

International Structured Products Forum

Executive Summary

Lucerne, 2 – 3 September 2015



Host

**STRUCTURED
PRODUCTS**



Dear friends of the structured products industry,

For the 6th time in a row, September in our industry starts with the International Structured Products Forum.

Despite the ongoing uncertainty, the industry had a good start in 2015. Volatility is back and maybe somewhere and somehow there might be positive interest rates again.

What strikes me most though is how the Asian and the European markets for structured products intensify their contacts and collaborations. There are several Meta-tool initiatives in Asia, driven by European professionals or even players in close collaboration with the local market participants. Trading links are established and there is even a chance for common standards in important areas.

The main takeaway from this year's conference however was: Keep it simple! It ran like a red thread through the main presentations and discussions. From branding to selling to structuring to categorizing: Let's make it simpler.

The most encouraging statements from my point of view came from the regulator – which in itself is quite remarkable in recent years! I leave you with this teaser to read through our Executive Summary and I look forward to welcoming you to next year's meeting on the 7 and 8 September 2016 – again in Lucerne.

Yours sincerely,
Christian Reuss





The host of the event, Christian Reuss, opened the International Structured Products Forum in Lucerne on 2 September, 2015. The forum's purpose was «to bring the spirit of Buergenstock to Lucerne». In this sense, Mr. Reuss encouraged the audience to actively engage in the dialogue during the two-day forum and to constructively participate in the workshops.

SIX Structured Products Exchange Ltd., as the forum's initiator and principal organizer, together with Swiss Structured Products Association (SSPA) as the supporting organization, once again welcomed the leading representatives of the Structured Products Industry from Switzerland and neighboring countries.

More than 70 professionals participated. They contributed to lively discussions on various topics and as a result reaped benefits by gaining new insights and food for thought, revitalizing their networks, and moreover, they simply enjoyed the relaxing atmosphere of Lucerne.

Dr. Michael Loretan, Head of Asset Management Division, FINMA, opened the conference with a comprehensive review of current legislative issues and provided valuable insights into FINMA's perspective on these matters. His comments in relation to FIDLEG included a preview of private placement rules and uniformization. Despite some pending legislative details, the exact scope of which is not presently known, in Dr. Loretan's opinion, the financial industry may be able to master the imminent regulatory changes. He also regarded the Structured Products industry as being «a fast-moving sector of capital markets».

Finally, Dr. Loretan remarked that FINMA shares similar views with FinSA (FIDLEG) and is not at all interested in joining in the debate centered around the current law-making process. On this basis, the Structured Products industry itself needs to interact with Berne, not FINMA in its place.



Immediately following the formal presentation, Dr. Loretan and Philipp Rickenbacher, Vice-Chairman of the Swiss Structured Products Association (SSPA) held an open discussion regarding the current state of regulatory controls. One aspect, highlighted by Dr. Loretan, was the significant improvements in the industry, relating to self-regulation and transparency. Notwithstanding these attempts, the Swiss investment industry in general needs to definitely take on board some of the imminent changes: Citing a software anecdote, the FINMA representative explained that we clearly don't have a Windows 1.0 regulation in Switzerland. However, the majority of the Western world has decided to revise and upgrade its market rules and regulations.

The Swiss Structured Products industry needs to follow suit by reforming its market rules and regulations with a more appropriate and modern regulatory structure, which includes amendments to product documentation. Nonetheless, Dr. Loretan was aware that «suitability is not simply determined by what's only written on paper». Regarding market access to the EU, Dr. Loretan adds that an alignment with international standards is necessary to sell Swiss financial products in the EU.

Following the earlier discussion focused primarily on Structured Products, Dr. Thomas Deigendes, CEO, Jung von Matt/brand identity AG, introduced fascinating insights into «The Power of Brands». Blessed with an abundance of experience, the marketing virtuoso explained a) the added value of communication, b) how branding works, as well as, c) how brands are established and subsequently built up.

Examples of some of his ideas on branding concepts included a) his belief that humans are being turned into brands, b) not to underestimate the role played by social media, and c) how, through strategic marketing, world-renowned companies have turned a simple object like a car into a highly emotional and desirable commodity.



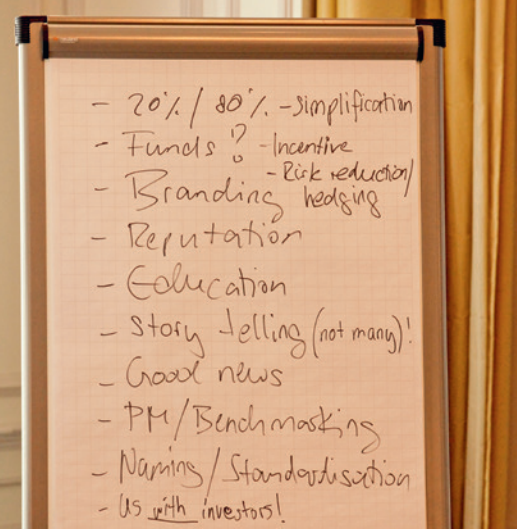
Dr. Deigendesch also presented a varied selection of commercials, ranging from good quality through to some rather questionable ones. A fitting summary of the marketing expert's presentation is: «Only good stories are attractive to people and the only way to create and nurture trusting relationship with clients is through performance and likeability».



During his afternoon welcome address, Philipp Rickenbacher, Vice-Chairman of the Swiss Structured Products Association (SSPA), highlighted the various achievements of the association in the past months, many of which had their roots in last year's Forum in Lucerne. For example, SSPA successfully published the first comprehensive cost & performance study for the Swiss market, which clearly demonstrated the advantages of Structured Products. As for the buy-side expansion announced a



year ago, the results are promising as seen in the recent addition of new members. The association is pledged to further expand their member base and place more emphasis on awareness projects in order to encourage new and existing investors to include Structured Products in their portfolios.



François Brunetti, Head of Structured Products at Lombard Odier Darier Hentsch, led the afternoon workshop focusing on better ways of convincing investment managers to use Structured Products. He gave an excellent insight into this topic, providing numerous «real-life» testimonials based on his dealings with private clients regarding the use of Structured Products. Obviously, some clients may have mixed feelings about Structured Products. «Too complex» and «not enough fee transparency» are the most common arguments against such investments.

Nonetheless, private clients widely recognize the advantages of Structured Products, such as: a) specific payoffs, which are not found in any other investment type, and b) limitless possibilities to tailor investments for individual needs. An important factor for private clients is also the availability of product documentation in their mother tongue. Some comments from the subsequent discussion included: a) the need for a simplified SSPA map, and b) the request for a more simplified «plain words sales approach», to address the clients on equal footing.

Thomas Schmidlin, Member of the Board of the Swiss Structured Products Association (SSPA), conducted the parallel workshop dedicated to relationship managers as the «gate keeper» to the investors' portfolios. The workshop focused on how to increase the usage of Structured Products among this target group. Currently, Structured Products are not an easy sell. Professionals have arguments similar to those presented to private investors. For example, when considering derivative investments for their portfolios, professionals are often apprehensive towards products, which in their eyes are too complex. Furthermore, despite an SSPA ruling to use uniform product names, a range of differing product names are still being used by some issuers, which only heightens the confusion and hence worsens the problem.

The working group was in agreement that strict storytelling is necessary to assist in the systematic education of the professional Structured Products investor. Finally, the topics of standardization and simplification are at the top of the list of what needs to be addressed by the industry as a whole.



Recreational activities focusing on Swiss craftsmanship were scheduled to help participants gather their strength for the remaining activities later in the day. There was a choice between having a look over a watchmaker's shoulder or visiting a chocolatier's atelier. Those who just preferred to enjoy the results were able to partake in a degustation of finest Swiss chocolates.

A controversial, but entertaining debate took place during the evening Round Table «Swiss financial market policy in an election year». Moderator Harry Büsser, Head of Financial journalism at the Swiss magazine BILANZ, was joined by Prof. Dr. Aymo Brunetti (University of Berne), Thomas Maier, National Councilor (GLP, Canton Zurich) and Thomas Aeschi, National Councilor (SVP, Canton Zug). They exchanged views on how to keep Switzerland and its financial market industry ahead of global competition. According to Mr. Aeschi, in the Greater Zurich Area alone, there are more than 60,000 jobs directly dependent on the financial industry. Hence, it is important to support this sector and to provide a framework in which this industry can develop and grow.

In summary, the majority of the panelist were in agreement that future legislation should be structured in a smart, «Swiss-style» way. At the same time, this approach should still be compatible with EU regulations, in order to not obstruct access to markets and to ensure that the required level of change is kept at a manageable level.



The second conference day started with a remarkable update on the development of the legislative framework of financial markets in Europe. Thomas Wulf, Secretary General of EUSIPA, gave details on the state of play of the European Financial Transaction Tax project (FTT), which will make the question of extraterritoriality a major issue. The second project he commented on, the EU Capital Markets Union (CMU), may have some flaws in its initial set up. But, according to Thomas Wulf it nonetheless invites to new activity that could also be of benefit to markets, for example standardizing risk securitization. Overall the CMU could also lead to less national regulation, which may lower relevant costs for the industry.

In this context Wulf underlined that cost-bearing regulatory measures (i.e. the introduction of a European FTT in eleven major markets) need to be kept in mind as they could easily eat away any benefit of the CMU.

On the EUSIPA side the member associations are handling currently four major work streams which are linked to product classification, legal/lobbying, self-governance and PR/media. Across those the MiFID II target market topic and the implementation of the EU PRIIPs implementation are the top priorities, while the tax working group covers mainly the FTT issue on an ongoing basis.



The lawyers' panel, moderated by Christian Vollmuth, German Derivatives Association (DDV), is traditionally the final item on the conference's agenda. Dr. Gregor Evenkamp (Clifford Chance LLP, Germany), Enrico Friz (Walder Wyss Ltd, Switzerland) and Andrew Sulston (Allen & Overy LLP, UK) discussed the ongoing regulation process from a national and international perspective. Overall, it could be said that there was not a great deal of new development in the last twelve months. Main points of the discussion were MiFID II

and the PRIIPS regulation. During September, the experts expect a relevant paper to be issued, which will include a timeline. There was a consensus, that implementation of the KID regulation would occur by the end of 2016 / beginning of 2017. Discussion concerning base prospectus concluded with the unequivocal statement that KID will make the prospectus mostly unnecessary. This would lead to new and different regulations, but not more in total. However, as to whether the relevant authorities will concur remains to be seen.

The discussion then moved on to the topic of benchmarks. The jurists' opinion is that if you have a benchmark, then you will need a benchmark regulator.



The next twelve months will provide an array of many new and interesting developments and influential decisions. One thing is certain: there will be more than enough challenging topics to discuss when the 7th International Structured Products Forum in Lucerne will be held on 7 & 8 September 2016.



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