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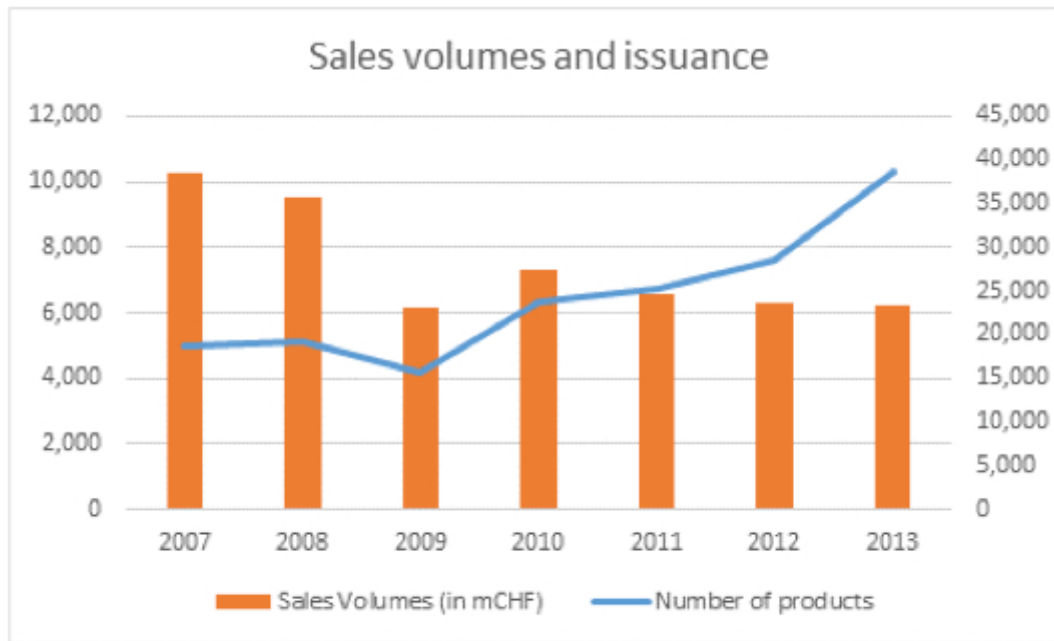
Innovation and transparency the key to Swiss market recovery

Yacine Brahmi, 29 May 2014

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The Swiss structured products market is one of the most important in Europe, with trading turnover on the SIX Structured Products Exchange exceeding CHF30bn (€24.5bn) in 2013.

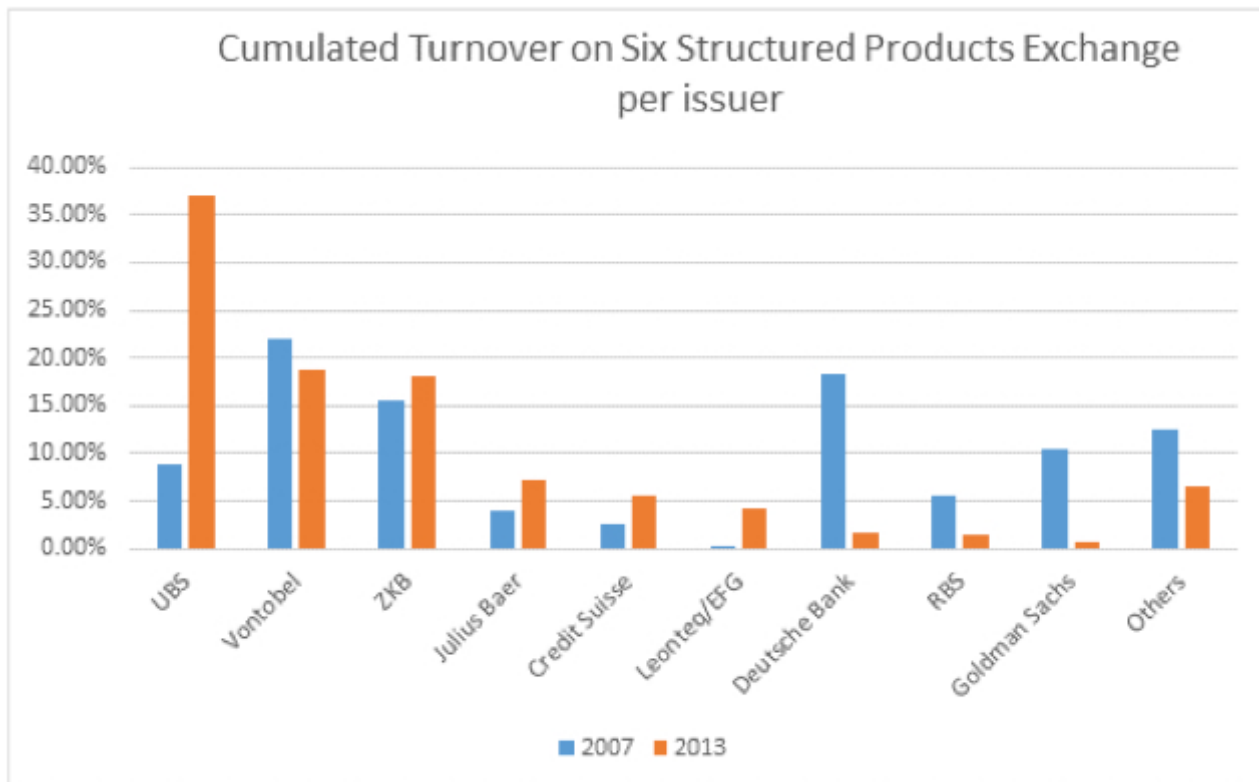
SRP data - which does not include leverage and flow products - shows that from 2007 to 2013 the number of products striking in the Swiss market has doubled ,despite sales volumes dropping significantly by 39% from CHF38.6bn in 2007 to CHF23.4bn last year.



Source: SRP website

Consolidated landscape

Six Structured Products Exchange data indicates that the nine biggest issuers (*see graph below*) of listed products used to take the lion's share of the Swiss market with 87% of all the volume issued in 2007. Seven years later, the concentration is even higher with the same nine issuers now representing almost 94% of all the volume issued listed on the structured products exchange.



Source: Six Structured Products Exchange

As in many other jurisdictions, the crisis has pushed several players away from the structured products market following a contraction of sales. Foreign banks were particularly affected, including Deutsche Bank, RBS and Goldman Sachs, which saw their market share decreasing by 92%, 75% and 93%, respectively. On the other hand, among the banks in the top 10 ranking, except Vontobel, all the Swiss banks have increased their market share, with UBS and Credit Suisse registering four-fold and two-fold growth, respectively.

SRP data also shows that foreign banks have either exited the market or suffered the consequences of not having a strong enough distribution network to compete with the main domestic players. Swiss banks were also first to move into the electronic platform space to minimise the costs of building structured products and to provide investors with the ability to create bespoke structures.

"A number of issuers active in the structured products market built their own platform at some point," Gerhard Meier, head of multi-issuer platform at Vontobel, told SRP. "The first stage of this development changed the market outright by bringing automation, reducing the production costs and adding scalability to the market."

The Swiss press reported recently that among the main Swiss providers Leonteq has been busy testing a SIX Exchange collateral system for non-listed products to reduce the existing issuer risk in the over-the-counter market; UBS has been pushing opportunistic structures providing yield enhancement around the renewable energy, 3D printing and "big data" concepts via its UBS Diapason index series or Solactive's Robotics & Drones index; while Vontobel continues to be focused on its Asian operations, although domestically it launched the Global Spin-off Index and the China Policy Index.

Credit Suisse is reportedly cashing in on booming sales of credit-linked notes, and RBS is working on offloading its structured products business to BNP Paribas while Santander continues to build its footprint in the Swiss market.

Commerzbank, for its part, remains focused on its Factor Certificates range, which has seen growth in sales of more than 20% year on year.

COSI

The highly competitive state of the Swiss market and the need to create products suitable for investors with different risk profiles after the Lehman Brothers default encouraged Swiss issuers to bring to market Collateralised Secured Instruments (COSI). "COSI products were introduced in 2009 as a direct consequence of the financial crisis and with the aim of reducing issuer risk for investors," Daniel Sandmeier, chairman of the Swiss Structured Products Association told SRP. "This innovation was met with great acceptance and COSI products are already a successful export."

The demand for COSI products, while very strong in the aftermath of the financial crisis, depends largely on the prevailing stockmarket conditions and risk appetite of investors, said Sandmeier.

According to Sandmeier, the recovery of the stockmarket along with the low interest rate environment has changed the risk profile of the average Swiss investor. "COSI protection comes at a cost and given that markets are on a steady rise as of the past two years and interest rates are low, the need for safety has somewhat faded from the spotlight - investors are willing to take more risk in exchange for a better return. COSI products will face a rapid revival in uncertain times", he said.

Swiss providers are gearing up to take advantage of the Swiss Exchange and SIX Securities Services' tri-party collateral management (TCM) for non-listed products, which is being tested by Leonteq.

Regulation

Although the Swiss structured products market is not governed by EU rules the country has its own countdown for the introduction of new regulation that will cover the sale of structured products. The Swiss Federal Financial Services Act (FFSA or Finanzdienstleistungsgesetz - Fidleg) which is not expected to come into force before 2017 mirrors the

EU financial market Mifid II regulation and will introduce tougher rules for financial intermediaries in Switzerland; as well as the requirement to provide a basic information sheet for structured products (similar to the KID) to investors which is feared by the industry as it will increase the administrative burden at the point of sale

The Swiss derivatives industry is also working on the implementation of Connexor, a central data hub in the Swiss stock exchange compliant with Priips.

In addition, the Swiss Financial Market Supervisory Authority (Finma) has recently set up new rules for the distribution of structured products including reverse convertibles, certificates and leverage products after the amendment of the Act on Collective Investment Schemes (CISA) and the Federal Ordinance on Collective Investment Schemes (CISO), with the revised version of the new guidelines which came into force in March. It is also seeking feedback on the regulator's Collective Investment Schemes Ordinance (CISO).

Equity rebound increases investors risk appetite

Swiss providers reacted to the recent fall in demand for COSI products with the introduction of new payoffs including reference bonds - formerly reserved for institutional clients - which have become increasingly popular. Some of the new breed of products allow for the liability risk to lie outside the financial sector, depending on the selected reference bond and issuers can use them to create payoffs having both an equity and credit component to increase the expected return of a structured note. "Especially in times of low interest rates, and provided that investor understand the risks involved with the additional credit default risk, they are an appropriate means to achieve better returns," said Sandmeier.

Features such as American barriers - which have a continuous observation period across the investment period - and conditional coupons payment are also becoming more popular despite their potential impact on yields.

Electronic platforms

The Swiss structured products industry continues to lead the way in the development of online structured products trading, with a number of single-issuer platforms (Deritrade, HypoVereinsbank onemarkets, UBS Equity Investor, Credit Suisse Spirit, SMART Derivatives, RBS MarketDirect, Alpha, Comet) and two multi-issuer platforms (Vontobel and derivative.com) allowing private investors to build their own products and gain access to greater liquidity and transparency. Vontobel was the first Swiss bank to open its single-issuer platform into a multi-issuer hub.

"This was a significant development that put clients at the centre of product distribution," said Vontobel's Meier. "To develop this kind of click and trade platform requires a clear strategy, time and a lot of investment because the infrastructure needs to be implemented front-to-back."

The Swiss Structured Products Association believes that multi-issuer platforms are the next logical step following the success of fully automated single issuer meta-tools in the Swiss market, said Sandmeier. "These platforms increase the transparency and comparability of products and grant a competitive pricing. In addition, platforms allow issuers to increase their efficiency and lower their cost," he said. "Hence, multi-issuer platforms create a win-win situation for all parties involved."

Other recent developments in the Swiss structured products market include the launch of SIX's fully-owned structured products exchange after Scoach, the joint trading platform for structured products in Switzerland and Germany operated by SIX and Deutsche Börse, was dissolved following a decision by SIX to terminate the joint venture.

In 2013, the Swiss market also saw the arrival of Neue Helvetische Bank AG (NHB) a new entrant to the structured products market after [Notenstein](#) Bank entered the market for the first time in April last year.

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