coupons that were guaranteed with guaranteed capital."

Romain Norault, president, Equitim, noted that this activity also had an impact on the competitiveness of the issuing banks that was missing before.

"Structured products have shown their worth as an alternative to other types of assets that did not necessarily work well and have been sought by investors looking for very defensive products," said Norault.

"There has been a huge value transfer to capital guaranteed products. This already allows us to have addressed a large part of the market, so it is essentially a new part in the universe of structured products. But equity is obviously still a very important part of the volumes and undoubtedly the historical heart of the market."

Equities

From an equity underlying and market exposure perspective, benchmark indexes remain in focus but volumes on decrement indices continue to grow.

"This is a trend that we have seen on the market for several years, and which seems to be accelerating," said Quentin Houssemand, director of derivatives products sales, indexes, Morningstar Indexes.

There are many moving parts on an index that must be managed - the complexity, the volatility, the past performance and the yield - Quentin Houssemand, Morningstar Indexes

Houssemand also noted that it is difficult for an index provider to be able to find an index that can meet the expectations of the final investor, the regulator, the distributor, the bank and the internal capacities of the different index providers.

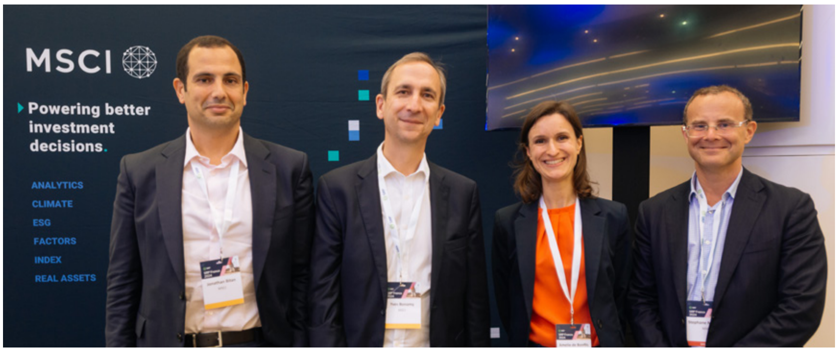
"There are many moving parts on an index that must be managed - the complexity, the volatility, the past performance and the yield, and we work a lot with our partners to try to find the break-even point that suits everyone," he said.

"Decrement indices have been a real success, although they present a certain level of complexity compared to benchmark indices on the treatment of the dividend, but it significantly improves the pricing conditions, because without the decrement the dividend risk is rather carried by investors."

The panel concluded with panellists discussing the role of custom indices and agreed that the surplus that decrement indices bring with the synthetic dividend, allows to offer barriers on autocalls that are much lower than on benchmark indices which brings extra protection to the end customer; and that the ability to deliver tailor-made indices that can play on thematics such as ESG and 'fixed baskets' has also added value to the product mix and expanded the offer to different risk profiles.

SRP France Conference 2024

On 26 June 2024, the 7th edition of SRP France was held at Salons de l'Aveyron Paris Bercy in Paris with over 175 senior executives from the country's structured product industry and beyond.



SRP Asia Pacific Conference 2024: digitalisation - opportunities and challenges for structured products ecosystem

AI and digitalisation have become part of the toolkit to optimise the business flow and some of the challenges facing the structured product industry.

Artificial intelligence (AI) has profoundly been one of the most buzzing topics in any industry over the past year, including structured product market participants who explore how to leverage the tool to optimise their business, according to penalists at the "Distribution, digitalization and fintech/AI integration" panel session at the SRP Asia Pacific conference in Singapore last month.

In the panel session moderated by Shadab Taiyabi, president of Singapore FinTech Association, Amanda Ong (pictured), country manager at the US fintech company Arta Finance, shared on stage that the firm is working on an AI-powered search engine that allows qualified investors to build custom micro indexes which has the potential to launch in Singapore.

"If you have a particular theme you're super bullish on, you can type it in an almost Chat GPT-like experience," Ong said. "What will happen is that it will first read back to you that it is understanding the theme that you've entered and then it will list all the US stocks that we currently have that actually fit that particular theme and tell you why adding the stocks."

"What we've done in the backend is that we plugged into Chat GPT to train it with the US Securities and Exchange Commission (SEC) filings like 10-K filings that the companies can't lie about – that's the data point that we actually use to build these portfolios," she said.

While AI can help reduce costs and streamline data and information, many European banks have not yet allocated large budgets to AI, according to Susan Niederhöfer (in the middle), global head of sales at LPA.

"There are some chatbots being taken into production and everyone's speaking about it, but there is no real big money

> If you have a particular theme you're super bullish on, you can type it in an almost Chat GPT-like experience
>
> **Amanda Ong, Arta Finance**

being invested currently," Niederhöfer said. "I see a lot of interest in those co-piling functions to improve the way to distribute products… But again, everyone is investigating and sniffing into it."

Niederhöfer noted that Asia is taking the lead on innovation within the platform business for distribution compared to Europe which often grapples with heavy regulatory challenges.

One of the most recent innovations seen in China came in the form of mobile phone applications. Cedric Cheung, group product manager, structured products at Standard Chartered Bank, highlighted that the bank's clients in China are now able to price and trade equity-linked structured deposits on their mobile phone apps.

"To date, close to all of these structured deposit trades [in China] are done by mobile," Cheung said.

The platform which went live in December 2020 recorded over CNY1 billion (US$140.7m) notional of equity-linked deposits in China in the first half of 2021 alone. In January 2023, the UK bank also unveiled a module enabling end-to-end automation for its structured notes offering targeting Hong Kong SAR's professional investors.

"I think this is a very natural progression in terms of the digital journey," he continued. "Previously, the focus was very much between the issuers and the distributors [in terms of] how to get pricing faster [and] be more efficient. Now we are moving towards the process between the distributor and the client."

While the market is seeing more waves of digitalisation initiatives, Ong pointed that from a consumer standpoint, a human financial advisor still plays a critical role in helping investors understand the more complex structured products.

"I think the first part [would be] discovery part of the product itself and having all of the information there so that I'm able to compare quite easily is super important," Ong said.

"Then [we can move] to a financial adviser-like experience for the execution and the transaction to go through – I think that flow would be super optimal."

Room for improvement

As the industry sees more businesses flock into digitalisation on the product distribution side, "what has not happened across the board is digitising the middleware back office," LPA's Niederhöfer said.

"We have clients that are connected to issuers that [in turn] are connected to multiple platforms. But then when they want to produce the document, they do it manually," she said.

"Someone sits down and types in a document manually and sends this to someone internally to check and then ingest the data manually into a booking system, and so on and so forth," she added. "I think that's probably where I personally see the biggest gap in terms of what can be digitised."

The existing lifecycle tools in the structured product market will be further improved by technology to solve replacement trade ideas, Cheung noted, as this kind of functionality can take several data sources into consideration, such as the suitability of a client's need, the bank's house view, and market volatility.

> To date, close to all of these structured deposit trades [in China] are done by mobile
>
> **Cedric Cheung, Standard Chartered Bank**

SRP Asia Pacific Conference 2024

On 9 May 2024, the 11th edition of SRP Asia Pacific was held in Singapore with over 150 senior executives from the regional structured product ecosystem. The awards ceremony recognises the achievements in the Asian structured products market.

SRP APAC CONFERENCE 2024

SRP China Conference 2024: wealth management products not enough to expand adoption

Panellists discussed on stage the opportunities in China's wealth management market, customisation, and the importance of investors' education to drive growth at SRP China Conference 2024.

China has grown to the second-largest market for wealth management in the world – and that brings the importance of customisation to meet different investors' needs.

High-net-worth individuals, are interested in the risk and benchmarks used to measure product performance - Jiang Wu, China Merchants Wealth Asset Management

That's according to Jiang Wu (centre), managing director of the investment management department at China Merchants Wealth Asset Management, who shared her views during the "Wealth management in China: investor needs and solutions" panel at SRP China 2024 conference in Shanghai on 17 April.

Wu cited data from the Banking Wealth Management Registration and Custody Center, stating that the outstanding notional of derivative wealth management products doubled year-over-year to CNY40 billion (US$5.5 billion) by the end of 2023.

"We talk individually with these investors about their specific needs – for example, they may be interested in value growth; maybe they're interested in reducing volatility, or maybe some want to gain more exposure to structured products," Wu said.

"High-net-worth individuals, are interested in the risk and benchmarks used to measure product performance. They look at risk ratings and other things to decide whether to invest," she continued.

Wu added that institutional investors in China are more specialised and sophisticated, and they're interested in whether they're getting their money's

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High-net-worth individuals are interested in the risk and benchmarks used to measure product performance

Jiang Wu, China Merchants Wealth Asset Management

worth.

"We talk with them about things such as their duration and risk exposure, and then we'll also provide scenario analysis for them. They have a view of the market, and we're there to help them express that view," she said.

Alexandre Werno, CEO of BNP Paribas ABC Wealth, noted the unique structure of using wealth management products in China.

"In mainland China, we're selling yield enhancement structures as part of our wealth management products offering," Werno said. "This is a very complicated formula, and I would say that for mass retail [investors], we are not there yet... Only the [more sophisticated] investors can use [these wealth management products] to diversify their investment portfolios."

The wealth management joint venture between BNP Paribas and ABC Wealth was launched last September after a partnership between BNP Paribas Asset Management and the Agricultural Bank of China Group was formed with the mandate "to grow the wealth management market onshore China", Werno said.

Some clients might prefer partial capital protection, and some might prefer a steady cash flow that is similar to a fixed income - Michael Chang, HSBC China

For HSBC China, which directly faces retail and private banking clients, ensuring that investors understand the products is always the first and foremost priority, said the bank's head of capital market and FX, Michael Chang.

Chang sees structured products' underlying assets can be designed in a way that is more "straightforward".

"Some clients might prefer partial capital protection, and some might prefer a steady cash flow that is similar to a fixed income," he said. "Structured products should be able to [serve as a tool to] help us express our views."

However, more diversification is still needed in the space to achieve that, according to Chang.

"Strategy-based indices can perform very well, depending on the situations, for example," he said. "We can have structured products on top of that, which could be very interesting."

Werno agreed on diversification and noted that one of the wealth management joint venture firms' competitive advantages falls under overseas allocation.

"The ability to allocate onshore and offshore diversification, reduce the volatility of the product, and reduce the price of the option to make it more attractive for investors will be quite critical," Werno said.

"And it's very important that you continue to keep the investor's education conversation going, and clients will have to know the risk of the product," China Merchants Wealth Asset Management's Wu concluded.

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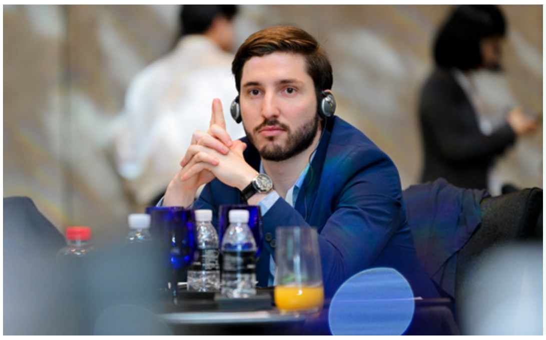
Some clients might prefer partial capital protection, and some might prefer a steady cash flow that is similar to a fixed income

Michael Chang, HSBC China

SRP CHINA CONFERENCE 2024

SRP China Conference 2024

After three years, SRP China returned to Shanghai at Ritz Carlton Shanghai Pudong on 17 April 2024 with over 100 senior executives attending in person from Greater China structured product industry.

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