SRPInsight

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Editorial:
Amelie Labbé, Pablo Conde, Lavanya Nair, Summer Wang, Marc Wolterink

Production:
Paul Pancham

Marketing:
Daniel Evans

Sales:
Reihaneh Fakhari

If you are interested in having a similar bespoke report produced for your organisation, please contact:

Reihaneh Fakhari
T: +44 (0)20 7779 8220
M: +44 (0)79 8075 6761
E: Reihaneh@structuredretailproducts.com

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NEWS | EUROPE

Marex launches public offering in Italy

Marex Financial Products has entered the Italian retail market with a new certificate range targeted at financial advisors, private banks, family offices, and asset and wealth managers.

This is part of an initiative the company started last year to launch into the retail market. It has taken Marex nine months to register the brand-new issuance programme and launch its Italian desk which was set up in record time after the onboarding of two former Exane directors – Antonio Manfre and Carlo Siriani – and a third member, Guido Clemente.

The team responsible for the Italian and Ticino certificates will develop a range of cross-asset investment certificates in equity, credit, FX, commodities and funds backed by Marex Financial's BBB investment grade rating from S&P Global Ratings, which will be listed on the EuroTLX exchange.

"This is quite a big step for the company," said Nilesh Jethwa (pictured), chief executive officer at Marex Solutions Division. "Our initial strength was the institutional market, but to get the Italian desk off the ground in nine months and go from private placements into a full public offer programme with best-in-class capabilities – coupled with our focus on innovation - is a remarkable achievement from our Financial Products team."

Joost Burgehout, head of financial products at Marex, added: "We're replicating what we have done so far at Marex Financial Products in the Italian public offering market.

"We are entering the market as a new issuer with full retail eligibility – listing, market making, full public offerings. We will be working on a fast-track basis and will have one of the fastest to market service for the market: design the product today/list tomorrow, which is something not many players can do," said Burgerhout.

Some issuer banks have taken up to two years to have this kind of set up ready and their time to market is usually longer.

"We have set up everything from scratch – suitability, full public offer documentation, contracts, technical connections to get real-time quoting capabilities etc. We think we can leverage our flexibility, innovation and technology in the retail market and fill an existing gap in the Italian market – some products take up to 10 days to be listed," said Burgerhout.

Marex is going to Italy first as most other European markets are accessible on a non-listed and private placement basis.

"In Italy if you want to offer products to retail, they have to be listed. We want to go all the way with the most comprehensive product governance framework. With this set up we can now enter any other European market. There are some markets on our short-term roadmap including Switzerland," said Burgerhout.

"Our target market in Italy is the buy-side – private banks, wealth managers and financial advisors. These clients will provide an indication of the kind of products investors want to see in the market and we will respond accordingly. We will offer value for money and speed to market," said Burgerhout.

The product offering will be based on certificates and the differentiation will come through thematic baskets as well as fast track listing access.

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In Italy if you want to offer products to retail, they have to be listed

CACIB launches first structured product designed to offset carbon emissions

LCL and Crédit Agricole CIB (CACIB) have partnered to launch the LCL Net Zero Carbon March 2022.

The structured product meets European Benchmark Regulation criteria and includes a mechanism to offset the investment's residual carbon emissions.

This joint initiative is part of Crédit Agricole group's Social Project and the bank's commitment to reach carbon neutrality by 2050.

"As a pioneer in climate finance, we believe it is imperative to decarbonise our economies and to offer our investors solutions to reach this ambition," Mahdi Bouayad, head of ESG & index solutions, CACIB told SRP.

"Knowing our commitment to reduce our carbon footprint by 2050 in line with the Paris Agreement, this structured product not only aligns our investors investments with science-based emissions reduction targets but also goes beyond that with the use of carbon offsets."

The French bank is seeking to strengthen its position at the forefront of developments related to sustainable investing with new tailored structured solutions.

"LCL Net Zero Carbon March 2022 is designed to meet the needs of investors - clients of LCL Private Banking and Wealth Management - who want to reduce their exposure to climate risks and seize the opportunities offered by the transition towards a low carbon economy," said Bouayad.

The product includes two levers to steer the energy mix towards a decarbonisation of energy consumption including the reduction of greenhouse gas emissions and offsetting the investment's residual CO_2 emissions.

Indexed to the MSCI Euro Climate Select 50 Paris Aligned 5% Decrement Index, the new investment product primarily aims to reduce carbon footprint in compliance with the European Union's decarbonisation trajectory.

The MSCI Euro Climate Select 50 Paris Aligned 5% Decrement Index aims to immediately reduce the weighted average carbon intensity by 50%, followed by an additional 7% decarbonisation each year. In addition, it pursues a range of secondary goals, such as increasing the weight of companies in the index with clear carbon footprint reduction targets.

"Carbon offsetting does not make sense if it is not associated with an achievement of a massive carbon emissions reduction consistent with Paris Agreement goals and EU's objectives," said Bouayad. "In our approach both the wrapper and the underlying index should contribute to reduce GHG emissions. With the use of a Green note that encourage the energy transition and the use of EU BMR Paris Aligned Benchmark the objective is met as the GHG reduction reaches nearly 80%."

According to Bouayad, the bank has received "multiple requests to continue the development of our sustainable product range with on the one hand the addition of new indices covering themes such as social equality, water or biodiversity and on the other hand the addition of new features related to the wrapper".

The new LCL Net Zero Carbon March 2022 also includes the use of part of Crédit Agricole CIB's portfolio of eligible green assets to refinance projects that encourage the energy transition, the reduction of CO_2 emissions, or promote the circular economy.

LCL and Crédit Agricole CIB have included an offsetting mechanism for the residual emissions of the investment by supporting the Yedeni project in Ethiopia, which aims to tackle deforestation in the Bale ecoregion.

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In our approach both the wrapper and the underlying index should contribute to reduce GHG emissions

UK manager releases ultra-defensive callable structure

Structured product plan manager Idad has started 2022 by bringing an ultra-defensive callable play to the UK market.

The UK firm partnered with Société Générale to launch the Ultra Defensive Callable Supertracker Plan, the first single index callable plan offering 430% participation in the FTSE 100 index or 8% pa if the issuer calls the product early. The ultra-defensive feature comes in the form of 40% downside protection barrier, meaning that for capital to be at risk the FTSE 100 needs to fall by more than 60% at maturity.

"A select few banks are pricing the callable feature very aggressively so you can afford to put the barrier much lower. We were able to achieve attractive upside returns with very limited downside risk as the callable feature adds value," said Thom Gascoigne (pictured), head of Idad UK, adding that the autocallable space in the UK market is very crowded with not many alternative investment choices for UK investors

Because it is not an autocallable product that clients are very familiar with, some clients have been reluctant.

"When you explain the structure and the value most people like it. Even if the product is called, investors get 8% pa which is quite a good deal," said Gascoigne. "With the equity markets falling recently it's maybe less likely the issuing bank will call the products."

"However, when you get a high multiple on the participation, the likelihood of the issuer cooling the products is obviously higher when markets recover," he said.

The new callable play also fits within Idad's strategy to continuously expand its offering by diversifying the products it offers and finding differentiators with its UK competitors.

Gascoigne remains positive on the market outlook despite inflation creeping up all across the globe and differing bullish/bearish opinions on rates.

"I think we are looking at rates going up considerably this year in general however, If the war continues, or if it gets worse, we may see further volatility – recently GBP SWAPs dropped 30 basis points but have since recovered," he said.

This rise in rates may allow for capital protected products, but investors will also be looking at inflation and real returns.

"It is a tricky time for investors. During Covid we had a massive drop off in markets," said Gascoigne. "This was unprecedented; however, we saw a big swing back in equity markets. Sadly, with this current situation in the Ukraine there is a lot of uncertainty but this leads to opportunities too, especially with structured products.

"Market dislocations can help some payoff structures to take advantage of the pricing environment as many products in the UK are funded by selling volatility."

There are 36 live callable structures with different payoff combinations in the UK market, SRP data shows. Idad has over 180 live products half of which have been issued by BBVA. Other counterparties used by the UK distributor include Commerzbank, Goldman Sachs, UBS and SG Issuer featuring in four live products with BNP Paribas.

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Even if the product is called, investors get 8% pa which is quite a good deal

Bpost offers full capital protection on S&P water index

Bpost Bank has launched Global Water Participation 03/2032 in Belgium.

The 10-year capital guaranteed note offers 100% exposure to the S&P Global Water EUR Net Total Return Index, capped at 30%. The final index level is subjected to 37 months backend averaging, minus an adjustment factor of five percent on an annual basis. The product is issued via the Luxembourg domiciled BNP Paribas Fortis Funding vehicle, while BNP Paribas Fortis acts as the guarantor.

There is also a 90% capital-protected version of this product which is issued via BNP Paribas Issuance BV.

"These products are aimed at retail investors who strive for a higher return than what can be obtained on a savings deposit today, and, at the same time, want to benefit from full or partial capital protection," said a product manager at Bpost Bank.

The underlying S&P Global Water Index tracks 50 companies from around the world that are involved in water related businesses. The 50 constituents are distributed equally between two clusters of water related businesses: water utilities & infrastructure and water equipment & materials.

The index, which was first launched in February 2007, is modified market cap weighted. The highest weighted company in the index is American Water Works (9.68%) followed by Xylem (7.94%) and Veolia Environnement (6.39%).

The fact that after 10 years the product returns 100% of the nominal invested (excluding costs) is an important element for the bank and its clients.

"We have a large proportion of conservative, cautious investors among our clientele, who, while looking for a higher return, are willing to take little or no risk," the banker said.

> **We have a large proportion of conservative investors among our clientele**

Bpost Bank, which mainly distributes its products through its network of 660 post offices, held a six percent share of the Belgian structured products market in 2021.

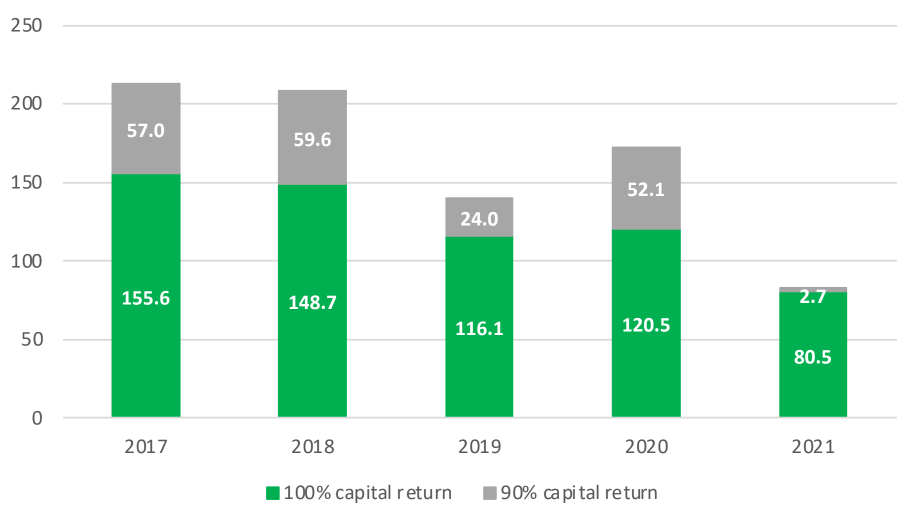
The bank sold 15 products worth a combined €83m between 1 January and 31 December 2021. They were all issued on the paper of BNP Paribas and offered at least 90% capital protection.

Eight of its structures were steepeners that paid a coupon based on the difference between the 30-year EUR Constant Maturity Swap (CMS) rate and the five-year EUR CMS rate.

Six products were tied to a single index, including the Solactive Eurozone Exporters Efficient Index (three products), S&P Global Infrastructure Index (two) and the S&P Global Water Index (one).

As of 23 February 2022, the bank has 182 live structured products worth approximately €1.2 billion listed on the SRP Belgium database. Of these, 43 products (€182m) offered 90% capital protection, with the remaining 139 structures (€970m) fully preserving the capital invested.

Bpost Bank: sales volumes by capital protection (EURm)



Source: StructuredRetailProducts.com

BBVA dispatches new QIS ESG strategy

BBVA Quantitative Investment Strategies (QIS) has expanded its range of underlyings with the launch of the new Solactive BBVA Resource Scarcity index.

The index launched in partnership with Solactive is aimed at capturing alpha from the resource scarcity megatrend and selects companies harnessing nature's most unscattered riches including easing water and food supply, improving forestry and mineral harvesting, managing urban physical space and providing the energy of tomorrow.

The unmatched level of human development and prosperity achieved in the last few decades has run parallel to the overuse and erosion of natural resources, according to Javier Enrile (pictured), global head of sales, quantitative investment strategies (QIS) at BBVA.

"Today, these valuables appear more critical than ever to the needs of a global society increasingly concerned with the effects of the rapid population growth and climate change," he told SRP. "In this context, some firms are actively gearing their business to ensure the flow of these natural assets and promote the maximum efficiency of their uses.

"Our best-in-class analysis capabilities allow us to deep dive into the roots of the resource scarcity theme, assessing its value drivers, and identifying the sub-industries that will benefit the most from its future evolution."

According to Enrile, the unique thematic manufacturing process embedded in the index, will provide investors with a comprehensive, cost-efficient and transparent tool to gain exposure to this theme.

The top five constituents of the index by weight include EOG Resources (6.71%), Anglo American (5.45%), Zoetis (5.45%), TC Energy Corp (5.08%) and Pioneer Natural Resources (4.77%).

Investors will be able to play this thematic index strategy via "a wide range of actionable investment alternatives" including total return swap (TRS), autocallable and participation products, as well as plain vanilla derivatives.

"[We are] always looking to provide the most efficient and convenient wrapper," said Enrile. "The index is available also in risk control and decrement versions."

Other QIS strategies offered by BBVA client's include the Solactive BBVA ixESG Global Leaders, Solactive BBVA Climate Action PAB Europe, Solactive BBVA Climate Action CTB Europe, Solactive 360 Euro IG Corporate CTB, Solactive BBVA ixS Global Inclusive Growth, Solactive BBVA ixG Global Governance and Board Diversity, Solactive BBVA Next Generation Networks, Solactive BBVA Cybersecurity, and Solactive BBVA Health and Wellness.

"We are planning to grow our product and service offering in 2022, expanding it to cover other themes and asset classes," said Enrile. "Alongside these plans we are also working closely with clients developing tailor-made indices to meet their specific investment requirements."

SRP data shows that the Spanish bank has marketed more than 50 publicly offered structures in the Mexican market tracking three of its QIS strategies including the Solactive BBVA ixESG Lideres Globales MXN Risk Control 10% index (39 products/US$111.2m), Solactive BBVA Next Generation Networks MXN Risk Control 10% Index (seven products/US$43.6m), and Solactive BBVA Health & Wellness SIC MXN Hedged Risk Control 10% Index (seven products/US$8.9m).

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Our best-in-class analysis capabilities allow us to deep dive into the roots of the resource scarcity theme

Spotlight on... top issuers in France

2021 was an excellent year for the French structured products market.

Sales volumes, at an estimated €23.4 billion, were up by more than 50% year-on-year (FY2020: €15.4 billion), while issuance stood at approximately 2,500 products, an increase of 26% from the prior year (1,988).

In fact, sales were at their highest levels since the launch of the SRP France database in 2004. The previous high was reached in 2007 when volumes reached €22.8 billion, although back then it was achieved from far fewer products (251), according to SRP data.

Thirteen issuer groups were active during the year. They included all the main French providers and a number of foreign (mainly US) investment banks.

Société Générale was the number one provider with a 33.7% share of the French market. It accumulated estimated sales of €7.9 billion from 1,122 publicly distributed products, which were almost exclusively issued on the paper of SG Issuer.

In Second, Crédit Agricole held a 20% market share, collecting €4.7 billion from 145 products. The group issued its products via LCL Emissions, Amundi and its corporate and investment bank (CIB). The former achieved the highest sales, at €2.2 billion (from 14 products), including €455m that was collected by LCL Autocall AV Mars 2021, which was the best-selling French product for the year.

BNP Paribas issued 634 products, predominately through its Dutch domiciled BNP Paribas Issuance BV vehicle. The bank sold an estimated €4.3 billion – the equivalent of an 18.7% market share – while Natixis in fourth place captured 9.4% of the market (€2.1 billion from 111 products).

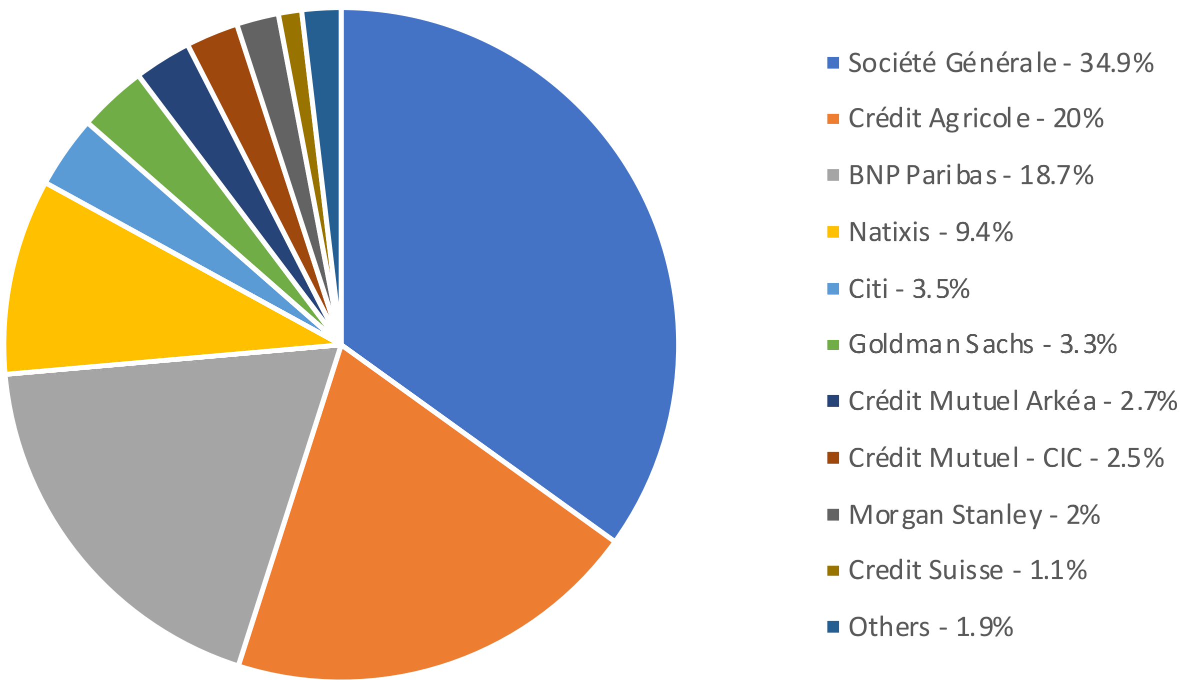
Crédit Mutuel CIC completed the top five with a 5.1% market share from 66 products sold (€1.2 billion)

The highest ranking non-French group was Citi. The US bank collected €780m from 114 products sold (3.3% market share). Citi was the first to offer French investors access to autocalls on single stock decrement indices, including iStoxx FP GR Decrement 2.54 Price EUR Index (TotalEnergies), iStoxx ORA GR Decrement 0.7 EUR Index (Orange), and iStoxx Engi GR Decrement 0.71 Price EUR Index (Engie).

Crédit Mutuel Arkéa also made the top 10, with a market share of 2.6%, which meant that French institutions captured 88.6% of their local market in 2021.

Disclaimer: data refers to public distribution products only.

France: top 10 issuer groups by market share in 2021*



**Public distribution only, excl. flow- and leverage products*

Source: StructuredRetailProducts.com

US: Structured products through the decade

In light of the US structured products market crossing US$100 billion in sales volumes at the end of 2021, SRP takes a look back over the course of a decade to track the evolution of the rapidly growing industry and chart shifts in investor behaviour.

The US market has more than doubled in size since 2011 in which total sales figures for the year amounted to US$45.7 billion across 9,631 structured products. This represents a 120% increase to the market's current figure of US$100.9 billion over 31,553 products. Three years earlier, the Lehman Brothers' collapse shattered the industry but the US market remained the fastest growing markets in the world.

The total outstanding over the last decade has also skyrocketed with a 178% growth – 2011: US$80 billion; 2022: US$223 billion.

Sales volumes remained steady and rarely fluctuated until 2017 in which figures shot up to US$55 billion (11,777 products) from US$43 billion in the previous year.

After which, sales followed an upward trajectory hitting US$77 billion at the end of 2020, a pivotal year for structured products, which finally rose to prominence among investors scrambling to gain more upside potential amid the Covid-19 market crash.

According to Deryk Rhodes (pictured), head of MLP trading and origination at InspereX, the milestone event of the market crossing US$100 billion in sales was inevitable.

"There has been a long continual effort to educate financial advisers on the many attributes of market-linked products. We are seeing the product really take hold and become a regular component of an advisor's business," he says.

The firm has seen the rise of autocallables over the last few years which has also helped spur the jump in notional.

"Even in light of the recent equity correction with rates returning to pre-covid levels I think 2022 will be another good year," says Rhodes.

In addition, the market saw a major shift in accounts gravitating from market-linked certificates of deposits (MLCD) wrappers to principal protected notes and particularly non-principal protected notes in recent years with autocallable structures rising in popularity as well as new underliers and wrapping thematic ETFs.

MLCDS FADE

SRP charts the sharp shift of investors away from MLCDs began to occur in 2020 after sales began gradually decreasing over the years. In 2011, sales of CD wrappers stood at a record peak of US$7.5 billion over 1,314 products. This figure has dropped to just US$237m across 224 products in 2021, highlighting the steep fall in interest from US investors.

The most dominant issuer of MLCDs in 2011 was HSBC Bank with US$3.4 billion in sales across 194 products, followed by J.P. Morgan Chase (379/US$1.4 billion), and Wells Fargo (43/US$625m).

In 2021, J.P. Morgan Chase Financial accounted for most sales with US$103m (138) while Citigroup Global Markets issued US$134m in sales across 86 products.

"The market is much more mature than it was five or six years ago. The increase in adviser understanding of structured products as risk management solutions has meant an increased comfort with principal at risk and the benefits structured products can provide within client portfolios," says Rhodes.

While the structured product market is much more mature it remains in people's minds as relatively untapped while the visibility of these products could still be greater.

"When the market is upward trending investors aren't always looking to buy risk managed solutions, but when the market turns, they become much more in vogue again. So, continuing to educate on the product remains the core of what we are looking to do in 2022," says Rhodes.

BASKETS OVERTAKE

US investors have also recently gravitated towards index baskets as can be noted in 2021 when they became the most popular underlying, overtaking single indices which were previously dominant.

Index basket equities accounted for US$32.5 billion in sales during 2021, a 43% increase from its 2020 figure of US$22.7 billion. This category collected just US$2 billion in sales in 2011 and ranked far behind single index and single share equity assets which accrued US$16.8 billion and US$10.2 billion, respectively.

The market has also seen the deviation away from FX Rate assets over the past decade, collecting just US$14m over seven products in 2021, compared with US$1.7 billion in sales over 239 products in 2011.

The best-selling product in 2011 was the STEP Income Securities – Ford note distributed by Merrill Lynch worth US$185m. With a tenor of just over a year, the growth and income product featured a reverse convertible and digital payoff type and was issued by Svensk Exportkredit.

Tracking a single share of Ford Motor, the product reached maturity on 23 March 2012. Investors collected the 9.75% p.a. paid quarterly throughout the investment period, but at maturity they received 99.09% of their initial investment.

Throughout the years, dominant distributors of best-selling products fluctuated between Merrill Lynch, Bank of America, and J.P. Morgan. However, in 2017, a non-public distributor was behind the best-selling Raymond James Analysts' Best Picks Notes - Share Basket (06367TQJ2).

Selling for US$310m, the growth note was issued by the Bank of Montreal and reached maturity on 29 January 2018.

The best-seller of 2021 - the Accelerated Return Notes - S&P 500 (06747W187) sold for US$137m. Issued by Barclays Bank and distributed by Merrill Lynch, the growth note featured an enhanced tracker and capped call payoff while tracking the S&P500.

According to Tom Baughman (pictured), managing director, Private Wealth Solutions at iCapital,

the multiple short bouts of increased volatility in 2021 provided an optimal market for structured products sales.

"All major indices were way up for the year and this environment allowed for most callable products to get called at least once during the year and terms still looked attractive to investors because of the periodic spikes in volatility that we saw," he says.

There is also a larger interest in single stock worst of products than seen in years past. "Investors are hungry for yield and using single stocks are getting them into the double digits for annual coupons. Two-thirds of the flow were callables while mostly two to three indices in a worst-of structure," says Baughman.

SHIFTING PROFILES

Payoff combinations have differed since 2011 as well with uncapped call/enhanced tracker types collecting the highest sales (US$10.8 billion). This combination remained dominant until 2014 when it was surpassed by knock-out/reverse convertible structures which totalled US$8.1 billion.

Capped calls made a comeback in 2015 alongside enhanced trackers and protected trackers which ranked first on payoff league tables until 2020. Since then, knock out, reverse convertible, as well as worst of option payoffs have re-bounded and accounted for US$11.8 billion in 2020 and US$16.3 billion in 2021.

Steve Czick, managing director, private wealth solutions at iCapital says that as the market has shifted to overwhelmingly favoring yield products, the process for advisers has become more burdensome.

"This extends to having to monitor callability, coupon payments, barrier breaches, etc. For a lot of heavy buyers of structured products, it almost becomes a business within a business. Also, with that same shift to yield, the market has become too tilted for issuers, where the same type of risk is continually being added to their books, rather than having products offset," he says.

As we progress into 2022, two main themes will dominate the year ahead. These include the growth of new wrappers such as separately managed accounts that will significantly improve the purchasing and after-market process for adviser.

"We can also anticipate an increase in new vol-targeted yield indices, so issuers will begin competing on innovation, not just coupon levels," says Czick.

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When the market turns, risk managed solutions become much more in vogue

NEWS: AMERICAS

Annuity regulator seeks to tighten up Rila features

The US insurance regulator has developed new guidelines for technical changes to registered index-linked annuity values. These would bring the products in line with traditional variable annuities (VA).

The National Association of Insurance Commissioners (NAIC) has issued an actuarial guideline on registered index-linked annuities (Rila) to finetune the product design of those retirement products amid a significant growth in demand among investors.

The new guidelines have been published after a consultation open to public commentary for a 60-day period which ended 22 January of which several industry players chimed in to give their insights, such as Prudential, the American Council of Life Insurers (ACLI) and the Committee of American Insurers (CAI).

The NAIC task force initially created a subgroup in mid-2021 to solely focus on the Rilas which would later prompt the guideline for technical changes to Rila values, also known in the US market as index-linked variable annuities (ILVA), that would bring the products in line with traditional variable annuities (VAs).

Industry players do not appear to be in support of the proposed guidelines while the issue for regulators stems from Rilas not exactly fitting two key model laws: Model 250, Variable Annuity Model Regulation, and Model 805, Standard Nonforfeiture Law for Individual Deferred Annuities.

According to a letter penned by the ACLI and CAI, there are technical aspects of the exposure which do not align with the realities of how Rila products are manufactured.

'Instituting the Interim Value framework as drafted could adversely impact the core design principles used to create Rilas. Additionally, it appears to us that the exposure is too restrictive and would not meet some of the Subgroup's own objectives, including fostering product innovation responsive to the lifetime income challenge that retirement presents for millions of Americans,' stated the letter.

According to the industry trade bodies, Rilas are fundamentally spread-based products, not fee-based products unlike conventional variable annuities.

'Insurers manufacture Rila products by investing in fixed income assets with a return that covers the cost of liability benefits, expenses and profit/risk margins. In this respect, Rilas share many core manufacturing concepts with fixed indexed annuities.'

Prudential has also provided feedback on the guidelines and gave the recommendation of a clarification in language of the exposure to promote consumer choice to spread based or explicit fee type products.

'Specifically, we recommend a new requirement, in the form of an actuarial certification to regulators attesting that spreads are reasonable based upon the current economic environment,' stated Prudential in its letter.

The firm says that the exposure could be interpreted to require that the profit provisions, spread, and expenses be presented as an explicit fee disclosed in the contract which is different from the design of the product in the marketplace.

'The explicit fee approach would remove simplicity and result in an unnecessary disruption to the ILVA marketplace and impact consumer product choice.'

Registered index-linked annuity sales broke records in the fourth quarter and for the year, according to the Secure Retirement Institute (SRI).

Q4 21 Rila sales were US$10.6 billion, 26% higher than prior year. Sales for the entire year stand at US$39 billion, a 62% increase from the prior year.

"Overall, Rilas have been making more noise in the industry than FIAs because they have more upside potential," said Tamiko Toland (pictured), annuities director at Cannex. "When you conceptualise them FIAs as fixed annuities and not as a structured product (even though they're both very much structured), the fact that you cannot lose money is important with the FIA, as far as what the clients can expect," she said.

As the market continues to see plain vanilla Rilas grow, annuity regulators will continue to tighten guidelines surrounding this popular retirement product.

"Rilas are going strong and the biggest risks for these products come from either a dramatic change in economic conditions that would make popular Rila structures less attractive or an unexpected regulatory change," said Toland.

JPM MerQube vol target play crosses US$200m in sales

The MerQube US Tech+ Vol Advantage Index first appeared in the market in the summer of 2021.

The volatility controlled proprietary underlying developed by US start-up index provider MerQube has now amassed US$196m in structured product sales across 142 structures, SRP data shows.

The index was exclusively licensed to J.P. Morgan in mid-July 2021 – the US investment bank also led a Series A funding worth US$5m for MerQube to drive its international expansion and accelerate platform development.

To-date, the best-selling structure tied to the MerQube US Tech+ Vol Advantage Index is the Auto Callable Contingent Interest Notes - MerQube US Tech+ Vol Advantage Index (48132WDG1). Selling for US$16.85m, the note which struck on August 2021 features a knock out and reverse convertible payoff type and is expected to reach maturity in five years.

The income product pays a quarterly coupon of 10% pa. if the underlying is greater than or equal to 60% of its respective initial level on each observation date. Otherwise, no coupon is paid for that period.

While J.P. Morgan is responsible for issuing all the structures - the bank distributed 104 products worth US$167m, InspereX (formerly known as Incapital) has issued the other 38 products which had a sales volume of US$28.7m.

Dominant payoffs include knock out (139/US$194m), reverse convertible (112/US$156m), protected tracker (30/US$40.5m), snowball (six/US$8.3m), and enhanced tracker (three/US$2.6m).

According to Vinit Srivastava (pictured), founder of MerQube, the appeal of intraday strategies comes primarily from the perspective of better option pricing.

"In the case of a vol target index, clients were paying close to 6% volatility on a typical 5% volatility index for option costs and now with intraday strategies, which might be very similar in terms of the performance, those hedging costs would typically come down," he said.

"The savings on that are attractive and are the reason why clients harbour an interest in such intraday strategies in terms of a hedging perspective, rather than looking at just performance that one can get out of intraday dislocations."

UNDERLYING ASSETS

Srivastava highlights that although innovation is at the forefront of index evolution, integrating particular themes such as cryptocurrency pose certain difficulties.

"The biggest challenge with structured products using crypto, whether it's using futures or whether it's using spot is just the availability of options," he said. "In order to guarantee any payout, you need to be able to hedge the options that you have written or bought, and that is not any easy task, because the banks themselves are not participating in that."

Although multi-asset index strategies are becoming more mainstream, the market direction could play against them, according to Srivastava.

"With the current rate environment that's coming up, I would say we might see a comeback on equity underlyings because that was one of the key reasons why buying started to go a lot into multi-assets. The pricing on a multi-asset basket was much better than what they could get through equity," he said.

> "The biggest challenge with structured products using crypto is the availability of options

CS RavenPack AI play reaches US$1bn trades

The bespoke index developed by the Swiss bank and RavenPack for the US structured products market has delivered an annualised performance of 6.7% since its launch.

Credit Suisse has traded more than US$1 billion in notional in derivatives linked to the Credit Suisse RavenPack Artificial Intelligence Index (Bloomberg ticker: CSRPAI5E Index), as of 31 December 2021.

The index was launched in 2017 as a result of a collaboration between Credit Suisse and RavenPack to leverage the power of big data analytics to make sector allocation decisions in a tradable and systematic way within an index.

"Investors have shown interest in artificial intelligence and natural language processing," Mike Heraty (pictured), head of institutional solutions at Credit Suisse, told SRP. "We were not surprised that the index reached this notional milestone because it's a unique thematic and was thoughtfully constructed."

The Credit Suisse Ravenpack AI Index aims to gain exposure to sectors of the US economy with stronger sentiment as determined by a news analytics algorithm developed by RavenPack, which uses Natural Language Processing (NLP) models to objectively analyse thousands of company news published by reputable sources across the globe in milliseconds.

The index also implements a strategy that combines equities and fixed income, complemented by a daily risk control mechanism. The index has recorded a 6.7% annualised performance* since its launch in 2017, and has provided "a window into systematic asset allocations selected by sophisticated data-driven analysis".

"The amount of relevant published information about all available tradable assets makes it impossible for analysts and investors to read and understand it all," said Armando Gonzalez, president and CEO, RavenPack. "Natural language processing creates an opportunity for innovation in automating the analysis of not just what's being said, but how information is being perceived."

According to Gonzalez, the equity component of the Credit Suisse RavenPack Artificial Intelligence Index leverages sentiment scoring applied to news data extracted by the RavenPack news analytics algorithm that seeks to anticipate relative price movements and make more informed sector selections.

"AI is now one of the most important tools for creating products anywhere in the US along with external markets," he said. "Credit Suisse has unique and innovative ideas in terms of their approach, and the way they thought about the use of sentiment analysis and the construction of more formal products was key in helping us realise the potential of a collaboration".

The success of the Ravenpack AI Index is also due in part to the positive momentum that quantitative investment strategies (QIS) have experienced in the broader marketplace, according to Heraty.

"Back in 2017, we quickly recognised that the engine RavenPack had built was special so we were eager to work with them," said Heraty. "When we formed the partnership, we knew that we could build an index that could be delivered to various markets such as structured products and retirement products from insurance companies.

"By bringing together complementary expertise, Credit Suisse and RavenPack have provided an objective and quantitative approach to information gathering."

"This milestone achievement illustrates how artificial intelligence has reshaped the landscape of equity investment: sentiment analysis now drives alpha discovery," said Gonzalez.

Outside the annuities market a risk control version of the index, the Credit Suisse RavenPack AIS Balanced 5% ER Index, has featured across 64 structured notes in the US market worth US18.87m.

SRP data shows that Credit Suisse has used 68 own-branded proprietary indices across more than 650 structured products sold across 20 retail markets.

Some of the most featured indices developed by the bank's QIS team include the Credit Suisse FX Factor SEK Excess Return, Credit Suisse RALL Holt Index, Credit Suisse HOLT European Dividends Synthetic Return Index, Credit Suisse / Tremont Long-Short Equity Sector Invest Index, Credit Suisse / Tremont Investable Index, Credit Suisse / Tremont Hedge Fund Index, Credit Suisse / Tremont Event Driven Sector Invest Index, and Credit Suisse / Tremont Emerging Markets Sector Invest Index.

*Source: Credit Suisse. Bloomberg. Data collected from 6 October 2017 to 31 December 2021. Past performance (actual or simulated) is not an indicator of future performance.

Spotlight on... top issuers in Mexico

Monex and BBVA dominated the market with their currency-linked products.

Some MXN300 billion (US$14.9 billion) was collected from 5,612 structured products that were issued in Mexico during 2021.

Volumes were down 12% on the previous year (2020: MXN348 billion from 5,866 products) with almost 80% of all sales coming from products tied to FX rates (MXN233 billion).

There were five issuer groups active during the year.

Monex was the main issuer in the market. The Mexican financial group sold 3,719 products worth a combined MXN185.6 billion between 1 January and 31 December 2021 – the equivalent of a 61.9% share of the market.

The company's products were a mix between certificates of deposit and structured bonds featuring accrual, range, digital and dual currency payoffs. All of Monex' products were linked to the appreciation of the US dollar relative to the Mexican peso.

BBVA México, in second, held a 30.2% share of the market. It achieved sales of MXN90.5 billion from 1,599 issued products, which, apart from deposits and bonds, also included 540 warrants. Payoffs were a mixture of autocalls, dual currency and reverse convertibles.

The bank, which between 2000-2019 was known as BBVA Bancomer, was also responsible for the best-selling product of the year, which came in the shape of the ASWP Spread Note. The three-month spread option was linked to corporate bonds and sold MXN4.8 billion during its subscription period.

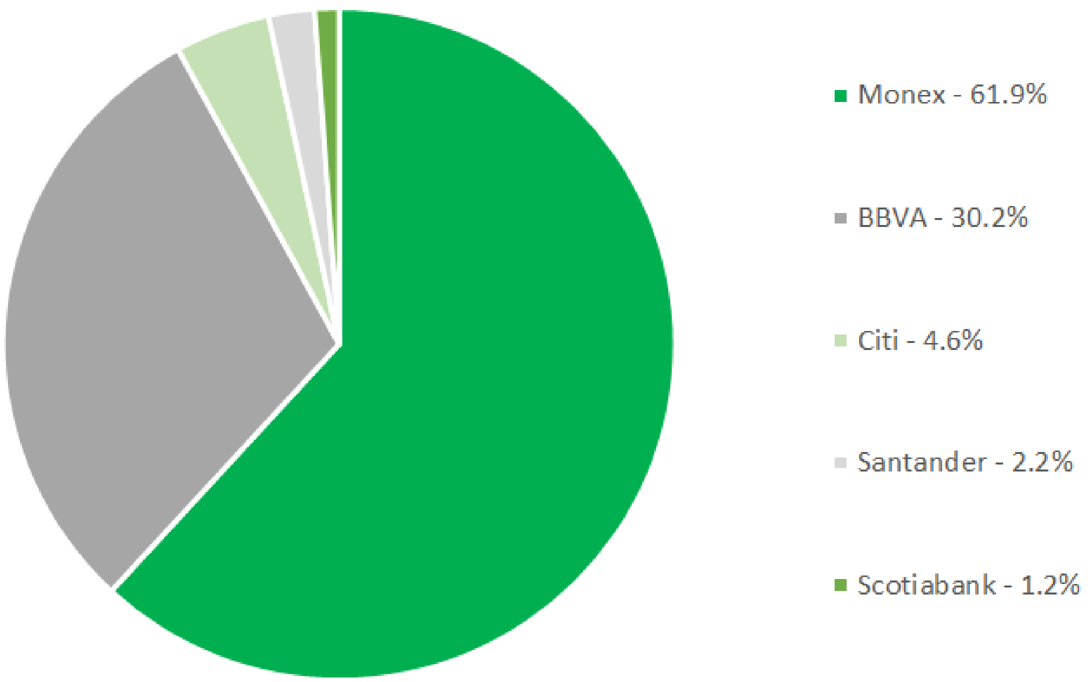
In third place, Citi claimed a 4.6% market share. It sold 143 products (MXN13.8 billion) via its Banamex subsidiary. Approximately halve of its issuance was linked to the USD/MXN currency pair with dual currency the preferred payoff.

Banco Santander and Scotiabank held a market share of 2.2% and 1.2%, respectively. The former collected MXN6.6 billion from 114 products, which included an American warrant on the Financial Select Sector SPDR ETF (MXN37.6m).

Meanwhile, Scotiabank accumulated sales of MXN3.5 billion from just 37 products. It was the sole issuer in Mexico that did not offer any dual currency products, instead focusing on autocalls, reverse convertibles and even the odd capped- and uncapped call.

Disclaimer: data refers to public distribution products only.

Mexico: top 5 issuer groups by market share in 2021*



Public distribution only, excl. flow- and leverage products

Source: StructuredRetailProducts.com

Citi enters Simon consortium as new investor

The US bank is the latest structured products provider to make a strategic investment in the platform owned by seven other financial institutions.

Citi has made an undisclosed strategic investment on Simon Markets, the US multi-issuer structured products fintech company owned by a consortium of seven financial institutions, including Goldman Sachs, Barclays, Credit Suisse, HSBC, J.P. Morgan, Prudential and Wells Fargo.

Citi is already plugged into the Simon platform as an issuer of structured investments and through its wealth management division whose financial professionals use the investment platform.

The bank said in a statement that in 'strategic alignment with the focus of both companies' the investment underscores its commitment 'to cutting-edge technologies' that can deliver advisor-facing tools for risk-managed solutions and 'is complementary to broader partnership opportunities that exist between the two firms'.

> **Financial professionals are looking to stay ahead of market volatility**

'Financial professionals today are looking to stay ahead of market volatility and manage client portfolios with confidence,' said Fabrice Hugon (pictured), head of Americas sales for solutions for financial intermediaries at Citi, who has joined the platform's board of directors. The US platform closed the first leg of a strategic financing round of up to US$100m of growth capital in July 2021 - the Series B round was led by WestCap, a growth equity firm founded by Laurence Tosi, former CFO of Airbnb and Blackstone, with existing investors also participating in the round.

Simon reported a year-over-year increase in volume of 94% and usage of 67%, last week. The platform also closed several strategic partnerships in 2021 to expand its product offering for financial professionals and released several enhancements to its portfolio allocation tool Simon Spectrum to improve the way advisors manage client accounts.

According to SRP data, there are 6,623 products listed on the Simon Platform with a value of US$18.5 billion. Goldman Sachs with US$10 billion is the most active issuer on Simon followed by J.P. Morgan, TD Securities and Morgan Stanley.

Allianz sets aside US$4.2 billion for Structured Alpha lawsuits

Allianz Group is setting aside €3.7 billion (US$4.2 billion) to cover expected settlements with US investors and government officials over the collapse of its Structured Alpha Funds, the company said on 17 February.

The provision booked in its financial statements 2021 has reduced the group's net income by €2.8 billion.

'The anticipated settlements are an important step towards a resolution of the various proceedings,' said Allianz. 'Discussions with remaining plaintiffs, the US Department of Justice and the US Securities and Exchange Commission remain ongoing and the timing and nature of any global or coordinated resolution of these matters is not certain.'

Therefore, the total financial impact of the Structured Alpha matter cannot be reliably estimated and Allianz SE expects to incur additional expenses before these matters are finally resolved, according to the German financial services provider.

In addition, Allianz SE reported that its Solvency II ratio reached 209 percent as well as the launch of a new share buy-back program for 2022 which will amount to up to €1 billion. Allianz SE will cancel all repurchased shares.

Luma, Morningstar collaborate on structured products data analytics

Luma has teamed up with Morningstar to bring structured product data and analytics to Morningstar Advisor Workstation subscribers.

Luma Financial Technologies, an independent multi-issuer structured products and annuities platform, has signed an agreement with Morningstar to launch structured products data and analytics within the Morningstar Advisor Workstation.

Morningstar will use the data provided by Luma to analyse, manage, and allocate structured products in an overall client portfolio context. Subsequent enhancements of Advisor Workstation through 2022 will build on Morningstar's objective to provide deeper classification of structured products so financial professionals can more easily see the impact to a client's investment plan.

'Our collaboration with Morningstar enables financial professionals to combine the breadth of our data with their deep portfolio analysis,' said Tim Bonacci (pictured), CEO and president of Luma. 'This empowers them to determine whether structured products can provide the right fit for clients and help them more easily reach their investment objectives.' According to SRP data, more than 31,500 structured products worth US$100.9 billion were issued in the US in 2021 – the highest number, both by issuance and sales, since the launch of the SRP US database in 2005.

'Adding Luma's structured products data and modeling to financial professionals' toolkits will illustrate important trade-offs and empower investors to make better informed financial decisions,' said Kevin Reed, head of strategic partnerships at Morningstar.

In addition to accessing structured products data through Morningstar Advisor Workstation, subscribers will also be able to access Luma's platform directly within this solution. In order to fully transact in the marketplace, they can elect to enrol as a Luma client.

"Financial professionals can determine if structured products are the right fit for clients

CAIS adds partner in platform expansion push

US fintech platform CAIS headed by CEO Matt Brown (above) has announced a new partnership with Focus Financial Partners to launch a new alternative investment platform to deliver access to a range of alternative investments, adviser education, independent due diligence, and end-to-end digitised transaction processing as well as third-party reporting integrations.

The CAIS platform will enable Focus partner firms to evaluate a range of alternative investment strategies on behalf of their clients. This will include hedge funds, private equity, private credit, real estate, digital assets, and structured notes.

CAIS will also seek to launch and operate proprietary feeder funds and multi-manager funds - these customised fund solutions will be exclusively available through the CAIS Platform, while Focus will be able to add their own sourced third-party funds to the platform and benefit from centralised monitoring, transacting and reporting.

CAIS will also provide its educational outlet CAIS IQ to Focus so advisors can further improve client outcomes. CAIS IQ content will also be tailored to meet the needs of each Focus partner firm.

Credit Suisse: China, ESG in spotlight (part 1)

The Swiss bank is working to bring China equity structured products globally as these assets accounted for nearly half of the assets managed on its SparkTrackers platform.

The proprietary issuance platform for tracker certificates on thematic indices currently has assets under management (AuM) of approximately US$800m.

"The demand for structured products on China equity has remained strong overall since 2020 [as] China is opening up to the world," said Clement Florentin, head of investment solution Asia ex-Japan & co-global head of QIS distribution structuring at Credit Suisse (pictured). "The increased incorporation of China equity to major benchmarks has also been driving capital flows to the region."

At SparkTrackers, a total of 22 indices have gone live since September 2018 across 14 themes comprising Asia online gaming, electric vehicle (EV) power, 5G Frontier, China healthcare, cloud computing, rising China brands, post-pandemic recovery, sustainable China, accelerating economy spark, ESG top pics, CS top pics, hydrogen, PremiaTracker Southbound and future food.

Among them, the Sustainable China Index stands out, being deployed with a quantitative and systematic strategy. The basket selects around 70 out of 100 companies in renewable energy, smart grid and environmental protection spaces, including both producers and suppliers, with stocks categorised according to their market capitalisation.

Two indices over various share classes are available tracking the basket, which went live on 31 December 2020 and 26 April 2021, respectively. They are re-balanced on a monthly basis.

"China equity is less correlated to developed and emerging market equity, and has significantly outperformed during the Covid crisis," said Florentin. "Our China-related solutions are able to monetise some of the repurchase agreement we get on China names, potentially passing it to clients through outperformance transactions."

Primarily manufactured in Apac, the open-ended delta one certificates are exclusively issued and distributed by Credit Suisse or its affiliates.

The investment bank has also introduced the China Southbound Long Short Index to capture the opportunities arising from the opening of China's capital markets. Developed by its quant research team, the offering aims to monetise the premium of the Southbound programme, which allows qualified Chinese investors to access eligible Hong Kong shares.

"The offshore stocks purchased by onshore investors tend to outperform," said Florentin, adding that those investors show unique investment preferences and likely possess an information advantage.

China onshore investors hold 10.7% of Hong Kong free float market cap and account for over 20% of turnover in Hong Kong SAR, according to the bank's estimates. The Swiss bank invests in stocks with large southbound flows by adopting a 'glass-box' machine learning approach, in which the user can see how the model works and reaches its decision by following the steps from inputs to outputs in contrast to 'black box'.

Launched in June 2015, the index has delivered 11% compounded annual growth rate with 14% maximum drawdown and 0.9 Sharpe on a historical backtest.

"The index has been delivered to retail and distribution clients through a variety of products including principal-protected notes and warrants, alpha and delta-one certificates," said Florentin.

Following the most recent launch on the future food theme, which once took the SparkTrackers' AuM to US$900m in August 2021, Credit Suisse plans to introduce a brand-new theme in the coming two months.

AMCS

In addition to the tracker certificates, Credit Suisse Asset Management is running an actively managed certificate (AMC) on the China Connect, which is one of the "most successful mandate solutions" investing in both the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, according to Florentin.

"The AMCs managed by asset allocators in Asia are increasingly delivered globally," he said.

Manufactured in Hong Kong SAR, the China Connect AMC has been traded globally on Quantum – the bank's proprietary platform to create and manage bespoke indices across equity, fixed income, commodity, foreign exchange and quantitative investment strategies (QIS) on a discretionary basis. SparkTrackers also leverages on Quantum allowing content, execution and delivery services.

Compared with other investment solutions desks in Apac, which primarily focus on transaction origination and content distribution, the investment solution group (ISG) team at Credit Suisse in Apac also specialises in origination and manufacturing while additionally acting as a platform, noted Florentin.

Credit Suisse: Apac, ESG in focus (part 2)

The Swiss bank is incorporating ESG metrics via custom indices to structured products in Apac.

In the second part of the feature, Clement Florentin, head of investment solution Asia ex-Japan & co-global head of QIS distribution structuring at Credit Suisse, shares his views about ESG-linked structured products in Apac.

Having launched close to 20 ESG-focused equity indices during the past two years, the Swiss bank has managed to grow the traded volume of structured products on the back of five custom index strategies in Apac.

"Institutional investors in Asia are taking an interest starting with countries like Australia and Japan, in contrast to five years ago when people were more concerned if ESG compliance was affecting their returns," said Florentin.

Among the 14 themes launched on the bank's SparkTrackers platform, the electric vehicle power has been traded globally and "quite successful" along with the sustainable China.

"The EV index tracks a hypothetical portfolio of stocks consisting of global companies that produce EV batteries, not the vehicles," he said. "Incorporating ESG metrics to investment can be a key driver of outperformance in a portfolio, instead of merely a 'feel-good' factor."

Another highlight is the ESG top picks, which covers 25 equities based on their sustainability scores and performance. The basket is tracked by two indices of various share classes, which went live on 31 December 2020 and 5 May 2021, respectively. The ESG rating is a result of quantitative and qualitative assessments.

"Our approach to rating structured products is based on a scale from zero (not sustainable) to five (impact Investing)," said Florentin. "ESG-focused structured products are primarily shaped by the bank's sustainable framework developed by its sustainability strategy, advisory and finance (SSAF) department."

Specifically, the framework weighs the ESG ratings of both structured product issuers and reference assets. It also considers whether the theme is aligned with the United Nation's Sustainable Development Goals (SDGs), and the structured product proceeds are used to finance green activities.

To be eligible for a rating of four or five, each structured product shall be reviewed and approved by the SSAF. "ESG-compliant or environment-respecting companies would most likely be able to issue green bonds and have cheaper access to financing," said Florentin. "Therefore, they tend to deliver better metrics and performance."

The journey goes back to the launch of Credit Suisse's structured impact notes programme, which was introduced in August 2020, features green use of issuance proceeds offering an exposure to the MSCI ESG Rating Select Indices on either US or Eurozone equities. They are issued by the bank's special purpose vehicle (SPV) Argentum Capital S.A. or supranational institutions like the World Bank.

"We have a wide range of offerings to address the increasing demand including the creation of SparkTrackers and stock selection for fixed coupon notes – they're both SGD-aligned," he said, "[We have] seen growth on structured products tracking ESG-compliant indices."

Structured product ideas meeting ESG criteria are also incorporated into the investment design process and the product life, such as the credit risk and option-based payoff.

In addition, the MSCI USA ESG Rating Select 100 Gross USD Index, of which Credit Suisse owns the exclusive license as a co-developer, has been traded in a delta-one certificate and swap format in Apac this year.

Prior to that, the Swiss bank has also traded a similar index developed by iStoxx in Apac, said Florentin without disclosing more details.

"The acceleration in outperformance over the past few years is coming from ESG stocks," said Florentin. "This has been helped by the fact that growth and tech stocks have been at the forefront of sustainability, combined with a technology and growth bull market to be fully transparent."

"

The acceleration in outperformance is coming from ESG stocks

SG launches first US equity DLC in Singapore

In a first for the Asian market, Société Générale (SG) has issued four daily leverage certificates (DLCs) linked to the S&P 500 on the Singapore Exchange (SGX), nearly five years after it entered the space.

Available in long and short versions, the DLCs went live on 4 March offering a leverage of five times the daily return of the S&P 500.

"Investors in Singapore are increasingly looking to diversify their exposure to the US market using a variety of trading strategies and products," said Marcus Ng (pictured), vice president and cross asset listed distribution at SG. "The introduction of DLCs tracking US equity indices enables Singapore investors to gain long and short exposure to the US market during Singapore trading hours through their SGX securities trading account using Singapore dollars."

Ng said that in addition to the S&P 500, the bank is looking to cover more US market indices such as the Nasdaq 100 and Dow Jones Industrial Average Indices.

Due to the trading hours difference, the S&P 500 DLCs intra-day price movements are linked to the performance of the e-mini S&P 500 futures, which are traded during Asian hours. Issued by SG Issuer, they all will expire on 28 February 2025 through European cash settlement with SG as the market maker.

'The listing of SG's DLCs on the S&P 500 index marks another important milestone for the expansion of SGX's DLC suite beyond regional indices and single stocks,' said Michael Syn (pictured), head of equities at SGX, adding that DLCs on US indices will 'help investors navigate the US stock markets which have been particularly volatile'.

The new products didn't appear to gain traction as of the market close. The two short DLCs generated a trading value of SG$9,000 and SG$4,000, respectively, while the two long ones didn't book a value. They posted zero outstanding quantity - the total number of certificates issued which are not held by the issuer.

"The market sentiment has generally been bearish, hence the flows we saw on the short S&P 500 DLCs could be a reflection of that," Ng told SRP. "We expect investors' take up to be gradual given the novelty of this underlying." He also noted that investors need time to monitor the daily performance of the e-mini S&P 500 futures and understand how they're linked to the DLCs.

Court upholds Hana Bank's DLF penalty over mis-selling

The Seoul Administrative Court on 14 March ruled against Hana Bank and its executives including ex-CEO Ham Young-joo over their pledge to clear the penalty from the derivative-linked fund (DLF) mis-selling from 2017 to 2019. The ruling comes six months after the same court revoked the sanction on Woori Financial Group chair and CEO Son Tae-seung, which was also imposed by the Financial Supervisory Service (FSS) over the DLF fiasco. 'On March 14 2022, the Seoul Administrative Court ruled against all plaintiffs in a lawsuit filed by Hana Bank Co Ltd and three others against the Financial Services Commission (FSC) and the FSS governor,' said the two financial watchdogs in a joint statement. 'The FSC and the FSS respect the court of first instance and plan to review the judgement closely to clear up the future positions.'

Hana Bank expressed regret over the ruling. 'We actively explained the excessive aspect of the FSS' measure on one hand, while fully accepting its compromise plan to compensate affected investors on the other hand,' it said. The penalty comprises fines and a 'disciplinary warning,' which could bar the executives from the industry for three years. The respective fines for Hana Bank and Woori Bank were initially KRW25.5 billion (US$20.6m) and KRW22.8 billion, respectively, as proposed by the FSS on 30 January 2020, two months after the regulator concluded its interim investigation on the DLF crisis.

On 4 March 2020, the FSC lowered the fines to KRW16.8 billion and KRW19.7 billion, respectively, and the two distributors were prohibited from selling private equity funds for six months (from 3 March to 4 September 2020). However, 'sanctions on employees decided by the FSS governor will be taken by the FSS,' stated the FSC.

China’s ‘fake payoffs’ remain an issue

Discussions around shortcomings in the structured deposits market continue in China as market size further declines in 2021.

The average monthly structured deposit balance in China has fallen by 37.7% to CNY6.15 trillion (US$967.5 billion) in 2021 year-on-year (YoY), according to the central bank People’s Bank of China.

For medium-and-small sized state-owned banks, which include the main issuers of structured deposits - joint-equity banks (股份制银行), the balance dropped by 40.8% to CNY3.68 trillion YoY.

The shrinking market share of structured deposits is directly related to the landmark regulatory framework released in October 2019, which was introduced to curb arbitrage, bad debt and 'fake structures’ in the Chinese structured deposits market and was followed by a series of discretionary ‘windows guidance(窗口指导).

Two sources from the financial markets division at different joint-equity banks said they were required not to exceed the total issuance amount registered in 2020 during 2021 as part of windows guidance. In 2022, the market expects to see a new round of regulatory instructions in terms of volume.

“The low interest rates environment also dampened investors’ interest in structured deposits due to lowered return on average in 2021,” said one of the bankers.

After the policy came into effect in October 2020, the structured deposit market has experienced a thorough reform involving areas such as derivatives trading licenses, business management systems and the use of corporate funds.

However, ‘fake structures’ remain in the grey area as the definition is subject to financial watchdogs, according to several senior market sources.

“One consensus is that the issuing bank must have a real derivatives counterparty for every structured deposit product, which are usually securities houses or foreign banks in China,” said one source.

The lack of counterparties had led to concerns about increasing unhealthy debt as Chinese banks, particularly those with smaller retail presence, would guarantee better-than-term deposit performances in an attempt to build up its balance sheet.

In July, the China Banking and Insurance Regulatory Commission (CBIRC) slapped a CNY69.2m fine on Shanghai Pudong Development Bank over 31 breaches, which included issuing structured deposits that embedded no derivative as well as for providing channels for institutions without derivatives trading licences to issue structured deposits.

Shortly after, China Minsheng Bank and Bank of Communications were fined CNY114.5m and CNY41m, respectively, over dozens of breaches including the issuance of structured deposits with counterfeit counterparties.

However, the lack of counterparties does not reveal the entire picture of ‘fake structures’ because issuers can still manage to attract investors through payoffs by taking advantage of the probability of a certain event.

For example, an issuer may set up a barrier, which is highly unlikely or likely to be reached based on the underlying’s historical performance, so investors will be implicitly offered a high-yield guarantee.

“It’s problematic that there are usually counterparties behind the trades,” said one source, adding that the Chinese regulators haven’t set up any rules on the payoffs, and it’s very difficult to deal with the issue given the flexibility nature of structured products.

“It’s not uncommon to see such ‘fake structures’ in the market, although the structured deposit market has improved significantly in terms of standardisation.”

SRP data shows that China Citic Bank launched 38 structured deposits on a total of 12 foreign exchange (FX) pairs with a tenor between one and six months in the first quarter of 2021. With a digital payoff, all these deposits offer a return of between 2.52% and 3.66% per annum with a common barrier gap of 30%.

The乐赢汇率挂钩20249期/Structured Deposit P21W60101 offers a return of 3.4% pa. if the USD/JPY pair was above 100% of its initial level at maturity, or a 3% pa. if the underlying level ended between 70% and 100%. Otherwise, investors would receive a return of 1.48% pa.

Having collected a notional principal close to CNY5 billion (US$786.3m), the one-month product matured on 11 March, delivering the maximum payout of 3.4% pa.

The probability of the reference asset falling as much as 30% within a month period is slim as the USD/JPY volatility by month has been 3.06% on average with the maximum hitting 4.88% during the past five years. The overall annualised return may reflect the usage of such payoffs by a bank, said one source.

“In a market without arbitrage, the risk-return profiles vary depending on the option premium, which are typically from two to four percent for structured deposits,” said the banker, adding that it was common to see annualised returns of four percent or above throughout 2021, but there were also dozens of products delivering yield ranging from 0% to 0.5% pa.

“If an issuer constantly generates an annualised return of around three percent with few structured deposits posting less than one percent pa., it may raise scepticism on ‘fake structures’,” said the source.

UBS expands China swap business

The Swiss bank is making further inroads into the rapidly growing derivatives market in China.

UBS (China) has set up a team to offer structured solutions to local financial institutions to hedge their exposures to foreign currencies (FX) and interest rates.

The currencies consist of US dollar, euro, pound sterling, yen, Australian dollar, Swiss franc and Canadian dollar while interest rates include main FX benchmark interest rates, such as the US dollar fixed term swap agreement rate (CMS).

The use of derivatives in China has rapidly grown in recent years, but there remains plenty of potential for their further adoption, according to the Swiss bank, which obtained its derivative trading license in the country back in 2005. When the risk and reward match, it becomes the advantage of running the derivatives businesses - Thomas Fang

'In 2021, the trading volume of China interbank OTC derivatives reached CNY158.7 trillion, up 15.6% year-on-year, representing the most significant part of the total OTC derivatives market in China. The trading volume of exchange-traded derivatives was CNY582.1 trillion in the same year, up 33% from 20201,' said Thomas Fang (pictured), head of China global markets at UBS.

The expansion comes as Chinese wealth management products (WMP) shift to the net asset value model required by the 2018 asset management rules (资管新规), which came into effect from this year with the aim of breaking the 'rigid redemption (刚兑)' at commercial banks.

'After breaking the rigid redemption, everyone has the same starting point, that is, the risk-free deposit rate of 2% [pa.],' said Fang in a local media report. 'If you need to strive for a return of 3% or 4% [pa.], you need to take certain risks. If you want a return of 10% or even 20%, the risk you may take is higher. When the risk and reward match, it becomes the advantage of running the derivatives businesses.'

HSBC fined over false warrant market making

The Asia brokerage arm of the UK bank has been fined a total of HK$7.3m (US$934,200) for several internal control failures including the self-matching of 370 derivative warrants (DWs).

The Securities and Futures Commission (SFC) and the Stock Exchange of Hong Kong (SEHK) have imposed two penalties on HSBC of HK$6.3m and HK$1m, respectively, for self-reported breaches, according to two announcements on 3 March.

HSBC Securities Brokers (Asia) ('HCCB'), the liquidity provider of Hong Kong-listed structured products issued by HSBC, erroneously self-matched 370 DW orders on 22 May 2020, after its market making engine restarted after the lunch trading break.

Prior to the restart, the fully-owned subsidiary of the UK bank had falsely assumed that all live orders would be triggered by the cancel-on-disconnect functionality (COD) at the Orion Central Gateway (OCG) offered by SEHK and that a built-in logic in the engine would send a mass order cancellation command to the exchange.

When trading resumed at 1pm, some un-cancelled market orders matched with orders of other market participants. At 1:00:53pm, when the traders enabled the warrant automated quoting, new orders self-matched with the orders that had been placed ahead of the engine restart and remained live. Between 1:00:53 and 1:04:05pm, the market making desk at HSBC global banking & markets (GBM) self-matched 370 DW orders, which were cancelled by the exchange three days later following the desk's request on that day. This self-matching breached the exchange's General Principle 2.

'Self-matched trades which artificially increase the turnover of structured products may present a misleading picture to investors when making their investment decisions,' stated the SFC. 'HCCB's failure to appreciate that the COD and mass cancellation did not work between 12:00 and 12:30 suggests that HCCB did not fully understand their limitations.'

Europe 2021:
decrement-linked sales up 75% YoY

With the SRP Europe Conference due next month, we take a closer look at how the European market fared during in 2021. In part one we highlight the main markets, issuers and underlyings.

Some 38,160 publicly offered structured products worth an estimated US$77.1 billion were issued on the primary market in Europe during 2021 – an increase of 10% in sales volumes compared to the previous year (FY2020: US$70.2 billion from 55,482 products).

The year started of slowly, with sales volumes in the first quarter – at an estimated US$16.3 billion – down 24% year-on-year (YoY). However, the following three quarters each reported a positive trend, with the highest sales registered in Q2 (US$24.1 billion) while Q3 registered the highest YoY increase (+36%).

Products were issued across 22 different jurisdictions. The German market, where 17,700 products struck between 1 January and 31 December, was the most active by issuance, followed by Switzerland (12,345 products), France (2,484) and Italy (2,306).

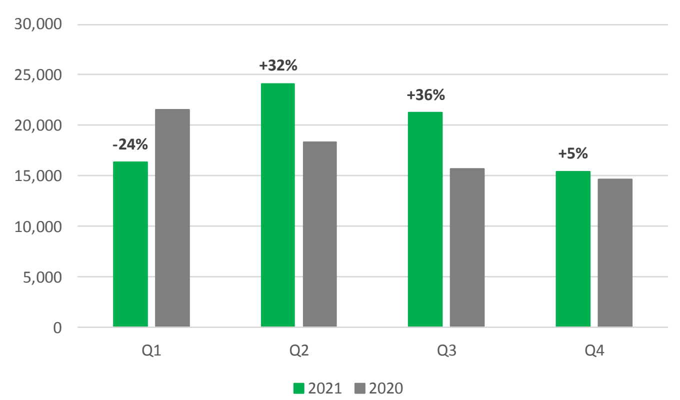
The French market performed particularly well, registering an increase in sales volumes of more than 45% YoY, while the UK market was also in the green (+2.75%). Other markets performed less well. The Belgian market shrank by almost 60% YoY, due to a much lower issuance as the continued low interest rates made it near enough impossible to offer attractive capital protected structures in euro. Some Belgian providers, such as KBC, BNP Paribas Fortis, and AG Insurance even (temporarily) halted issuance in 2021.

The Iberia region, Ireland, Italy, the Nordics, and Czech Republic & Slovakia also achieved lower sales compared to the previous year.

Société Générale was the number one issuer with a 13.4% share of the European market, an increase of six percent from 2020. It sold more than 1,600 publicly offered structured products across 14 different jurisdictions, including France (1,109 products), Germany (228), Italy (140), and the UK (70).

In second, BNP Paribas (last year's number one), held a market share of 11% from 1,360 products sold. BNP too had a presence in several markets. The highest activity was seen in its domestic market France (633 products), followed by Italy (283), Germany (210), Finland (44) and Sweden (32).

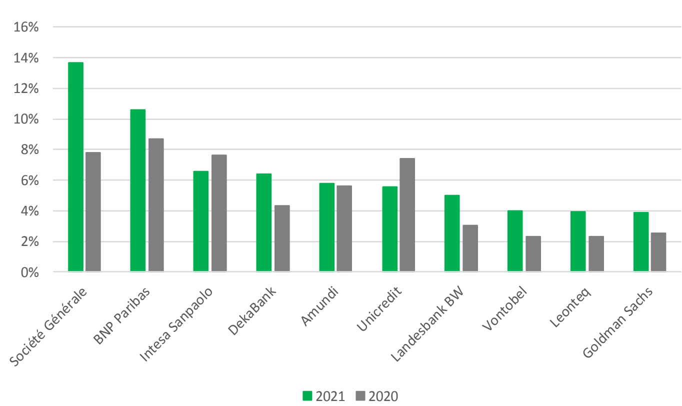
Europe: sales volumes by quarter (US$m)*



*Excl. leverage and flow products

Source: StructuredRetailProducts.com

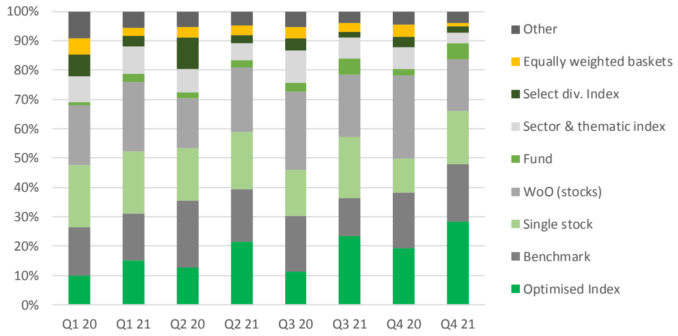
Europe: market share top 10 issuers by sales volume*



*Excl. leverage and flow products

Source: StructuredRetailProducts.com

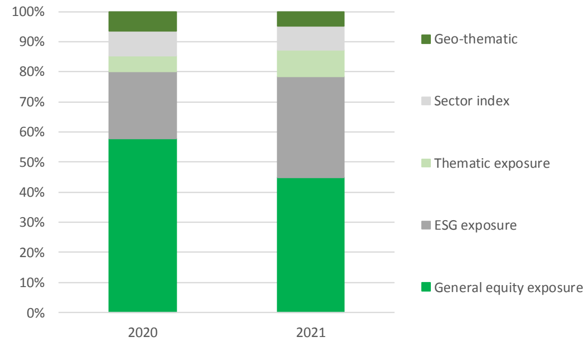
Europe: underlying make up by quarter 2021 vs 2020*



*Excl. leverage and flow products

Source: StructuredRetailProducts.com

Europe: single index exposure, market share by sales volume



*Excl. leverage and flow products

Source: StructuredRetailProducts.com

Third placed Intesa Sanpaolo (6.6% market share from 121 products) was only active in Italy while Deka Bank and Amundi, with a 6.3% and 5.8% market share, respectively, completed the top five. Both Deka Bank and Amundi focused on their local markets.

Sales of products linked to decrement indices increased by almost 75% YoY – often at the expense of benchmark indices – while products tied to single stocks were also on the up.

There were 2,571 products linked to a decrement index issued during the year, up from 798 products in 2020. Of these, the 1,514 products linked to a decrement index with an ESG feature achieved the highest sales volumes at an estimated US$10.2 billion (2020: US$4.2 billion from 345 products).

The main market for decrement indices by issuance was Germany, with 1,375 products launched (FY2020: 212 products). More than 80% were issued on the paper of Dekabank, including 705 structures on the MSCI World Climate Change ESG Select 4.5% Decrement EUR Index.

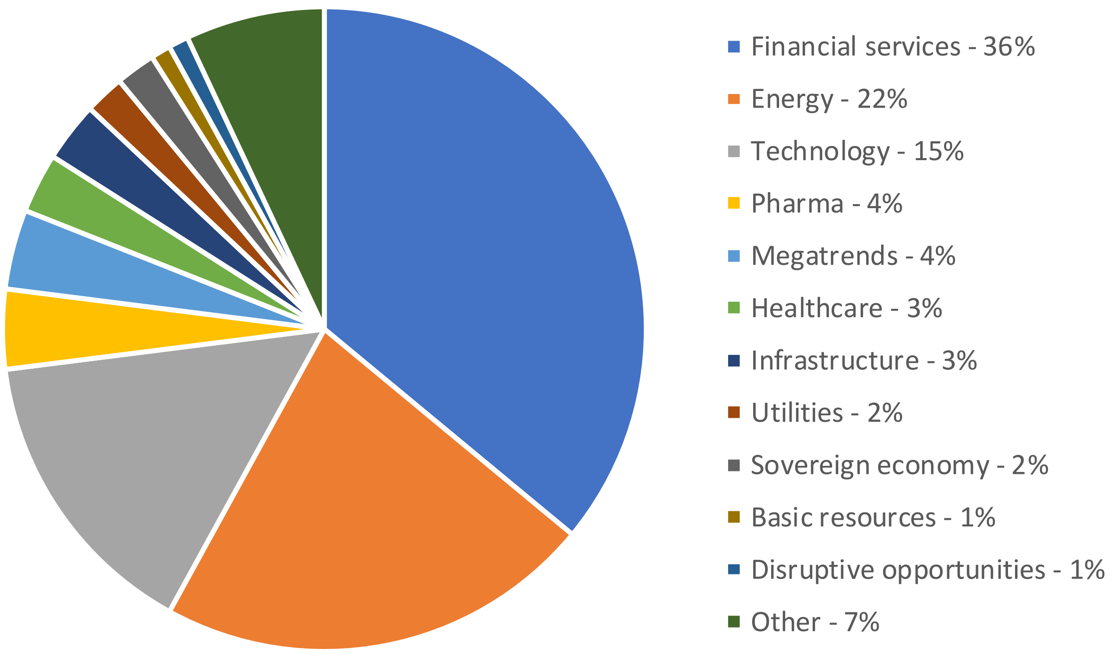
Other markets with a high level of decrement-linked issuance were France (983 products), Finland (59), Italy (53), and the UK (40).

Europe: top 10 ESG indices

Index	Market share (%)	Issuance
MSCI World Climate Change ESG Select 4.5% Decrement	13%	851
Euronext Euro 50 ESG EW Decrement 50 Points	10%	42
Refinitiv Eurozone ESG Select	6%	6
Euronext Climate Objective 50 Euro EW Decrement 5%	6%	4
MSCI Germany Climate Change ESG Select 4%	4%	292
SBF Top 50 ESG EW Decrement 50 Points	4%	49
Euro iStoxx 50 Carbon Adaptation GR Decrement 5%	3%	6
iStoxx Transatlantic ESG 100 EW Decrement	3%	6
iStoxx Europe 600 ESG ESG-X NR Decrement 4.75%	3%	6
Ethique Independance et Gouvernance Responsable Franve 30 Decrement 5%	3%	3

Source: StructuredRetailProducts.com

Europe: thematic and sector index universe (ex-ESG)*



**Market share by sales volume*

Source: StructuredRetailProducts.com

There were 15,646 products linked to a single share in 2021. Of these, the shares of Daimler (918 products), Volkswagen (884), and Basf (663), were the most frequently used. Germany was the main market for this asset class (11,394 products), followed at some distance by Switzerland (2,938).

Products linked to single indices that provided general equity exposure saw their market share decrease to 45%, from 58% the previous year.

Indices that offered ESG exposure increased their market share by 11.5% to 33.52% in 2021. The aforementioned MSCI World Climate Change ESG Select 4.5% Decrement EUR Index was the number one ESG index during the year, with a market share of 13% from 851 products, followed by Euronext Euro 50 ESG EW Decrement 50 Points (10%) and Refinitiv Eurozone ESG Select (six percent).

Volumes for products linked to thematic indices registered a 3.7% YoY rise. However, sector indices and indices that provided geo-thematic exposure both saw their market share decrease.

The universe of themes and sectors for thematic and sector indices increased from 22 to 26 in 2021. Newcomers included, among others, sovereign economy, telecoms, consumer cyclical, cyber security and luxury goods. Themes such as women leadership, sustainability, and retail, which were available in 2020, disappeared from view.

The biggest chunk in this sector was taken by financial services (36%), energy (22%), and technology (15%).

The SRP Europe Conference takes place 22-24 March at the De Vere Grand Connaught Rooms in London. Click the link to register.

FEATURE

Europe 2021 (part 2): autocalls, knock-in barriers, and capital protection

With the SRP Europe Conference due next month, we take a closer look at how the European market fared during in 2021. In the second of a two-part article, we highlight the main payoffs, knock-in barriers and levels of capital protection.

Sales volumes of publicly offered products across Europe increased by 10% year-on-year (YoY) to an estimated US$77.1 billion in 2021. Sixty-seven percent of this total came from products with a knockout feature, which increased their market share by 15% compared to 2020.

Athena autocalls were the number one payoff solution in 2021, with a 33% share of the market by sales volume (2020: 23%).

Reverse convertibles, in second, with a 24% market share, remained level compared to the previous year, as did Phoenix autocalls (20%). The highest decrease was registered by participation products, which were down nine percent YoY.

Almost 80% of the total volume sold was linked to products with either an autocallable feature (67%) or issuer call option (12%), compared to 60% in 2020 (52%/8%).

Autocallables increased their market share in France (three percent), Germany (1.5%), Iberia (4.5%), Italy (16%), the Nordics (24%) and in the UK (41%). In Switzerland their market share shrank by 10%, however, the market share for issuer callables in the Swiss market increased by 20%.

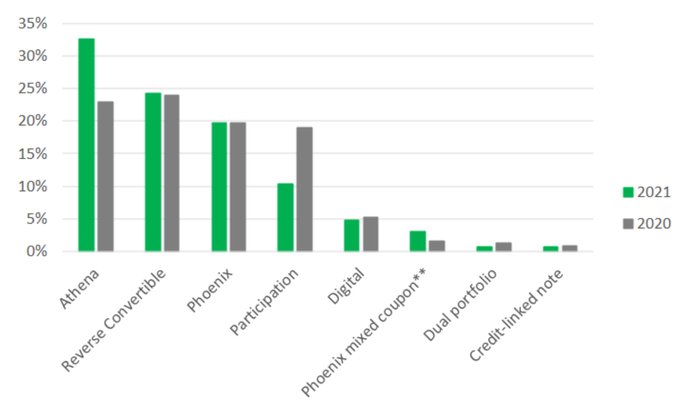
France has got one of the highest rates for autocalls in Europe. In 2021, 2,331 publicly offered products featured a knockout payoff, which is the equivalent of 95% of the total issuance for the year. They included the best-selling LCL Autocall AV (Mars 2021), a six-year medium-term note on the Eurostoxx 50, which sold €455m during its subscription period.

In the UK, although issuance was at a much lower level than in France (490 public offers in 2021), autocalls made up over 90% of the total number of products issued, while in Italy and Germany this figure stood at 84% and 73%, respectively.

Of the maturing products, structures that were subject to early redemption after one-year achieved 52% of total autocall sales for the year.

Volumes for products that had their knockout triggered between 18-24 months, at US$7.8 billion, increased both in market share (+8%) and sales (+143%).

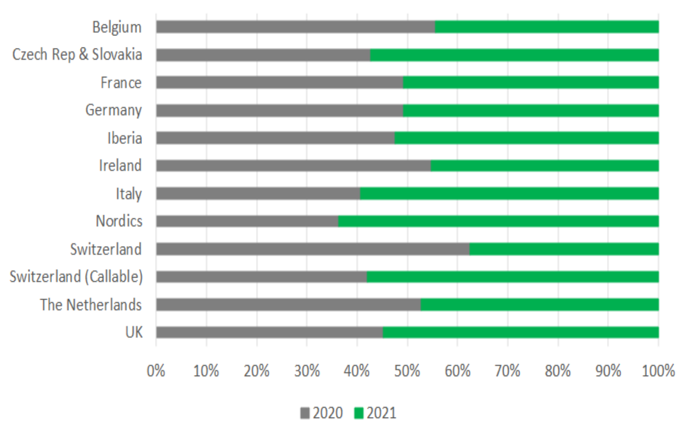
Europe: payoff types, market share by sales volume8



*Excl. leverage and flow products

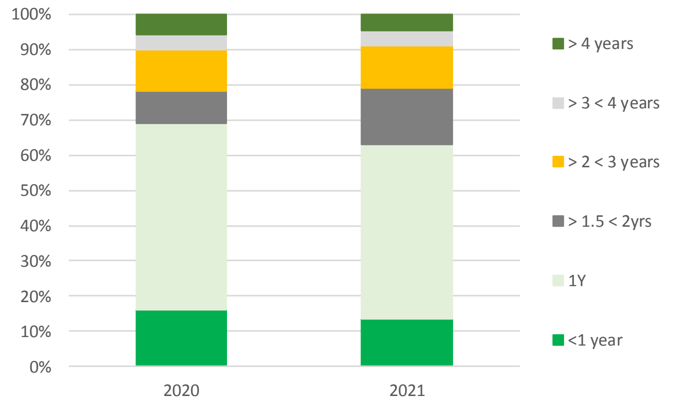
Source: StructuredRetailProducts.com

Europe: autocallables by sales volume, breakdown by country



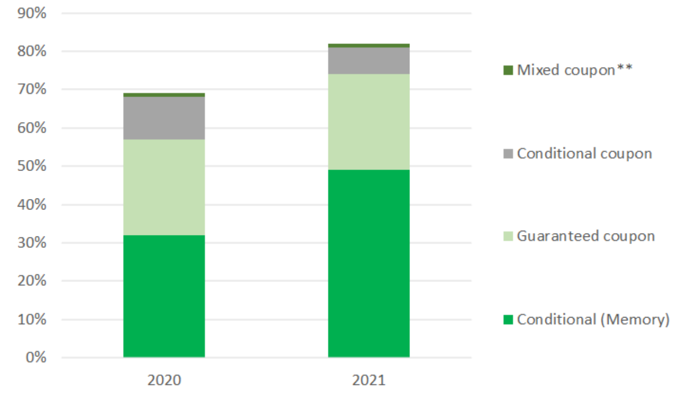
Source: StructuredRetailProducts.com

Europe: delayed autocalls, market share by sales volume



Source: StructuredRetailProducts.com

Europe: coupon types, market share by sales volume*



*Excl. leverage and flow products, **Fixed & conditional coupon

Source: StructuredRetailProducts.com

Products with a memory coupon saw their market share increase to 49% in 2021, up 17% from the previous year. The market share for products with a guaranteed coupon remained stable at 25% while volumes for products with a conditional coupon slightly decreased to seven percent (2020: 11%).

In most European countries – except for Belgium and Iberia (Spain & Portugal) – the bulk of the sales volumes came from products with soft capital protection. In France this percentage was the highest, at 92%, followed by Switzerland (87%) and the UK (84%).

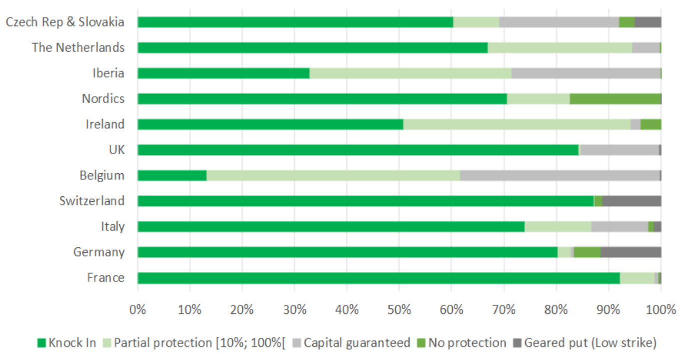
In Belgium, where issuance of capital-at-risk products is restricted by the FSMA's moratorium, (partially) capital guaranteed products dominated while the highest percentage of products offering no protection at all was seen in the Nordics.

Across Europe, just 455 products (out of a total issuance of more than 38,000), offered 100% capital protection. Of these, the highest sales were collected in Italy (US$1.5 billion from 37 products). The highest volumes for products with a maturity of less than six-years, which sold an estimated US$26.5 billion in 2021 (FY2020: US$22.9 billion), were invested in structures with a knock-in barrier of 60% (US$7.7 billion, an increase of 33% in sales volume YoY).

Products with a knock-in barrier of between 60 and 70% collected US$5.6 billion, level in market share but up 30% in sales volume compared to 2020. The average tenor for these products was 2.47-years.

Products with a maturity of six-years or more attracted estimated sales of US$27.2 billion, an increase of 46% YoY (2020: US$18.6 billion). The highest volumes were attracted by products with a knock-in barrier of 50%, which saw their sales more than double to US$8.1 billion, while their market share increased by seven percent YoY. The average maturity was 6.94-years.

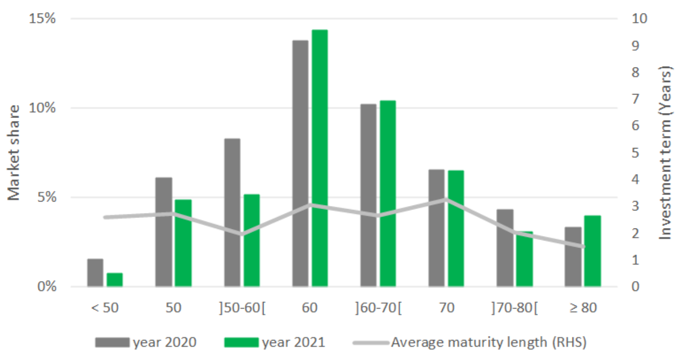
Europe: capital protection, breakdown by country*



*Excl. leverage and flow products

Source: StructuredRetailProducts.com

Europe: knock-In level short term products (< 6 yrs)



*Excl. leverage and flow products

Source: StructuredRetailProducts.com

FEATURE

Priips Part I: Full circle

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

A KID cannot be the end of a decision tree for investors

By December this year the European Commission will propose changes to the regime's legal formulation as part of a broad Retail Investment Strategy Review. This 'level one' review has long been sought by ESAs and market participants to both loosen and clarify wording that prevents the regime from meeting its objectives. As ESA joint committee chair Petra Hielkema said as she opened a recent ESA hearing, Priips has "important shortcomings" in both design and implementation.

"Contradictions" is probably as apt: Priips enshrines the principles of consumer understanding and comparability in legislation that captures a broad and disparate array of products without saying which principle comes first when they clash. As a result, its delivery engine, the Key Information Document, KID, can look like the financial equivalent of a tool for comparing the relative wing speed of a sycamore key and a gnat.

This tension perhaps stems from another – lack of clarity over whether Priips is fundamentally a tool to educate, or a decision tool. "A KID cannot be the end of a decision tree for investors," insists Eusipa secretary general Thomas Wulf (above). History seems to have shifted the ESAs in the same direction: Eiopa consumer protection expert Tim Walters called it a "useful reference point" at the recent public hearing.

DDV CEO Henning Bergmann told that hearing only 15% of investors use the KID to make investment decisions. With numbers like this, the KID hardly be said to fulfil its fundamental purpose.

"That, I think, is a motive for the level one review that will hopefully lead to a satisfactory answer for both regulators and the marketplace," adds Eusipa's Wulf.

Regulatory experts like Deloitte Luxembourg's regulatory consulting partner Francois-Kim Huge also expected the ESAs to, "push for a review of high level regulation before making further changes to the RTS."

Their predictions have been born out. Senior policy officer Emmanuel Doumas says the ESAs want to "introduce differentiation into level one" by advising a 'comprehension first' policy where core principles clash, and re-articulating the legislation where it restricts necessary level two changes or is unclear.

They also hope bringing the KID into the digital age may resolve some of its problems. Although a child of the twenty-first century, the KID is currently prescribed as a pdf document. "…Internet browser windows, or PDF documents printed out and laid in front of you side by side, 1970s style. Not cool if you invest using your smartphone," says Eusipa's Wulf.

DIRECTION OF TRAVEL

In terms of detail, structured product issuers will be pleased to know there will be a review of the comprehension alert, which has been overused to the point almost of futility.

Rather than extend Priips' scope, the ESAs will recommend clarifying the definition of a packaged investment product. They hope this will answer urgent questions around investment options such as corporate bonds and pension products; they may seek to reduce uncertainty further with a longer list of products in and out of scope.

Despite greater differentiation being the clear direction of travel, the ESAs are unlikely to suggest different templates for different product types. (Comparability between substitutable products, "is, of course, key," says Doumas). But they want the power to improve KID content, especially around performance and multi-option products, and may leave the door open in certain instances for manufacturers to waive or adjust the template.

ESG disclosures are also being debated to overcome lack of guidance on existing requirements, to incorporate Sustainable Finance Directive obligations and solve presentation problems.

The ESAs have given up their long and fruitless search for a methodology that would allow linear funds to present the 'performance scenarios' required by Article 8, and now propose replacing 'scenarios' with, for example, 'information on performance'. Forward-looking modelling could therefore be retained within the KID where it fits (as it generally does for structured products) and replaced elsewhere, possibly including a supplementary narrative.

The ESAs are following the UK regulator's work on narrative approaches with interest, as the FCA digests its post-Brexit consultation on divergence from the European KID. It too has been battling with Priips' "prescriptive" nature. UK Structured Products Association chair Zak de Mariveles says, "[We] expect to hear the findings in the coming months."

The ESAs are still debating how best to disclose and account for the impact on performance of wrapper costs in insurance-based, multi-option products. So far, the ESAs plan to retain the choice between one KID per investment option and a generic KID plus option-specific information. And they want to prescribe separate disclosure on wrapper cost with no exceptions.

With other specifics undecided, their level one challenge is to ensure their advice doesn't hinder the level two decisions they finally alight upon.

How might digital presentation help? Again, the advice is not finalised. But think 'digital by default', possibly a dashboard approach, and a way of highlighting key information (on capital protection, say, or ESG credentials) at the top of each KID. On MOPS in particular, ESAs are considering a summary table or filtering mechanism between options, and a KID tailored to options shortlisted by the investor.

SLOW DOWN (YOU MOVE TOO FAST)

The structured product industry's input to the recent hearing was restrained. Previously-voiced concerns about autocalls having been ignored by the Commission and the ESAs' review work, Wulf says Eusipa will issue a second set of recommendations this year referring to the new regulatory technical standards, now delayed until 1 January 2023. "Autocallables will feature prominently in that," he says.

Distributors like IDAD's Clive Moore also hope for progress: "The KID providers' calculations and assessments have been refined, and broadly the numeric scores tend to be similar now, but there are still problems with some of the future scenarios." While stress scenarios figure prominently here, the assumption that funds are not reinvested can mean a KID projection well short of that presented in marketing documents, even in more favourable scenarios.

But DDV's Henning and Eusipa's Wulf are in step with the rest of the financial services industry as they exhort the ESAs to take their time, to consider their revisions 'holistically'. As frustrated as the industry is by knocking square pegs into round holes, it wants consistency, not changes on average every nine months. (Wulf is counting.) For their part, the ESAs promise a period of observation – 18 months, to two years or so after the revised RTS – before revisiting existing problems.

With such overlapping deadlines at least three years out, it's too soon to put the Priips saga to bed.

The one thing we are sure about is this: if the regulation's future is bright, it is also digital.

"

Autocallables will feature prominently in a second set of recommendations

FEATURE | Q&A

SG public distribution biz 'reaps rewards' of CBK integration

The French bank's strategy has paid off as the CBK's business has fitted perfectly with SG's set up and needs.

Since Société Générale (SG) completed the acquisition of the Commerzbank's (CBK) Equity Markets and Commodities' (EMC) business with the integration of the German bank's exchange-traded investment solutions in Q2 2020, the French bank has racked up the highest market share by exchange turnover in Germany – according to the German DDV, and was the number two provider of listed products (by issuance) in 2021 across Europe.

The full integration of the CBK EMC business, however, wasn't a five-finger exercise as two trading systems (CBK-Icon/SG-Domino) that ran in parallel for some time had to be integrated and there were "several key pillars within the acquisition" including the b2b structured investment products business, the ETF part with the CBK Comstage brand, and then the listed products business, i.e. the warrants and certificates business.

"This third pillar, which was the last part to be integrated, required the most preparation and resources as it involved a significant and sophisticated IT system that needed to run smoothly throughout the integration," says Didier Imbert (pictured), head of public distribution Europe, SG. "This was addressed by running initially the two ex-CBK and SG issuance and trading systems in parallel until the IT landscape was later simplified."

The migration and integration of the public distribution business "proved extremely successful in several areas".

The first element is client retention as the acquisition gave SG the opportunity to increase its market share substantially in Germany - the largest market in Europe for public distribution, and to enter countries which were strategic to the French bank such as The Netherlands, The Nordics and Switzerland.

"We showed we could transfer and retain almost all of the retail clients of CBK and add new self-directed investors in other markets where we were not active such as Portugal," says Imbert.

"[We were also able] to transfer fully all the specific partnerships that CBK had with numerous European brokers and online banks with bespoke connectivity requirements to continue with the activity in a smooth manner."

The integration also had a strong technology focus as SG decided to inherit and integrate CBK's full IT infrastructure dedicated to listed products.

"We had to make sure that both systems could talk to each other, and that all the issuance tools, and trading systems used to animate the price of all products real time on several markets in Europe worked - it required significant time to prepare the onboarding of the CBK systems which had around 20 applications into our own IT infrastructure," says Imbert - the two systems are now fully integrated and have been simplified over 2021 since the migration occurred at end of March 2020.

"Another critical element of the integration was the fact that we could count on a very professional and expert team as CBK had been running this business successfully for many years holding the number one position in Germany."

SG's team in Germany is now led by Peter Boesenberg (pictured) who was appointed deputy head of public distribution Europe, in addition to his role of head of public distribution, Germany & Austria, earlier this month.

TIMING

The timing of the integration couldn't have been more challenging as the migration was done over a weekend at the end of March 2020, and all the systems had to go live and provide quotes for all the products on Monday morning at 8am.

“We're talking about 200,000 plus products to be migrated and most of us were working from home with a few exceptions – we did this in the middle of the lockdown, and with a massive market turmoil unleashing. I was based in London at the time, and it was a really challenging environment,” recalls Imbert.

“We had very high volumes of trades and had to deliver a high-quality service to those retail clients who wanted to enter the market or exit their positions. We could not afford any type of failure in our ability to execute and settle trades.”

Despite these challenges the DNA of both banks in relation to the public distribution business were quite similar and the integration resulted on a boost on the IT infrastructure, the market-making capabilities, market content and client services.

“We deliver a relatively standardised product range, where the differentiation doesn't come so much on the payoff as it would be the case with the b2b or institutional business,” says Imbert. “With warrants and certificates, one key differentiating factor in terms of product is the number and diversification of underlyings you can offer.”

SG is well known for its structuring capabilities and its ability to create new payoff and offer cross asset solutions, but CBK also had a cross asset set up. The CBK acquisition reinforced and complemented SG’s strengths which was able to expand its footprint and capitalise on CBK’s presence in Germany, by far the largest European listed products market representing 70% of the entire turnover in the region.

“CBK also had very strong presence in the Netherlands, and Switzerland, which combined with our activity in France, Italy and Spain has put us in a very strong position to increase our geographical footprint and have a leading position in several of those countries,” says Imbert.

“From a client point of view our geographical reach has increased and from a product point of view, the result of the combination of the two businesses has allowed us to enlarge our product range, especially in terms of underlyings. We have probably one of the largest offer in terms of number of underlyings especially on single stocks.”

POST-INTEGRATION

2021 was really the first year with the two combined teams and the infrastructure in place and based on market statistics SG has reaped the fruits of the successful integration.

From a market perspective, 2020 was already an exceptional year due to the volatility and increased interest from end clients to invest in stocks and ETFs, but also into listed products - leverage instruments in particular drove high levels of trading activity and volumes in 2020, according to Imbert.

These trends continued in 2021 with market turnover volumes increasing by more than 60% versus 2019, and an eightfold increase in the number of trades executed by SG with self-directed retail investors throughout the year since 2019.

“We are very positive on the growth potential of our business because of some of the structural trends - we are still in a low interest rate environment and investors continue to search for yield and investing in equity underlyings or securitised derivatives are an efficient way to do so,” says Imbert.

“The shift towards digitalisation is making the access to these products easier and cheaper which means the retail markets continue to expand and that has been driven by the brokers and online banks.”

GROWTH AREAS

In his new role as head of public distribution Europe, Imbert will continue to focus the bank’s efforts in the traditional continental European markets as it believes they “still have growth potential”.

Despite the fact that Germany is an established market, Imbert sees room to grow as the new ‘neobanks’ will bring new clients to the market. France, Italy and Spain are also strategic and “have massive potential” – SG is also looking at new markets in CEE where the listed products space has developed over the last few years.

“We will consider entering new markets as long as there are sufficient volumes and not too many barriers to entry,” says Imbert, who also sees scope to expand SG’s product range with new underlyings and adjustments of payoffs to take into consideration the new market environment.

“Inflation might not be temporary, and rates will go up, so we expect interest in products around those underlyings,” he says, adding that the launch of ESG index trackers on a systematic basis - plain vanilla tracker certificates on bespoke ESG indices, will also be a focus.

“We have started already this year with some certificates on the ESG space such as the SGI Green Deal index. We want to develop new thematic tracker certificates to answer to the needs of clients who have expressed interest about those underlyings.”

The transfer of all CBK listed products across European markets to SG was completed on 30 March 2020, and included more than 85,000 listed products.

Aydo: investors still need advice, clarity on the multiple operational risks

The former team running French structured products specialist boutique HPC IP has reunited to launch Aydo, a new investment platform in France.

Pierre-Yves Breton, Jordan Sfez and Arthur Teixeira, the three founding members are seeking to leverage 13 years of collaboration and product knowledge "to break down barriers between the financial markets and non-listed investments".

"Starting a business is always an adventure and something you want to do with people you trust," says Arthur Teixeira (pictured), founder and managing partner at Aydo.

"That's probably the most precious asset of all. For us it was a natural process since we have been collaborating for 13 years and have an extremely smooth and efficient decision-making process."

The new fintech company expects to have 15 people onboard by Q3 covering different functions such as compliance, sales, technology and product specialists. On the product side, the firm is "going way beyond structured products" and is seeking to target people from the private asset world.

"The business itself is an important shift compared to what we have done in the past, which was focused on providing structured products to distributors and clients," says Teixeira.

"We are building a next generation AI-powered marketplace dedicated to alternative investing. It surely has some implications in terms of products, client types, technology infrastructure, etc. It's a very different project."

However, Aydo's management team also wants to leverage out its experience in structured products distribution and their understanding of "how to convey an idea and deliver products in line with investor's expectations and risk profile".

"Our structured products background has helped a lot in building our product mix, but establishing a marketplace requires a strong focus and significant investment in technology – our tech development team currently represents more than 50% of our staff," says Teixeira.

"The goal is to become the leading marketplace for alternative investing, which indeed includes liquid alternatives like structured products."

TARGET MARKET

Aydo's mission is to make alternative assets available to the broadest community of professional and qualified investors which will be able to connect to the platform and get access to the "most exclusive alternative investment products and monitor their portfolios".

In terms of the product mix, the new provider will not be offering ETFs or hedge funds. Instead, it will focus on private deals like asset-backed lending, private equity and venture capital (VC) opportunities, as well as structured products.

"We are also looking into crypto and blockchain type investments," says Teixeira. "Initially, our structured products offering will be complemented by private debt and pre-IPO products, which are very complementary.

"We think there's a big gap in distribution and in connecting investors with certain niche opportunities that are only accessible to a small number of investors."

HIGHER ADOPTION

The team leading Aydo believes structured products adoption can still be improved thanks to a number of variables - education and sourcing are two areas where it intends to help investors learn how to "better use these products".

"We aim to be the CIO's ultimate assistant when it comes to screening, selecting and operating due diligence on a large number of opportunities. Expertise and technology is the right combination for this," says Teixeira. "In the crypto world, for instance, some products may be extremely attractive, but investors need advice and great clarity with regard to the multiple operational risks.

"Now considering private debt, performing a state-of-the-art analysis of the security package is of crucial importance when investing this asset class. This is the kind of added-value expertise we will be offering."

Alongside the sourcing, due diligence, and education, the platform will also offer facilitated subscription, monitoring and post-sales assistance.

OPEN ARCHITECTURE

Based on its existing relationships the platform has onboarded close to 25 product issuers as it implements its full open architecture set up, and is seeking to increase the number of partnerships in the global alternative space.

"With structured products we were only able to cover 5% to 15% of a client's portfolio whereas now we can address a much larger portion of it," says Teixeira.

"The portfolio approach is not about just offering more products, but about offering more products that work well together and can sit next to each other for an increased value creation."

Despite the wider focus structured products will be a key part of Aydo's offering for their capacity to grant access to investment opportunities you cannot seize otherwise.

"They also offer a high level of customization in order to stick to a specific market view," says Teixeira. "Structured products are easily implemented as they don't require big tickets anymore. They enable innovation with low minimums – for instance we will leverage our knowledge of repacking as a way to better manage the credit risk in our clients' portfolios, which now can be done from a few hundred thousand euros."

BETTER UNDERSTANDING

According to Teixeira, the structured products market has evolved significantly over the last 10 years.

Some of the changes are linked to the distribution channels - insurance policies in some countries offer fiscal incentives to hold the products a certain number of years which is why we still see some long dated structured investments.

"On the other hand, market conditions will also determine the product type you want to use," he says. "We see volatility coming back, which is not necessarily good news for the portfolio, but it's good news for anyone willing to enter the market because the premium is more attractive and you can buy more protection and have more attractive features."

If volatility remains, Teixeira expects to see higher yield products, but also higher protection and shorter maturities.

"A key element of structured products is the protection they can offer, and we see capital protected products are coming back strong with interest rates going up," he says. "They have proven their value as an investment when structured and distributed the right way to the right target market."

According to Teixeira, regulation has been key to address some of the issues the market had and to avoid damaging the reputation of a whole sector because of the bad practices of a few players.

"Regulation can sometimes over complicate things but has also proved efficient on some occasions to offer investors the necessary protection," he says. "[However,] we think the most powerful driver in changing practices is the market itself. Product providers have made efforts to educate investors, and this has also been reflected on adoption as structured products continue to grow everywhere."

COVERAGE

In terms of clients, Europe and the Middle East will be the firm's "favoured playground", but Aydo's ambitions go beyond these regions as it believes there's room for different business models in other markets.

"A significant part of the salesforce of investment banks has progressively been outsourced to independent players like us, each of them choosing a different path," says Teixeira. "Some are going full on digitalisation of structured products distribution while other are looking for a more bespoke approach.

As far as we are concerned, we have a strong conviction that market is mature for a global alternative approach and we intend to seize this opportunity by combining a strong technological approach with proven investment expertise."

The AMC approach will be in focus at Aydo as it is "an interesting route many asset managers are taking to be able to bring products to the market quicker and cheaper".

"We see AMCs as a very positive evolution and proof of the crossover between active and passive investing," says Teixeira. "This is a great tool to encapsulate alpha differently with a reduced time to market.

"As for any sophisticated investment, great attention should be paid both to the AMC's manager track record as well as to a deep understanding of the product's operational risks."

FEATURE | Q&A

SG Forge: Blockchain structured products issuance inches closer to mainstream

Société Générale saw a strong acceleration of clients adopting blockchain technology in capital markets through digital native securities in 2021.

Earlier this month the Luxembourg Stock Exchange (LuxSE) admitted for trading for the first time three series of security tokens including digital covered bonds (OFH Tokens) and structured products issued by Société Générale's digital assets arm, Société Générale - Forge (SG - Forge), natively on the Ethereum and Tezos public blockchains.

SRP caught up with SG – Forge's chief executive Jean-Marc Stenger (below-right) about the future of distributed ledger technology (DLT) in the structured products market, the adoption of digital asset securities and the challenges ahead.

The French bank started in 2019 and 2020 issuing simple financial instruments - plain vanilla bonds - on these blockchains which required building the core package, and the internal systems to manage those financial instruments.

"The next step was to add more complex products – the proof of concept came last year when we issued the autocall linked to Ethereum," says Stenger. "This required a lot of work around the legal framework, and documentation requirements, but also to make sure these instruments were treated in the same way as traditional instruments are treated under Solvency 2."

At the same time, Société Générale – Forge launched as a subsidiary of Société Générale to transact these financial instruments, and to perform those operations on the blockchain as a proper legal and regulated entity.

"In 2021, we really focused on aligning the platform with our core banking activities which means that when you transact securities you have to meet compliance and regulatory requirements – the technical requirements needed to be properly set up and organised," says Stenger.

"Now that we have completed the foundational stage, we are working on making those products tradable for our clients, building everything around the product, and providing the infrastructure for clients to transact the products in the same way they buy and sell securities today."

What does the Luxembourg Exchange listing mean? What next?

Jean-Marc Stenger: The three products we listed on the Luxembourg Stock Exchange were the two covered bonds and one structure product previously issued.

The listing is not really to focus on the products themselves but about proving our ability to bring those products to a stock exchange and meet the rules and specific guidelines that apply to digital assets.

A second aspect, which is probably just as important, is that this announcement has to be read in conjunction with the work which is currently being done at an EU level under the Security Token Pilot regime which expected to come into force towards Q4 this year.

The pilot regime specifically for security tokens will introduce different exemptions to current EU regulations, notably, the Central Securities Depositories Regulation (CSDR).

We are also developing refinancing solutions with all those digital assets to clients.

Is the Decentralised Finance (DeFi) market fragmented in terms of regulation?

Jean-Marc Stenger: We are dealing with investors and issuers from across Europe, which sometimes prefer to use Luxembourg law, or issue under the rules of another jurisdictions. We need to have a global larger market able to sustain new developments and create a playing field. Last year a lot of work went into transposing national regulations into a global framework that can be applied across Europe.

We believe this will create a global liquid market for those securities. The exemptions are massive - starting again at the end of this year, any issuer willing to issue a security in a security token format, just as a traditional crypto on the blockchain, providing this issuance stays below a threshold of €1 billion, it will be completely pari passu with traditional securities - we are not talking about €5 or €50 million; we're talking thresholds which are pretty large and will help the market grow.

The focus at the moment is on Ethereum but there are other blockchains out there like Solana that have a business case and are driving investment. Are you looking into tapping into those as well?

Jean Marc Stenger: We took an approach at Société Générale - Forge to build our capacity to be somewhat agnostic on the underlying blockchain technology because we do feel it's also a discussion with the client to agree on which blockchain his/her security should be deployed.

There are many other blockchains, and we plan to support different technologies and adjust our roadmap to be able to deploy applications above the underlying technology stack. The onboarding of other blockchains apart from Tezos and Ethereum is on our roadmap, but we don't want to have 10 or 50 blockchains.

We do have screening criteria to select the blockchains we onboard and we will also follow client demand. If we have two blockchains, which are offering the same characteristics and the client prefers A over B, then we will follow that. Clients will drive market activity and developments.

What about in terms of issuing products? What are the advantages of issuing products via Société Générale - Forge as opposed to the traditional method?

Jean Marc Stenger: There are a few reasons. These public blockchains provide a worldwide infrastructure - it's a network which is available from anywhere in the world and investors can connect provided they receive a public address to these networks. Once you have an address, you can start trading digital assets.

Blockchain networks and the capacities they offer are creating a global marketplace, which is open for trading seven days a week, 24 hours a day. The current market infrastructure does not provide this - blockchain technology can disrupt infrastructures in Europe, in the US and multiple ones in Asia.

Blockchain is a complete game changer as the industry will move from a regional market infrastructure and trading place to a global open marketplace. For issuers, this means having access to a much broader pool of liquidity and investors, and investors will have the ability to build truly diversified portfolios of assets of any type.

The second reason is efficiency and operating cost as with this technology you reduce the number of intermediaries and everything is settled almost instantaneously. You don't have many reconciliations to perform either on the security side or on the cash side, and you don't face any risk on delivery versus payment. I deliver you the security, you pay me the cash.

That's two different legs of the process, which are not at all interconnected today in the current market infrastructure. On the blockchain, you bring the two assets on the same side with a smart contract, which manages this interconnection. There is no room for failure or any risk to pay something to someone which does not deliver you the security. These are massive operational advantages to issuers and investors.

The third reason is transparency - for regulators, and for market participants. As an issuer, you can have a view on who is trading your security today. If you are an issuer, or a big corporate, which is raising some debt on the market by issuing a bond you are totally blind. You don't know who is owning your security, when you must pay a coupon – which happens very often.

With a digital bond and an automated computation of the bond embedded in the token it's straightforward – the issuer knows who to pay that coupon and how much should pay.

Is there real demand out there from institutional investors? And do you think this eventually will trickle down to the retail space? We see already direct investing in all sorts of digital assets and via ETPs. Will digital assets become mainstream?

Jean Marc Stenger: It is still early days of course, and regulation is moving fast, but it's already more than a year with more client demand than deals we can execute. Today the bottleneck is with us, but we want to make sure that we are 100% and I should even say 200% comfortable with our own internal policies, compliance, security, etc. We are building the setup within Société Générale and bringing our name into that space to be able to offer new products and meet our clients' expectations.

In terms of clients, we see very strong demand for securities offering exposure to digital assets from corporate and financial institutions. From a business perspective our target is professional investors under the Mifid 2 definition. We don't have plans to target the retail market but there is increasing demand and opportunities for those targeting that part of the market.

Image: Sdecoret/AdobeStock

Buy-side view: taking advantage of the transfer of the risk from issuers' books onto investors

Fortem Capital has positioned its fund of structured products and derivatives as a strategy that can take advantage of pricing dislocations and fulfil multiple asset allocation scenarios.

SRP spoke to Ed Senior (pictured), managing partner at the UK firm, to discuss how the fund has performed over the last couple of years and the latest developments in the structured products market. The Fortem Progressive Growth Fund aims at providing a defensive equity allocation shorter term and / or an absolute return like profile with a target of 6-7% over the medium to longer term.

"You may not get the six to seven percent exactly every year (could be more or less), but over the medium to long term, that's what the fund will deliver, whilst also exhibiting around about 50% of the volatility of the underlying equities, to which they're linked, unless there is a 40-50% equity market sell off over six years, in which case the fund will perform like equities," he says. "And at the same time, we ensure that the credit risk within the fund is limited to investment grade sovereign bonds."

That's another advantage of the fund - when you buy an individual structured product you take the credit risk of the issuer, but if you buy it in the sense of a diversified portfolio in a fund, the credit exposure is that of government sovereign debt.

"The only specific critique against structured products is that over the short term, if there is a significant equity market sell off like we saw in March 2020, then these products can't capture a lot of that downdraft," says Senior.

What would you say are the main developments in the structured products market since the market crash of 2020?

Ed Senior: It's well known that March 2020 was the month when Covid really kicked in with regards to equity markets. Some of the indices including the S&P500, FTSE100, and Eurostoxx were down in excess of 35%, and with that, you saw massive spikes in implied volatilities as well as dividends within the derivative space getting smashed considerably also due to Covid and company earnings concerns.

As a result of that, we have seen innovation in payoffs and banks moving to mitigate some of the risks associated with structured products. That's key for a firm like Fortem, which provides structured products individually and via funds. We effectively work with banks and harness some of those cost mitigations or innovations and pass those benefits onto the end investor.

How does the fund take advantage of structured products?

Ed Senior: The two main things we look into with regards to structured products is discontinuity risk which comes from the digital payoff that's inherent within the structure of products; and the correlation risk which comes from the fact that a lot of these products are linked to basket of indices or stocks, and have worst-of payoff structures.

That means that the banks carry correlation risk on their books. In order to mitigate that risk banks are looking at the capital preservation element (soft protection) on an ongoing basis during the life of the product rather than only observing it at maturity. This means that every day, if the underlying index or worst performing underlying index is above a predefined barrier the product locks in a small amount of capital preservation and that is observed trough the life of the product.

That works for the client potentially because you have fewer payoff swings in terms of the value of the last day (150%) and the value when the initial investment was made (50%), and also for the banks as they mitigate some of this significant discontinuity risk at maturity.

Another way to avoid correlation risk is by observing the average performance of the underlying indices or stocks in the basket, and that relieves the banks of some of the correlation risk.

Both of those features mean mitigate the hedging costs for issuers – some of those savings can then be transferred onto the end investor, which means better pricing and terms for the client.

What's your take on the explosion of decrement indices? Can the fund benefit from the cheaper pricing of those structures?

Ed Senior: With regards to dividends, the new fixed dividend indices we see in the market effectively transfer the dividend risk that the banks carry to the investors - there's a fixed amount of dividend deducted from that index on an ongoing basis, so banks can effectively design a structured product and link it to an underlying index with a fixed dividend that is higher than what the banks are implying with regards to conventional indices as they don't have to make projections as to what the dividend yield on that index is going to be in six years.

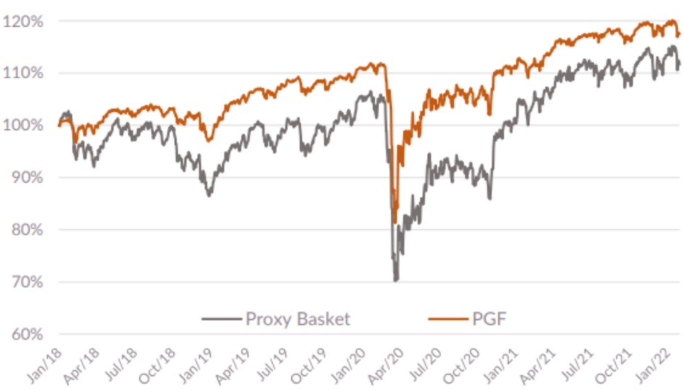
A lot of banks got burned last March, making forecasts on what those implied dividends were going to be and their risk departments have enforced additional conservative assumptions which means that dividends on a product linked to a traditional index will be inferior to what they received in the past all other things being equal.

Our job is to identify those innovations around payoffs and underlyings and take advantage of banks wanting to transfer some of the risk of their books onto the investor, which translates into better pricing.

Is transferring risk to investors through complex underlyings dangerous?

Ed Senior: We don't see this as a risk that banks are just trying to offload for the disadvantage of the end investor - as long as you set the dividend at a sensible level, and build your barriers in the product sensibly as well these indices can be a win-win because the banks can leverage some of their risks and the investors are going to better terms than going with conventional indices.

Fund performance (%) Share Class A (Acc) vs. proxy basket



Source: StructuredRetailProducts.com

These products and funds do not require the underlying indices to go up twice, indeed over a six-year time horizon the worst performing underlying index can be down up to 40% for the product and fund to deliver six to eight percent annualised returns – investors can get a lot of bang for their buck.

We have seen new indices in the UK beyond the traditional FTSE100 including equally weighted indices. What's the appeal of this kind of index over a non-equally weighted?

Ed Senior: There is a trend towards equally weighted indices. From a pricing point of view, it works for an investor because having equally weighted rather capital return tends to result in the underlying index being slightly more volatile than the conventional and with structured products the end investor is effectively selling volatility.

Selling volatility at a slightly higher level, for an equally weighted relative to a to a capital weighted index, translates into better pricing at the product level. From an investment, asset allocation point of view, factor approach, or whatever you want to call it, equally weighted indices allow investors to diversify from growth to value, for example, and vice versa.

"We ensure that the credit risk within the fund is limited to investment grade sovereign bonds

Eqonex launches bitcoin dated futures

The Eqonex BTC Dated Futures are denominated in the USD Coin stablecoin (USDC) and are linear in that the price of the futures increases as the price of BTC increases against USDC.

Eqonex launch bitcoin dated futures

The Eqonex BTC Dated Futures are denominated in the USD Coin stablecoin (USDC) and are linear in that the price of the futures increases as the price of BTC increases against USDC. The expiry of the dated future will occur at 08:00 UTC on the final Friday of the expiry month.

Users can trade Eqonex BTC Dated Futures on a margin up to 125x leverage. Physical settlement occurs automatically on the expiry date, removing some hedging risks compared to cash-settled contracts.

The launch of Eqonex BTC Dated Futures with physical BTC settlement is part of the Nasdaq company's plans to bring traditional finance strategies to crypto. It follows the introduction of Cross Collateral trading, Ethereum Perpetual Futures, and BTC Perpetual Futures in 2021.

'We still see a gap in the exchange marketplace to better serve traders who are looking for safe access to products and strategies from traditional finance to exploit and hedge against the volatility of crypto market trading,' said Andrew Eldon (pictured), interim CEO of Eqonex.

Valour launches Polkadot and Cardano ETPs in Frankfurt

Valour, a wholly-owned subsidiary of DeFi Technologies, has started trading two new exchange-traded products (ETPs) in Frankfurt: Valour Polkadot (DOT) EUR and Valour Cardano (ADA) EUR.

The new ETPs will enable both retail and institutional investors to gain exposure to the native tokens of the Polkadot and Cardano networks via their bank or broker.

The Valour Polkadot (DOT) EUR ETP tracks the price of DOT, the native token of the Polkadot protocol while the Valour Cardano (ADA) EUR ETP tracks the performance of the native token of Cardano, the governance token of the world's largest decentralised exchange.

'We are expanding our product offerings in the large German market through these listings on Boerse Frankfurt,' said Tommy Fransson (pictured), CEO of Valour, adding that in Scandinavia, where Valour Polkadot and Cardano are already listed, the company has seen a big interest in these crypto assets.

BSE launches trade in crypto ETNs on international market segment

The Bulgarian Stock Exchange (BSE) has started trade in crypto exchange-traded notes (ETNs) that are based and follow the prices of the Bitcoin and Ethereum cryptocurrencies.

Investors can now trade in eight crypto ETNs on the MTF BSE International market of the Sofia bourse.

With the launch of trade in crypto ETNs on the BSE International market, investors do not need to create their own crypto portfolios or crypto keys, and yet they receive guarantees that the instruments they choose are systematically regulated and regulation compliant, BSE executive director Manyu Moravenov said.

A total of 198 financial instruments of global companies will be traded on MTF BSE International following the latest admission. BSE International's trading party is Germany's Tradegate, which is the market maker of all BSE International issues registered on the market.

BSE International market segment was launched in July last year, allowing local investors to invest directly in global companies, including Apple, Microsoft, Facebook, IBM, Intel, Cisco, 3M, Siemens, General Electric and Tesla.

Solana based firm to launch first dual currency notes and accumulators on DeFi

Exotic Markets has launched an alpha version of the protocol via a DevNet platform to bring its structured products protocol to the Solana blockchain.

Structures introduced to the DeFi industry by the company include accumulators, dual currency products and worst-of options.

With dual currency notes, users can deposit their token and be paid a return linked to the performance of the deposited token. For those who prefer to diversify their portfolio, the accumulator feature offers the option to buy a token at a lower price.

Exotic Markets users can invest in these products through five DevNet tokens that the team will issue once the platform goes live.

An extra feature is the ability to swap tokens when needed. Five tokens will be supported initially: BTC, SOL, SRM, RAY, and USDC. These tokens are DevNet assets, allowing users to play around with the different investment products and monitor their performance. Exotic Markets is compatible with other Solana wallets like Phantom and Solflare.

The DevNet launch introduces a real-time leaderboard to help users track their performance. In addition, both the best and worst performers will receive NFT vouchers - redeemable for EXO tokens once the Exotic Markets MainNet launch occurs.

An audit of the Exotic Markets protocol will occur in March 2022, courtesy of blockchain cybersecurity firm Halborn. Following the audit, the Exotic Markets MainNet will launch at the end of March 2022.

Exotic Markets raised US$5m in a private investment round in late 2021. The private token sales welcomed investors including Multicoin, Ascensive Assets, Animoca Brands, Morningstar Ventures, and others.

DeFi protocol raises US$4m

Decentralised finance (DeFi) exotic structured products protocol Cega Finance (Cega) has raised a US$4.3m seed round led by Dragonfly Capital Partners with participation from Pantera Capital, Coinbase Ventures, Alameda Research, Solana Ventures and other capital venture investors.

Cega will use the funds to build the next evolution in DeFi derivatives 'by bringing exotic derivative capabilities to crypto'.

'DeFi derivatives have seen explosive growth in the last year, and we find that the market is still in its early days.' said Arisa Toyosaki, former derivatives trader and co-founder and CEO of Cega.

The company offers a decentralised application built on Solana that combines basic options (eg call/put) with advanced options characteristics to create packaged offerings for investors. Its first exotic options product is a fixed coupon note comprising a basket of puts and a call with knock-in and knock-out barriers.

'This exotic structured product benefits retail investors by offering a superior yield, built-in downside protection, and compounded returns,' said Toyosaki. 'It also benefits market makers by providing a discounted hedge for their portfolio as well as allowing proprietary gains through hedging trades.'

The funds will be used to accelerate the development of Cega's technology and create a vibrant community focused on expanding product offerings, calibrating statistical models, and educating users about DeFi and derivatives.

'DeFi goes through a process where one team creates an innovative breakthrough financial primitive, which in turns spurs the creation of a whole new category of products and grows the overall market,' said Tom Schmidt (pictured), general partner at Dragonfly Capital Partners. 'We've seen this with Uniswap for AMMs and Compound for money markets, and I think the Cega team is going to do this for exotic derivatives and structured products, a badly needed gap in the DeFi industry.'

Cega is supported by a number of market making partners such as Alameda Research.

Swiss advisor deploys crypto assets via new AMC

Prime brokerage for digital asset managers Covario and Geneva-based advisory firm AIS Financial Group have partnered to launch an actively managed certificates (AMC) linked to a crypto asset strategy.

This is the first time AIS Financial Group has wrapped crypto assets into actual securities with Swiss ISIN that can be banked and exchanged in an approved, global banking environment.

'Many institutional investors are now looking to invest in digital assets for long-term gains. One reason is that they believe digital assets are a new way forward for a truly digitised economy,' stated the firm.

'Crypto trading brokers like Covario are paving the way for financial products referencing digital assets. AIS is embracing Covario's technology and services to take our brand, organic growth and strategy to another level.'

Using Covario's crypto services and technology, AIS clients can now create their own crypto AMCs and drive their own actively managed strategy, supported by 24/7 direct access. Florian Giovannacci (pictured), head of trading at Covario, said the new AMC addresses 'the growing interest from investors about the digital asset class' and supports 'AIS's mission to bridge the gap between the traditional financial market and the nascent crypto market'.

Covario's services give institutional investors access to the deep liquidity and wide variety of assets offered by the integration of 20+ crypto exchanges, eight of the largest market makers and major lenders in combination with a highly secured MPC/Multisig based custody solution.

Covario has also recently expanded its offering by the inclusion of new services such as derivative instruments trading and Defi platforms access.

As part of AIS's AMC, clients can directly access Covario's web portal and desktop application and their various features

Bitpanda crypto ETC debuts on VSE

The Vienna Stock Exchange has added Bitpanda Issuance, a new product provider offering listed products linked to the performance of Bitcoin.

The Bitpanda Bitcoin ETC is available for trading as a debt security as of 17 March on the Vienna exchange.

The exchange said market participants will be able to benefit from monitored and transparent trading as well as secure settlement via their securities account, without having to open their own crypto wallet.

The new ETC which tracks the price of Bitcoin is backed physically in a cold storage. German brokerage house Lang & Schwarz provides liquidity.

With the Bitpanda Bitcoin ETC, the Vienna Stock Exchange offers 13 crypto-linked ETPs from nine different issuers.

US ETF issuer enters European crypto ETP space

Global X has become the latest ETF issuer to enter Europe's cryptocurrency exchange-traded product (ETP) market with the launch of two delta one strategies.

The Global X Bitcoin ETN (BT0X) and the Global X Ether ETN (ET0X) are listed on Deutsche Boerse with total expense ratios (TERs) of 0.65%.

Physically collateralised, the two exchange-traded notes (ETNs) offer exposure to the price movements of Bitcoin and Ethereum, respectively. The two ETNs are centrally cleared by Eurex Clearing.

'Digital assets have quickly scaled from a currency into an entire digital economy,' said Luis Berruga, CEO of Global X.

According to data from Bloomberg Intelligence, there are over 70 crypto ETPs listed in Europe with around €7.5bn assets under management (AUM). Global X follows the likes of Fidelity and Invesco which entered the European ETP market recently with physical bitcoin trackers.

The company has been aggressive in its expansion into the European market in recent months with its range now totalling 29 ETFs.

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Image: Engdao/AdobeStock

Coping with market corrections

As has been widely reported in the financial press recently most major markets have experienced a significant correction from the highs posted at the end of 2021.

by Tim Mortimer

This has been particularly evident in the US market because of its stellar growth in the last two years and so this article will focus on the recent experience for the S&P 500 and Nasdaq 100.

Both indices have more than doubled from the lows in March 2020 after the first effects of the Covid-19 pandemic though to the end of 2021. The Nasdaq 100 was slightly the better performer, up 136% in that time compared to 108% for the S&P 500. This is to be expected given it is generally a more volatile index and that many technology companies were well placed to benefit from the shift in economic and social patterns as the pandemic developed.

Since the turn of the year the S&P 500 fell by 9.8% to its year-to-date low on 27 January 2022 and the Nasdaq 100 has fallen even further, shedding 15%. Both indices have recovered a little in the subsequent two weeks.

EXPERT VIEW

Interestingly the VIX volatility index (1 year version) was at 17% pre Covid and then soared to a high of 40% as markets started to fall. At the end of 2021 it was still at over 29% and has since stayed consistently in a range of between 28% and 30%. Volatility is often associated with future falls but in the last few weeks it has remained elevated in anticipation of further market swings in either direction.

A market correction is generally defined as a fall of between 10% and 20% from a previous peak. This is not enough to constitute a bear market but is significant enough to put investors on watch that a bear market may develop and sentiment is changing.

There are many reasons why market corrections can take place. One is simple profit taking by some after a previous strong market rally. Another is a change in market conditions that cause nervousness and a reassessment of equity and bond valuations. This year there is the significant threat of rising inflation and interest rates. This is coupled with trade and security fears that occupy many countries.

The emergence of such a scenario should cause all investors to consider whether to take any action and what that might be. Seeking a reduction in risk in a portfolio is a natural reaction but if this is done after a market fall then it may prove to simply be locking in a loss if prices then recover.

Investors are often cited as being tempted to panic sell too quickly but this well-known behavioural finance phenomenon is difficult to rationalise or resist. Ways to lower risk include moving from stocks to cash or from higher risk stocks and markets to more defensive choices.

PROTECTION, BARRIERS

Structured products are intrinsically designed to prepare for and cope with such eventualities. They also sit between cash and equities on the risk scale. All of these properties and benefits need to be communicated to new and existing investors, this is a continuing education initiative required by the industry. Full capital protection and downside barriers are the main defensive measures against market falls and they perform a specific role.

A barrier set at 30% below the initial market level will be able to comfortably absorb declines of the magnitude seen recently and give every chance of avoiding capital loss if markets start to move sideways or better thereafter. Contrast this with a direct equity investor who would currently be sitting on a loss of 10% to 15%. This would be a damaging outcome to any portfolio and one likely to affect future decisions.

Although barriers give a very good chance of preventing losses the secondary market valuations will still take a significant hit due to effects of market declines and the associated increase in market volatility. This can unsettle investors and needs to be properly explained and managed by advisers.

A market correction can also delay products auto-calling successfully but the fall observed in recent weeks is relatively small compared to previous market growth and so products issued more than a few months back are likely to still eventually post a profit.

Investors will be waiting to see what develops from here and continued market volatility is almost inevitable. The key for new investment opportunities is to time an attractive entry point on a market dip and lock in favourable yields or terms when volatility is high. This intelligent tactical usage of structured products can avoid immediate losses and provide prospects for future returns by combining elements of income, growth and market protection.

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

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A market correction is generally defined as a fall of between 10% and 20% from a previous peak

ANALYSIS

The cliquet: hard to price, difficult to manage

We look at the dynamics of pricing cliquet options on the construction of long-term products mostly seen in the retirement space, and why they have lost weight and presence in the market. *by Tim Mortimer*

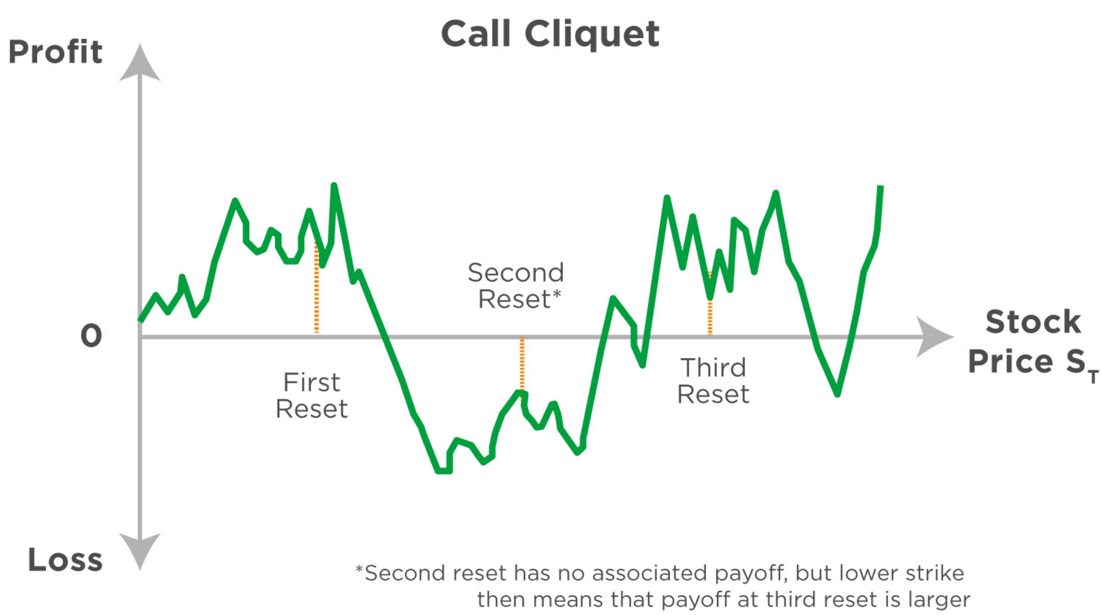
Many investors need long-term solutions for capital growth or income with controlled risk. This is particularly true for investors seeking retirement solutions having built up a portfolio over time. The typical profile is someone ten to fifteen years from retirement seeking to extract some further gains from their portfolio but turning their focus to income generation and capital preservation.

The fund management world and those using a broker or platform for self-investment have adopted several trusted approaches for many years. These include reducing risk levels over time (such as the age in bonds rule which advocates one percent of your portfolio in bonds per year of your age, eg 55% at age 55) or following 60/40 splits in favour of equities in the build-up phase and reducing risk much later.

Structured products are clearly well positioned to address this goal because of their defined returns, emphasis on income or targeted growth and risk control. Most structured products tend to be three to six years in length depending on the preferences of the market they are issued in. This maturity range is particularly true of capital at risk products because that length generally gives the best trade off in terms of yield, upside and risk. Beyond this horizon the necessary index or stock options to help the hedging process are less liquid, particularly those linked to single stocks. This will result in fewer banks willing to quote for longer dated products and product terms reduced because of the increased risk reserving that will take place.

Longer maturities make sense for capital-protected products because they can give more upside in exchange for the interest given up and the credit risk taken on. While simple participation products have been seen in many cases there are various problems to contend with. One is that writing long dated options has a lot of risk for banks caused by long term dividend and volatility assumptions. There is also the question of likely performance and future returns. If a product is offered with ten or more years full capital protection it is highly debatable that this is a sensible allocation of funds for the investor. Even if the protection is priced fairly the investor must take the view as to whether it makes sense and fits their views over the long term.

As an alternative product, the cliquet payoff has been familiar



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As an alternative product, the cliquet payoff has been familiar for many years

for many years. Its enticing name shows its roots from the French market (being the French word for ratchet) and was first seen over 20 years ago. The cliquet divides the full term of say six years into equal periods (for example one year). Performance is then measured year on year and compared to pre-determined maximum and minimum levels (cap and floor). This gives rise to an annual payment which can either be paid out or rolled up to maturity and subject to a further maximum or minimum overall value.

This payoff does have some appeal since it ties product returns to what happens in each period. It does reduce exposure on long term volatility and dividends. However, it creates more subtle risks, for example to “forward” volatility, that is the expectation of the level of one year volatility at different points in the future.

The cliquet is also extremely hard to price and risk manage and is very sensitive to the modelling approach that the bank may employ (stochastic volatility versus local volatility, for example). There have been many cases over the years of over-aggressive pricing strategies and mis-pricing due to model risk (the incorrect choice of a model that would be perfectly acceptable in another setting).

NEW APPROACHES

Cliquets remain popular in some markets today. These include Belgium, France and the Czech Republic. In France and Belgium, the typical structure has a cap and floor each year, for example, a cap of five percent return and minimum of zero. In the Czech Republic, the cliquet has also been seen in the FX market.

It is fair to say that the cliquet is not as popular as it once was. This is due to several factors, including a return to more simple payoffs driven mostly by regulatory pressure. The pricing of cliquets has also proven troublesome and the logic behind such a smoothing operation of returns is less compelling with low volatility indices and exchange-traded funds now commonplace.

The other market where the cliquet remains a regular choice is the US. They have been used in the certificates of deposit (CD) sector where providing capital or income while maintaining capital preservation has proven challenging in low rate and high volatility environments.

The US also has a thriving sister asset class to conventional structured products in the registered index-linked annuity market. These insurance investments sit alongside more traditional annuities as a way of looking for enhanced returns at moderate risk. For this wrapper products are treated slightly differently and combine actuarial considerations with a hedge bought from an investment bank with a derivatives desk.

Conventional annuities accumulate at fixed rates each year and these vanilla versions were the first type of annuities sold. However as with most cash investments this concept has suffered enormously with falling swap rates and treasury yields. Indexed annuities first appeared around twenty years ago to provide better solutions, particularly aiming to generate decent returns in a low interest rate environment.

Annuity products are typically seven to 10 years long and the original indexed solutions were lock-in or point to point products over the whole term. These used both cliquet and participation payoffs, often with caps and averaging. This maturity range was too long for some investment banks and so insurance companies suffer from a limited choice of issuers.

In recent years there has been a change of product type to an annual accumulation construction based on a certain index participation level or cap. For example, the investor may get 50% participation to an index or have an annual cap of seven percent with 100% participation up to that level with the cap reset according to market rates in subsequent years.

This more flexible approach reduces the need for insurance companies and banks to commit to long term expensive hedges. The main disadvantage is not being able to advertise terms to the investor in advance over the long term.

In conclusion, we acknowledge that the cliquet payoff provides a unique way to capture returns year on year for different use cases. However, as markets evolve and pricing conditions and investment patterns change it seems that preference is shifting towards alternative solutions.

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

Product wrap: Credit Suisse debuts FTSE family ownership index

In this month's wrap, we look at a selection of structured products with strike dates between 20 February and 19 March 2022.

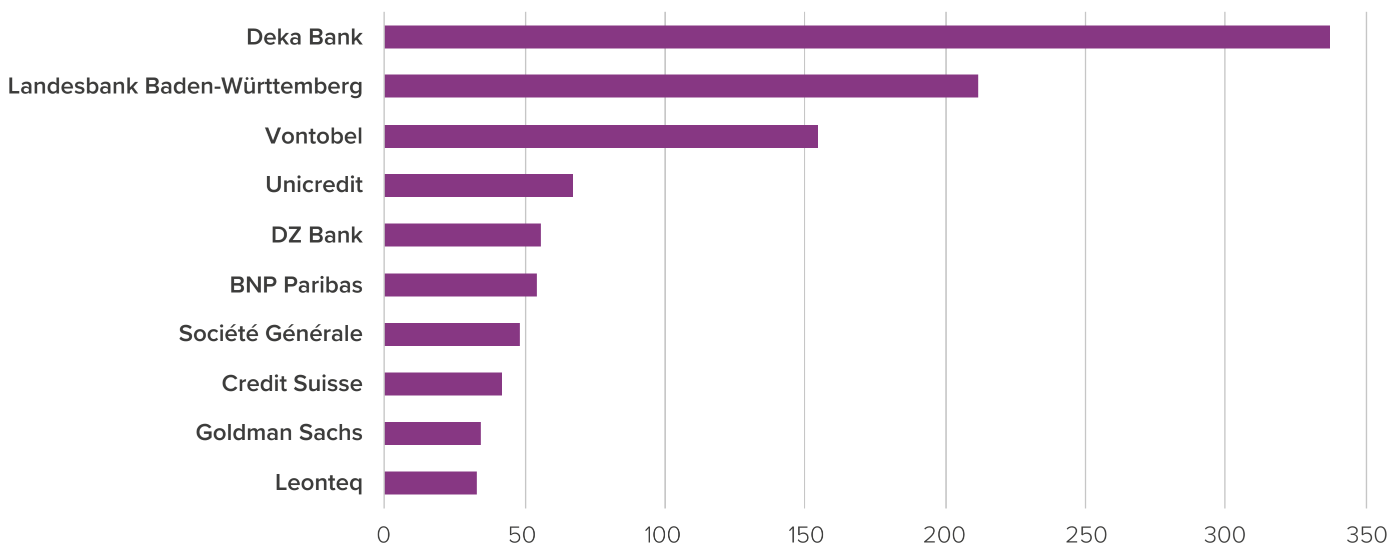
EUROPE

Credit Suisse was the issuer behind Lauriers Rendement Famille Février 2022 which was targeted at private banking clients in France. The 10-year medium-term note (MTN) was linked to the FTSE Developed Eurozone Top 30 Family Owned Capped Decrement 50 Points Index, which made its debut on the SRP database. The index is designed to reflect the performance of the top 30 constituents of the FTSE Developed Eurozone Index, screened by Factset. The product redeems early if the index closes at or above its initial level on the quarterly valuation date. In that case, it offers 100% capital return, plus a coupon of 1.50% for each quarter that has passed. The product has a one-off entrance fee of 1.21%. It is listed on the Luxembourg Stock Exchange. Priips Summary Risk Indicator: seven out of seven.

Another new index, the S&P Europe 50 ESG Select Equal Weight (BEL DEU FRA NLD) 50 Points Decrement, was introduced by **BCP Asset Management** in Ireland. The index is comprised of 50 companies domiciled in one of the four core countries of the eurozone: France (46.8% weighting), Germany (28.8%), the Netherlands (20.3%) and Belgium (4.2%). It was used as the underlying for the asset manager's Target Coupon Bond 2, a 10-year autocall that is available to individuals, pensions, charities and corporates. The product pays a memory coupon of five percent per year, providing the index closes at or above 70% of its starting level. If the index closes at or above 90% of its starting level, the product terminates for a capital return of 100%. Capital is at risk if the index has fallen by more than 50% on 25 February 2032. Barclays Bank Ireland is the issuer. The product is listed at Euronext Dublin. Priips SRI: four out of seven.

Deutsche Bank distributed the Digital Economy Equities Note (90) 2029 in Belgium. The 7.6-year medium-term note (MTN) offers 100% participation in the MSCI World IMI Digital Economy Select 50 5% Decrement Net Index, subject to 25

Europe: top 10 issuer group by issuance - 20 Feb 2022 to 19 Mar 2022*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

months backend averaging. The minimum capital return is 90%. The index aims to represent the performance of the 50 largest companies that are expected to derive significant revenues from the digital economy value chain. The product is issued via Barclays Bank and listed in Luxembourg. A total cost of maximum eight percent is included in the issue price of 102%. Priips Summary Risk Indicator: two out of seven.

Intesa Sanpaolo collected €58m with its Switch Barrier Digital Certificates with Consolidation Effect on the share of Generali in Italy. Every year, if the share closes at or above 70% of its starting price, the product offers a digital coupon of 3.80%. Additionally, if the share closes at or above 100%, a lock-in feature is activated and the coupon is guaranteed for the remainder of the term, while full capital return is also guaranteed. Distribution commission is two percent. The product is listed in Luxembourg and application will also be made for the securities to be admitted to trading on the Italian multilateral trading facility Securitised Derivatives Market (Sedex). Priips SRI: five out of seven.

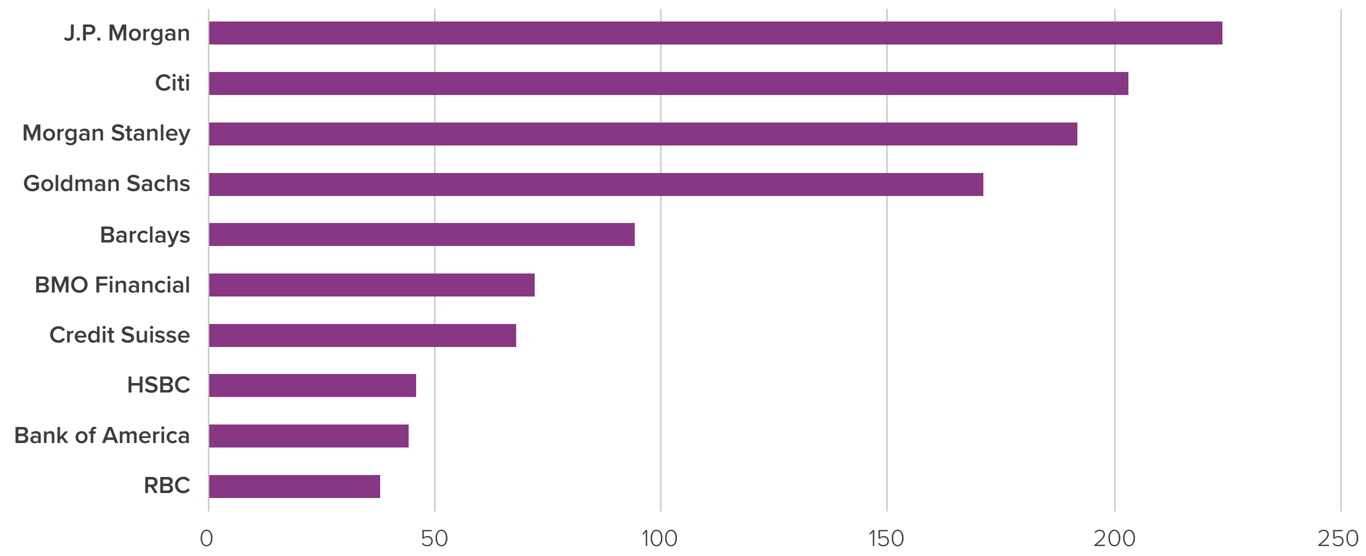
Raiffeisen Centrobank marketed 3% Europe/Gold Bonus & Safety 4 in 11 countries, including Austria, Germany, Italy and Slovakia. The five-year certificate pays a fixed coupon of three percent pa. At maturity, provided that the Eurostoxx 50 index and the LBMA Gold Afternoon Fixing Price always quote above the barrier of 49% of their respective starting value (daily closing price), the certificate is redeemed at 100%. Otherwise, it is redeemed according to the performance of the underlying which performs worst. Priips SRI: four out of seven.

NORTH AMERICA

Canadian Imperial Bank of Commerce (CIBC) issued Autocallable Notes linked to North American Indices (AR) Portfolio, Series 3 in Canada. The seven-year securities are tied to an equally weighted basket comprising Solactive Canada Pipelines AR Index and Solactive United States Life & Health Insurance AR Index. The product redeems early if both indices close at or above their initial level on the semi-annual observation date. In that case it offers 100% capital return, a coupon of 5.35% for each semester elapsed, plus 10% participation in any growth in excess of the coupon. At maturity, capital is preserved, providing that both indices close at or above 80% of their starting level. A selling concession of 2.50% applies. An additional fee of up to 0.15% per note sold will be payable by CIBC to National Bank Financial for acting as the independent agent. The estimated value is expected to be C$93.99 per note.

J.P. Morgan achieved sales of US$4.7m for its Autocallable Contingent Interest Notes linked to the common stock of Apple in the US. The product pays a monthly coupon of 7.50% pa if the share closes at or above 70% of its initial value, which is US$114.219. If the close price of the underlying is at or above its initial level on any of the monthly review dates (from 6 September 2022 onwards) the notes will automatically be called for a cash payment of US$1,000 plus the contingent interest payment. The selling commission is 1.50% and the estimated value of the notes is US$960.40 per US$1,000 principal amount.

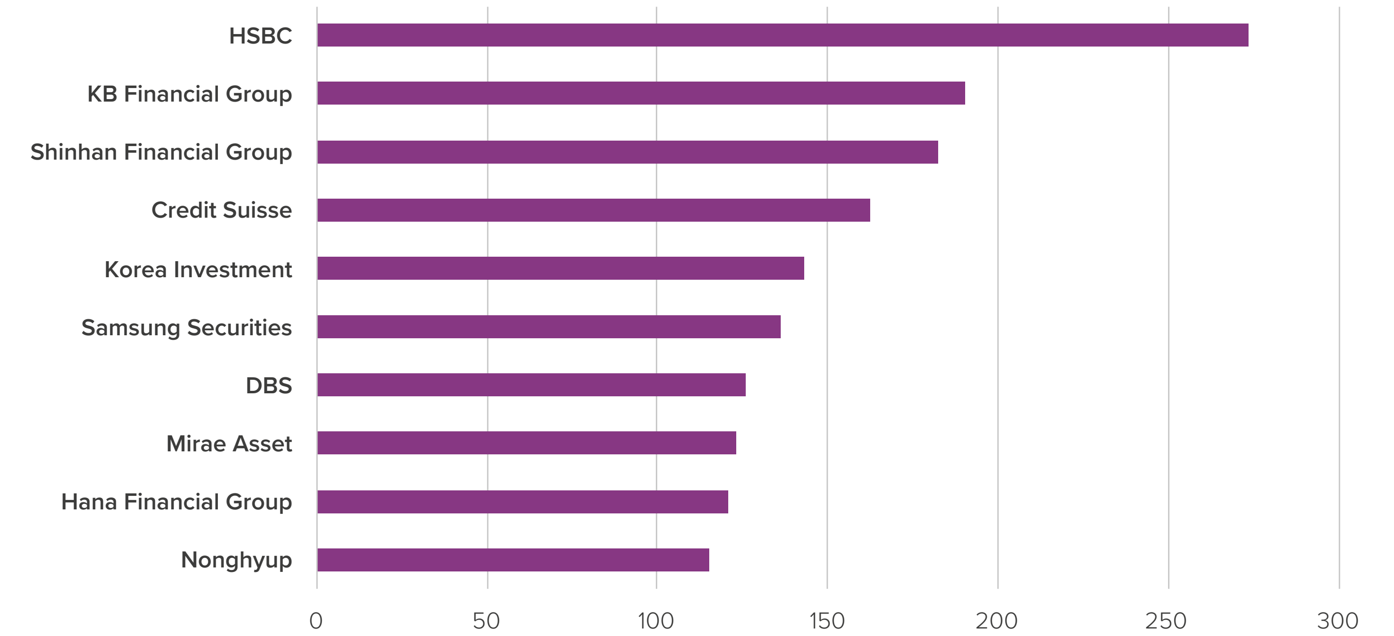
Americas: top 10 issuer group by issuance - 20 Feb 2022 to 19 Mar 2022*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

Asia Pacific: top 10 issuer group by issuance - 20 Feb 2022 to 19 Mar 2022*



*Excluding flow- and leverage products

Source: StructuredRetailProducts.com

Also in the US, **Bank of America** sold US$18.3m worth of Accellerated Return Notes. The five-year registered note is linked to a commodity basket composed of two exchange-traded funds: SPDR Gold Shares, iShares Silver Trust. At maturity, the product offers 300% of the rise in the basket over the investment period, capped at 19.5%. If the final basket level is lower than its initial level, the capital return is equal to 100% minus one percent for every one percent fall. The notes are issued by CIBC. The initial estimated value of the notes is US$9.671 per unit. An underwriting discount of 1.75% applies.

ASIA-PACIFIC

HSBC Bank targeted its 两年人民币汇视环球产品041款第6期/2Y CNY Note S6 at retail investors in China. The two-year shark fin is linked to the HSCEI ESG Index. If the price of the index is at or above 115% of its initial level at any time during the tenor, the product offers a capital return of 100% plus a coupon of three percent pa. The investor can request to redeem this product early, but the issuer reserves the right to accept or decline the request.

HSBC was also active in Hong Kong SAR, where it launched 股票掛鈎投資2022/Basket DCDC ELI DFBAS2200730. The three-month investment is linked to a basket comprising iShares FTSE A50 China Index ETF (HKD), and Tracker Fund of Hong Kong. The product has a knockout feature, which is triggered daily if both underlyings close at or above 102.5% of their starting level. At maturity, if the worst performing fund has not fallen below 80% of its starting level, the product offers 100% capital return.

Monex Securities collected JPY300m (US$2.6m) with メルカリ転換債/EB M20230310 in Japan. The one-year reverse convertible offers a fixed quarterly coupon of 10.21% pa. It will be redeemed early if the share of Japanese e-commerce company Mercari closes at or above 105% of its initial level on any quarterly valuation date. In that case it will offer 100% capital return together with a coupon. At maturity, capital is preserved if the share has never fallen below 70% of its initial level throughout the tenor. Otherwise, it will be redeemed by physical delivery of the underlying share instead. Crédit Agricole CIB is the issuer.

KB Investment & Securities issued the 90% capital protected KB able ELS 2221 in South Korea. The six-month digital is linked to the Kospi 200. At maturity, if the index is at or above 90% of its initial price, the product offers a capital return of 102.55%. If the index stays between the range of 35% and 90%, the capital return is 102.45%.

People Moves

Citi veteran chief leaves to launch fintech fund

The senior executive has parted ways with the US investment bank after more than 15 years.

Dan Keegan (left), co-head of equities and securities services (ESS), head of North America markets and securities services (NAM MSS) and CEO of Citigroup Global Markets (CGMI), is leaving the US bank to launch an investment fund focused on financial technology companies.

According to an internal memo seen by SRP, Mike Saraceni, the head of North America investor sales and relationship management, will fill Keegan's boots as head of North America markets on an interim basis as the bank looks for a successor.

Keegan leaves after more than 15 years at the bank and several senior roles focused on Citigroup's equities-trading business. Most recently, he was the head of all NAM MSS, as well as co-head of equities and securities services (ESS) and CEO of Citigroup Global Markets (CGMI). Other roles held by Keegan include head of equities Americas, head of global cash equities and head of global electronic trading.

Keegan was co-head of global equities and securities services alongside Murray Roos – now at CEO of the London Stock Exchange (LSE) since 2016, and was involved in the restructuring of the bank's multi-asset structuring group (MAG) in 2017 with the creation of a 'product-aligned' equity structuring group led by Quentin Andre, Citi's global head of equities structuring for Investor Clients, and global head of equity solutions sales.

Citi's also created new organisation within its markets and securities services division launched in September 2017 to develop and implement a global retail client and product strategy.

Since 2020, Keegan has focused on the last two roles as the 'responsibilities and demands' of both jobs had increased significantly. This was part of a reorganisation of the bank's ESS business under a new structure led by a global head of equities and a global head of securities services.

The Citi's equities business now comprises equity cash, equity derivatives, prime finance/delta one and the multi asset group (MAS), and has a new boss, Fater Belbachir (pictured) who joined the US bank in August 2020 to lead the business. Belbachir joined from Barclays where he had a one-year stint as global head of equities and cross asset structuring.

Keegan started his tenor at Citigroup in 2007 after the bank acquired Automated Trading Desk (ATD), where he was on the executive committee and board of directors. At Citi, Keegan was also a strong advocate to deploy new technology for trading operations. He has also been part of the response to regulatory orders issued in late 2020 pushing Citigroup to improve its internal systems.

Prior to joining Citi, Keegan spent 12 years at J.P. Morgan in several equities trading leadership roles including global head of equity derivatives trading and structuring, and previously head of volatility trading and structuring for the Americas.

According to the memo signed by the global markets co-heads Carey Lathrop and Andy Morton, Keegan's 'most lasting legacy at Citi will be his personal mentorship, 'his unwavering commitment to our client franchise and his ongoing partnership with several of our most important regulators'.

Morgan Stanley sales leaves for HK cryptocurrency firm

Mark Hiriart (left), ex-executive director and structured derivatives sales at Morgan Stanley in Sydney, has joined OSL, a digital assets platform owned by Hong Kong-listed BC Technology Group. Starting this month, he is in charge of business development and sales for Australia. His licences with Morgan Stanley on Hong Kong's Securities and Futures Commission (SFC) went ineffective on 29 November.

During his five years at the US bank, Hiriart was first based in Hong Kong SAR as a vice president in cross product sales and became the head of flow derivatives sales for Apac. He was promoted to executive director in 2019 covering hedge funds and institutional clients across the volatility, delta one, financing and QIS products.

He moved to Sydney in November 2020 to set up structured derivatives business involving synthetic financial investments, portfolio overlays and defensive portfolio construction. Prior to Morgan Stanley, he served eight years at J.P. Morgan mainly as an equity derivatives structurer and trader spanning the two Apac cities as well as London.

S&P DJI appoints Apac head of ESG indices

Tianyin Cheng (left) is now senior director and Apac head of ESG Indices at S&P Dow Jones Indices (DJI) based in Singapore, overseeing the product pipeline and initiatives of the ESG indices product management team in the region. She reports to Jaspreet Duhra, managing director and global head of ESG indices at S&P DJI in London. She was previously a senior director and Apac head of strategy indices and is succeeded by Jason Ye, a director focusing on alternate beta strategies.

Prior to joining the index provider in 2014, Cheng was a quant analyst and risk manager at Catalytic Investment Group for a year, a Singaporean fund manager after spending two years in quantitative equity research, including at Daiwa Capital Markets in Singapore.

Nomura announces leadership line-up

Effective 1 April, the Japanese bank has appointed 83 senior managing directors across the retail, wholesale, investment management and other segments, including **Steven Ashley**, head of wholesale based in London and **Yutaka Nakajima**, head of global markets (GM) in Tokyo.

Ashley, ex-head of wholesale and GM based in London, became sole head of wholesale in 2019, with Nakajima, formerly co-head of GM, alongside Ashley taking full responsibility of the Japanese bank's GM division. Prior to that, Nakajima was co-head of GM for Apac, alongside Takashi Abiko, as well as head of trading, fixed income for Japan.

Other key appointments include Rig Karkhanis, deputy head of global markets in Singapore, John Goff, head of GM for EMEA at Normura International, Simon Yates, global head of equity trading and international head of equity at Nomura Securities International (NSI), Richard Volpe, global head of rates at NSI and **Ravi Raju** (pictured), who was tapped as head of International Wealth Management at NSL in September 2020.

Yates, ex-global head of equity derivatives at Citi in New York, left to set up his own firm Two Sigma Securities in 2014 following his four years at the US bank. He joined Nomura in August 2021 as a managing director based in New York.

In addition, the senior managers at the GM of Nomura Securities comprise Hideki Sakata, Susumu Usui, Tetsuya Hiraoka, Masafumi Nakaguchi and Shinichiro Eguchi.

ex-HSBC structurer re-joins UBS leading Apac origination

Kevin (Kwang Loong) Phua, ex-director at HSBC, has returned to UBS in charge of structured products origination for Apac at global markets, according to two sources.

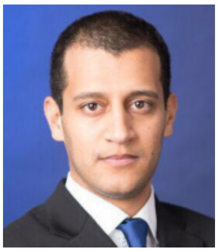
He continues to be based in Singapore, replacing James Chye, who has followed his ex-UBS manager Vivienne Chia to join Bank of Singapore to a new structured product desk along with two other colleagues. Phua's licence on Monetary Authority of Singapore (MAS) was effective with UBS from December 2021.

Phua spent three years at HSBC specialising in structured products after serving as a director and direct access clients (DAC) advisor at UBS within the investment platforms and solutions (IPS) unit from 2013 to 2017. This was merged under UBS global wealth management (GWM) in 2018.

Prior to that, he worked at Credit Suisse in Singapore for six years, his last role being a vice president in structured products advisory and execution.

UBS declined to comment on the appointment.

21Shares targets US market



Kayle Watson, the new US head of sales, is joined by Aram Babikian, US head of West Coast and Latin America business development, and Ches Snider, US head of research sales. They all report to 21Shares CEO **Hany Rashwan** (left). In his new role, Watson will be responsible for developing a sales distribution plan and building the teams for the institutional and retail investing landscape across North America. He spent the last eight years as a senior member of BlackRock's iShares ETF business, where he was responsible for driving institutional acceptance and use of ETFs. Previously, he worked at Guggenheim Securities and Bear Stearns.

Babikian will focus on developing the firm's market share in the US West Coast and Latin America. He has more than 15 years of experience in business development, sales, trading and portfolio management, product development, and operations. Most recently Babikian held senior sales and portfolio management roles at Direxion, with an emphasis on ETF solutions. Prior to Direxion, he worked for Goldman Sachs.

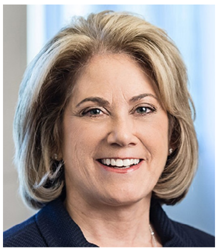
Snider will oversee US research and sales distribution for institutional and retail investment channels. For the past eight years, Snider marketed and distributed for Harborside Group with a focus on mutual funds and separately managed account sales across the US market, which included the wirehouse, regional, independent, and registered investment advisor (RIA) channels. He began his career in finance as a listed equity block trader for Bear Stearns.

Julius Baer Apac veteran exits

Roger Meier (left), head of structured products advisory & solutions Apac at Bank Julius Baer, in Singapore, has parted ways with the Swiss private bank. According to the Monetary Authority of Singapore (MAS) register, Meier's licence was terminated on 15 February. Meier was responsible for managing the structured product business in Asia and led the advisory and structuring teams in Singapore and Hong Kong covering equity, FX, commodities and rates / fixed income structured products to private clients based on an open architecture approach.

Meier joined Julius Baer in Zurich in 2004. He relocated to Singapore in 2007 to build the FX structured products business for the Swiss bank. In 2010, Meier was appointed as head of structured products advisory Asia and was promoted to head of structured products advisory & solutions, Apac, in 2019.

MerQube appoints chair of the board



MerQube has appointed **Margo Cook** (left) as chair of the board. As well as leading the board and focusing it on strategy, Cook will be tasked with making sure that the US-based index provider's growth and development closely reflects what the world's asset managers want from next generation indices.

Cook brings more than 30 years of executive leadership and operating experience as an investor, CIO and business leader in the global asset management industry. Her experience has included roles as the president of Nuveen Advisory Services, leading the institutional asset management business at Bear Stearns Asset Management and CIO of institutional business and head of fixed Income at BNY Mellon. Cook is active in the asset management industry, serving on the boards of hedge fund manager Bridgewater Associates and private equity manager, EQT.

In addition to her board roles at Bridgewater Associates and EQT, Cook recently served as an advisor to a large insurance company seeking investment in private credit, and on several advisory boards, including The Tifin Group, a fin-tech platform.

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