Research Report for OIC

Analysis on Structured Products and Listed Equity Options in Europe: An Industry Overview and Future Prospects

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Part 2: European Structured Product Market Overview

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For more information readers are directed to part 1 of this study, which includes the results of the survey providing an exploratory review of the European structured product industry and can be downloaded at www.optionseducation.org/structured_retail_products_2015.html.

European Structured Product Market Overview

Manufacture and Secondary Market

Manufacture

In the context of this research, structured products are defined as investment products whose repayment value derives from the behaviour of one or more underlying assets. Structured finance products (e.g. asset-backed securities, collateralised debt obligations) for financing or risk transfer purposes are beyond the scope of this research.

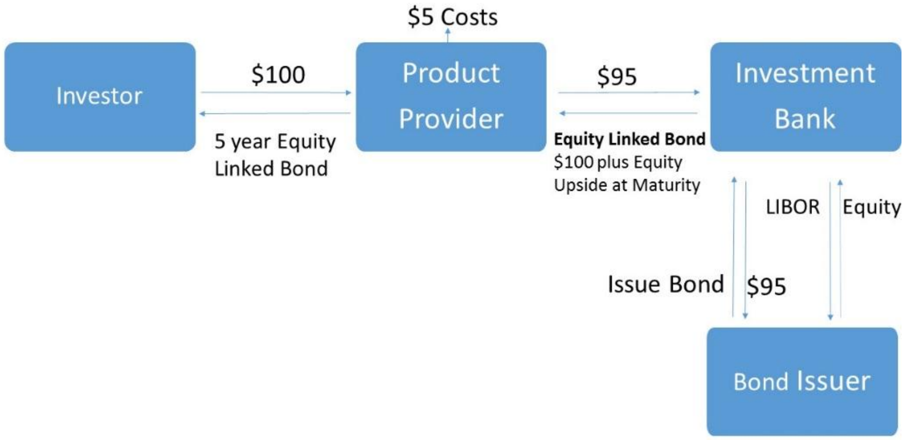
In essence structured products are pre-packaged investment strategies. They are often combinations of traditional investments in shares or bonds and financial derivatives. Traditional investments and derivatives are combined in a single financial instrument and securitised. Such "structuring" allows investment products to be created with risk-return characteristics that match the specific needs and expectations of investors.

More complicated products - 'hybrids' - combine more than one asset class in generating a predefined payout often involving underlying assets of low correlation to one another. There has been increased complexity and diversity in underlying assets in recent years, rather than in payoff structures. QE has resulted in higher interest rate differentials across different currencies, while the Eurozone crisis and slower economic growth has highlighted the need for asset diversification. Many providers think a cross-asset solution is well-suited to the low yield environment, as the expected return of an otherwise mono-asset product can often be enhanced by introducing a high-yielding currency to the underlying mix.

There is a vast range of publicly available structured products. The time to market for structured products is short, enabling them to react quickly to new trends in financial markets. The manufacturing process of structured products often starts with investment banks and involves multiple parties along the value chain. The type of wrappers determines the particular structuring approach.

The three most popularly used wrappers in Europe and their structuring approach are outlined below:

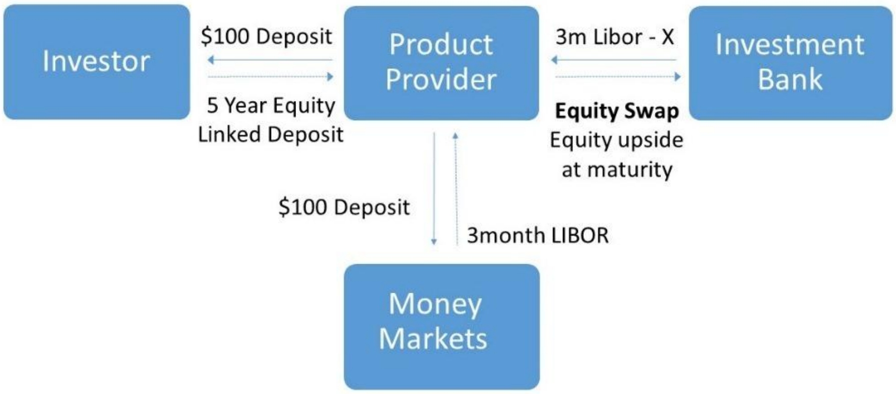
Structured Bonds/MTNs:



Source: www.StructuredRetailProducts.com

- The distributor issues an equity-linked bond under its name and is paid $100 by investors, of which 5% is booked as sales margin to cover administrative and marketing costs.
- 95% of the initial capital is used to purchase an OTC bond from the investment bank generating 100% principal and equity upside at maturity.
- The Investment bank pays 95% to acquire a bond and entered a swap where it offers Libor-linked payment in return for equity performance
- The bond issuer is typically a well-funded financial institution with AAA or AA credit rating in the Nordic countries.
- Designed typically for generating various, medium to long term, non-linear payoffs linked to certain underling(s) and with embedded credit risk exposure to the issuer. Yield enhancement payoffs are often carried in this wrapper.

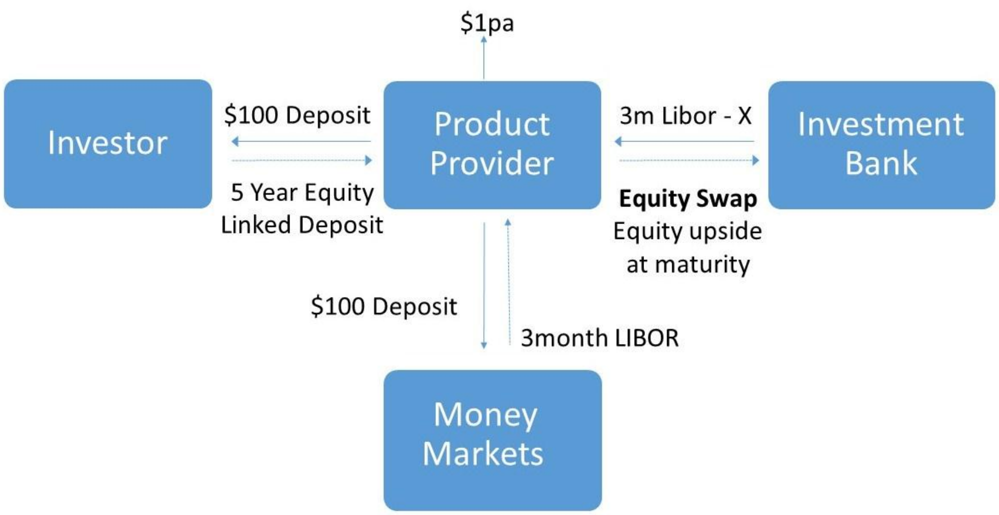
Structured Deposits:



Source: www.StructuredRetailProducts.com

- The provider is a deposit-taking commercial bank who receives $100 from its client and in return issues a structured deposit for a five year term.
- To hedge its upside obligations the provider enters into equity swap with an investment bank where it pays slightly less than 3-month Libor and receives an equity linked return.
- Protection is created by investing all the proceeds in the money market such that the principal will be returned along with 3-month Libor payment every three months, and immediately rolled over until maturity.
- Structured deposits appear on the bank's balance sheet and therefore have funding implications.
- Designed typically for delivering upside exposure to an underlying(s) while providing full principal protection at maturity (usually short-term) within a "deposit plus call option" structure. The exceptions are dual currency deposits where the principal is exposed to downside exchange rate risks.

Structured Funds:

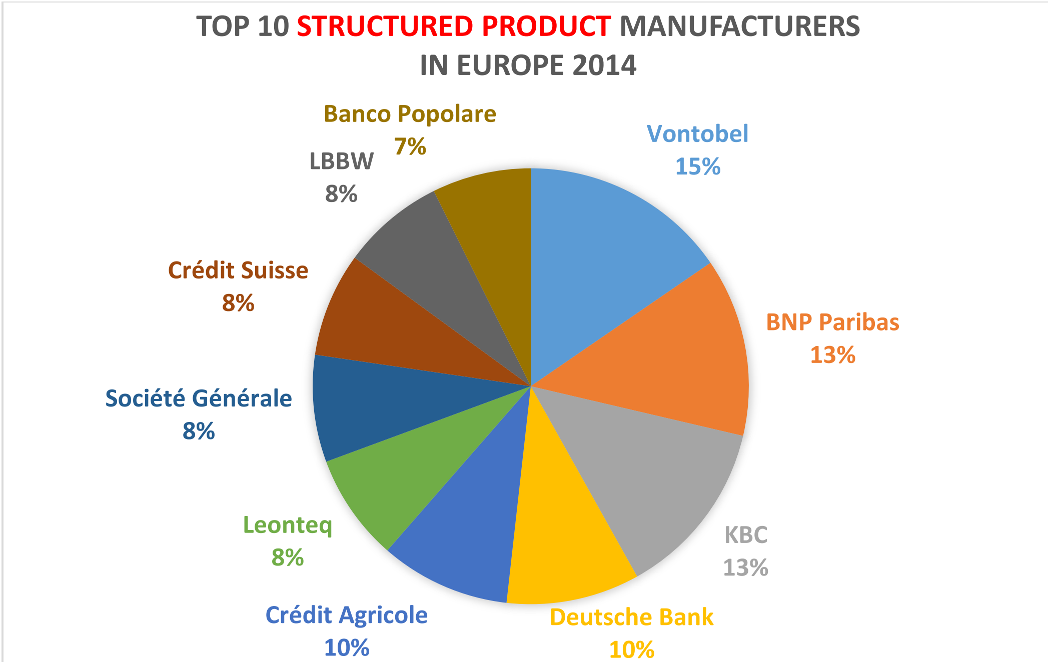


Source: www.StructuredRetailProducts.com

- Investor purchases a fund or collective investment scheme and receives fund units with NAV depending on underlying performance.
- A small part of the fund is invested in OTC equity options for upside exposure. $4 is paid as premiums to investment banks in return for equity upside above the strike level of the option.
- 95% of initial capital is placed in deposit or money market instruments for 100% principal return at maturity.
- The asset manager keeps 1% margin for administration and management.
- Designed typically for replicating a simple or strategy based exposure to a diversified pool of assets using passively managed approach. The invested capital is ring-fenced by the custodian of the fund and therefore issuer risk is minimal.

The manufacture of structured products is confined to a small number of large, well-capitalised investment banks who have the capability to create and hedge transactions through their derivatives trading desks. The top ten manufacturers across the region and their relative market share are listed below.

Note that the ranking is based on one-year notional sales of all retail products (excluding non-retail, flow and leverage) in 2014 for which the investment banks have provided the hedges, and therefore does not represent the entirety of structured product business that they might be involved in.



Source: www.StructuredRetailProducts.com

Secondary Trading and Market Quality

The decision between holding on to or trading out of structured products prior to planned maturity largely depends on the type of wrapper and issuing entity. Investors of structured deposits and life bonds tend to buy and hold the investment until maturity, while most structured funds and certificates change hands many times over their life cycles.

A reliable and accessible secondary market is key to success of any structured product. In Europe, secondary liquidity is a function of the tradability of the products on public exchanges and their respective market qualities. The majority of retail bespoke products do not have a liquid secondary market. If they are not listed on exchanges, there are not normally any liquidity providers apart from the issuer itself.

There are retail leveraged products such as turbo certificates which are actively traded on the German and Italian exchanges. Leveraged growth products are also actively traded on Euronext's Paris and Amsterdam exchanges. In addition, some providers of leveraged products, such as BinckBank in the Netherlands, use the Computer Assisted Trading System (CATS) platform for order matching and trading instead.

Unwinding a position means reversing all the asset flows and financial obligations carried out when the trade took place. From the perspective of the investor, methods of unwinding structured products include trading via an organised market or (although unlikely) offsetting the exposure by taking positions in other financial instruments with precisely the reverse investment implications.

It is extremely difficult, if not impossible, for retail investors to unwind a complex bespoke product without incurring cost in the form of an early redemption penalty, as issuers may need to break down the product and lay off unwanted hedges at less favourable prices.

The market quality in regards to structured products trading varies widely across European jurisdictions (see below), although the ongoing economic and financial integration within the Eurozone has helped level out some differences on liquidity, spread, transparency and other market quality metrics.

Although the bid/ask spread also differs widely across national borders, we can summarise that:

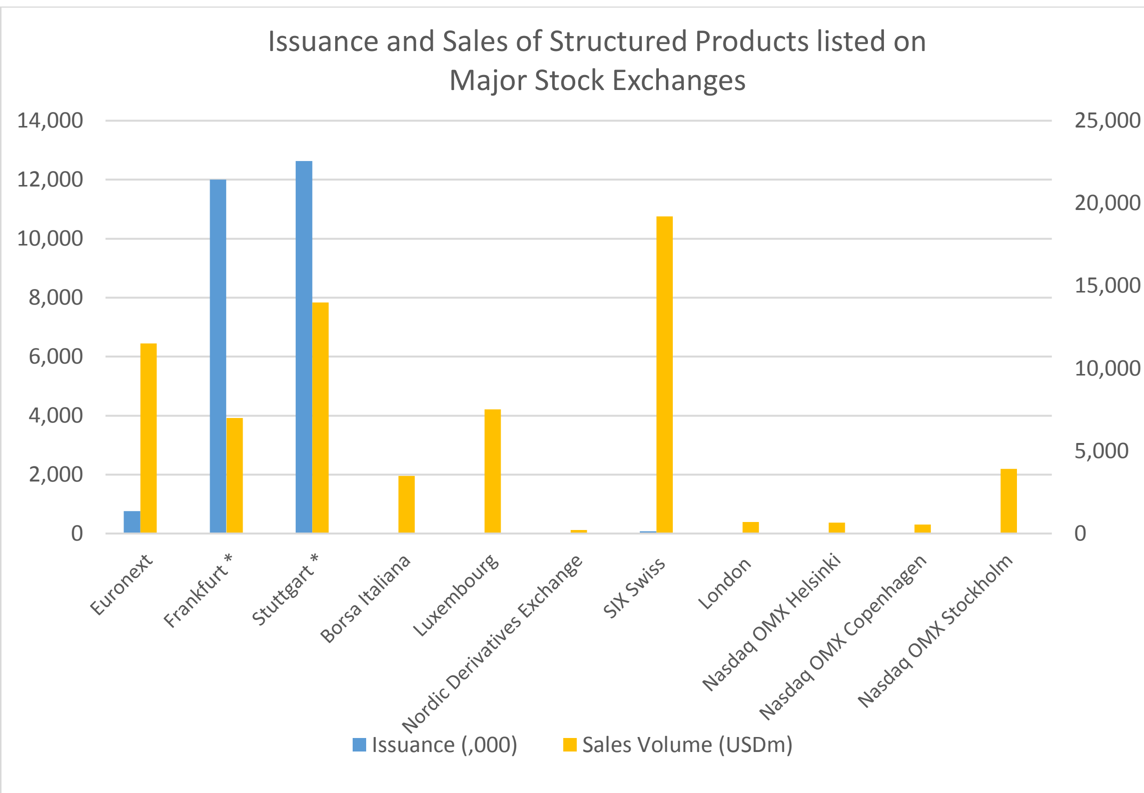
- In the secondary market (unlisted) where issuers act as the sole liquidity provider, the bid-ask spread tend to be much wider ranging from 1% to 3% since the issuer requires a larger fee for breaking up the trade and laying off unwanted hedges at market price.
- In contrast, listed structured derivatives enjoy comparatively lower transaction costs. Displayed bid-offer spreads are much tighter.
- For certificates on standard underlyings like Eurostoxx50, Dax and S&P 500 there is a very narrow bid-ask spread of 0.1% to 0.3% thanks to highly competitive German and Switzerland market. Some index certificates (trackers) are offered with a fixed spread of below 0.1% or even for no spread at all.
- Basket certificates (tracker certificates) on standard values like the Dax and Eurostoxx50 have an average between 1% to 2%.
- Basket certificates on growing underlyings like emerging markets, have a spread between 3% and 5%.
- Basket certificates involving US shares offer tighter spreads (approximately 3%) when the underlying US market is open and a wider one of 5% when the US underlying market is closed.
- In general for listed certificates: the range of 0.5% to 1% is considered acceptable.

Increasingly, investors are able to directly value and trade structured products using online platforms usually run by a single issuer who provides continuous pricing and quotes on products. However, the call for greater pricing transparency and the introduction of new regulation around best execution has encouraged some markets to adopt a more open architecture for secondary trading where offerings from various issuers are consolidated and priced through integrated multi-issuer platforms, such as Vontobel's Deritrade.

The table below shows the respective issuance and sales volume of structured products listed in the major stock exchanges. The figures only account for structured products that are both listed and currently outstanding.

Stock Exchange	Number of Products Listed	Sales Volume (USDm)
SIX Swiss	8,096	19,212
Stuttgart *	1,263,421	13,999
Euronext	76,115	11,516
Luxembourg	490	7,526
Frankfurt *	1,200,249	7,000
Nasdaq OMX Stockholm	1,361	3,925
Borsa Italiana	122	3,502
London	83	713
Nasdaq OMX Helsinki	152	671
Nasdaq OMX Copenhagen	31	559
Nordic Derivatives Exchange	200	218

* Products are dual listed



Source: www.StructuredRetailProducts.com

The majority of listed structured product issuance is captured by the French (part of Euronext) and German exchanges due to their frequent launch of ultra-short recurring turbo and leveraged certificates, which tend to roll over on a flow basis. With respect to notional amounts traded, the activity is more evenly spread out amongst large European exchanges including those in Switzerland, Germany, France and Luxembourg, leading to extremely small order size in countries with large issuance.

Swings in equity markets and a spike in implied volatility in the final quarter of 2014 triggered a surge in trading of structured products on European exchanges, with volumes reaching 18 month highs. Trading in leveraged certificates, which amplify gains or losses in underlying securities, were the most active since May 2013 on the SIX Structured Products Exchange in Zurich. Exchanges in Germany, Italy, Norway, Finland and Sweden also reported jumps in volumes as volatility surged to two year highs.

Market Highlights

- Low interest rates and credit spreads are still part of the pricing environment:
  - Central banks remain committed to keep interest rates low
  - The credit worthiness of issuers has stabilised and credit spreads have fallen
  - The pricing environment has made it very difficult to structure capital protected products. The high cost of the zero coupon bond used to protect capital means there is little margin to develop an attractive structure
- Capital at risk products are increasingly on offer:
  - The pricing environment encourages investors to take risks in order to protect the real value of their capital
  - Low volatilities are attractive to customers when investing in capital at risk structures, but low volatilities mean that options sold within the structures won't generate as much premium that can be used to generate coupon/upside
  - These products might end up returning even poorer performances compared to a standard fixed rate deposit
- There was a further drop in the number of active providers. Since the peak in 2008, the number of active distributors has fallen from 1,045 to 575 in 2013
- The trend towards issuance of listed products continues as part of the focus on reducing cost of issuance through automation as well as satisfying the regulatory drive towards transparency

- There is less innovation in payoffs but innovation is still seen in the underlying through the use of proprietary indices, especially low volatility indices

- A large disparity of underlying and exposures exists amongst the European countries, where the UK and Nordic states are more global in terms of demand, while in countries like France and Germany issuance is still centred around traditional indices like the Eurostoxx50 and the Dax.

- Proprietary indices provide a competitive advantage – they reduce index licensing fees, allow differentiation from the competition (especially when product structures are so transparent) and can even mimic the decisions of an investment manager

- One market that did register a key success was France as banks embraced regulation with simpler products and more transparent brochures e.g. clearly displaying sales commission.

Industry Prospects

SRP conducted a 2015 market outlook survey with 693 financial institutions in Europe associated with structured products to find out their views on the industry prospects of their respective markets over the next 12 months.

Growth

A 10% sales growth for structured products in Europe is expected in 2015, partly due to increased investor risk appetite as a result of the rebound in equities and partly because of more positive background factors:

- Reduction in the uncertainty in the macroeconomic environment (austerity measures, double/triple dip recession, doubts over the viability of the Euro) which was affecting the willingness of clients to invest for the long term
- Less competition (due to bailouts) from fixed rate savings products, which were used by banks to alleviate their funding needs
- Investors have better acceptance and understanding of capital at risk products which are easier to structure due to low interest rates and can offer attractive yields

Respondents predict a recovery in most European markets. Respondent sentiment towards the macroeconomic environment was fairly positive this year and much improved from last year.

Concern was expressed about the effect on markets and volatility from the tapering of quantitative easing, but in the meantime low interest rates would create demand for risky assets.

Pricing

The pricing environment has been mixed.

- Volatility has fallen, making it easier to structure attractive capital protected products. On the other hand, funding spreads have fallen due to a reduction in credit spreads
- For capital at risk products the fall in volatility means that more downside risk must be taken on by investors to get an attractive structure
- A neutral view was generally expressed by respondents, with the view that the pricing environment has stabilised with no major changes in interest rates or volatilities in 2014

Innovation to tackle the negative pricing environment has included using underlyings with volatility controlled proprietary indices, as well as hybrid structures. The challenge is to educate investors and ensure that rules regarding transparency are followed.

Asset Classes

- A 12% increase in equity linked sales is forecast. The lowest growth anticipated is 3% in hybrid sales.

  The increase in consumer confidence is expected to increase the demand for equity investment, but equity levels are high and the prospect of QE tapering means that capital protection is important to investors; hence the perceived demand for equity linked structured products.

  Within the interest rate asset class, steepeners were mentioned by many respondents as a trading view with investment potential, but the attraction of these would fade once interest rates begin to rise.

- Rollovers from maturing products and consumer demands are expected to exert a positive influence on the market – sentiment has improved.

  The rebound in equity markets gives positive prospects to the rollover potential for structured products. Investors are regaining their risk appetite.

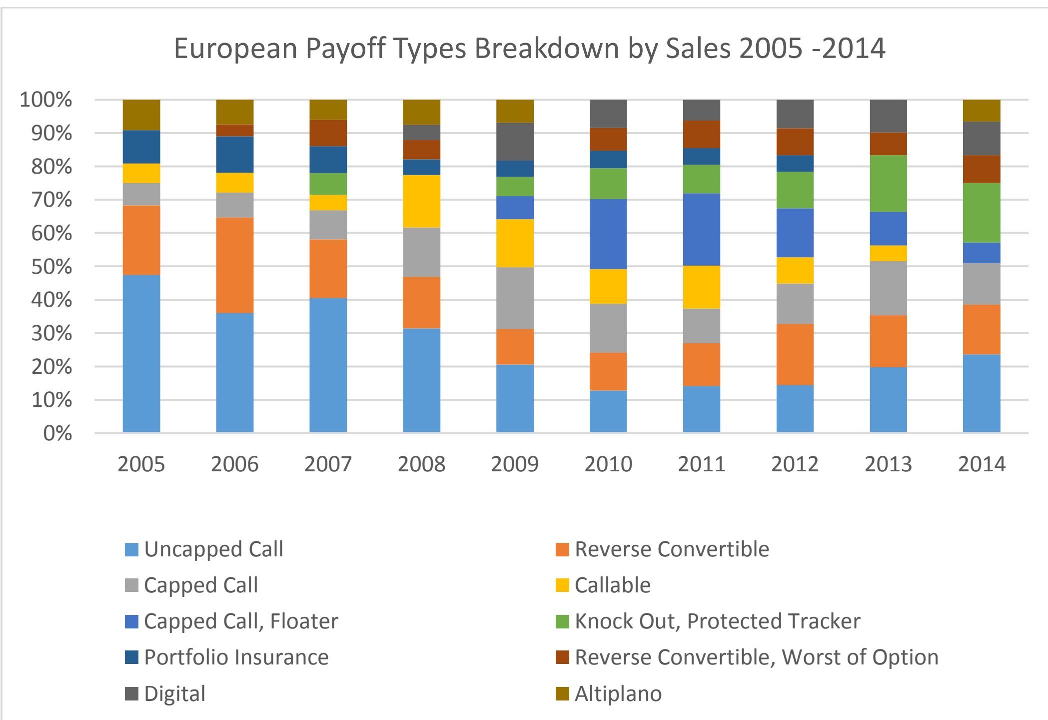
Looking Forward

- The rebound in equity markets and the resurfacing of investor risk appetite is anticipated to fuel demand for direct equity investment, at the expense of structured products.
- Competition from fixed rate savings e.g. government bonds, vanilla banking paper was seen more positively as low interest rates would stimulate demand from yield hungry investors
- Worst of, callable, and reverse convertible structures are expected to be the most popular payoff types.

Types of Products

Note: a definition and diagram of each payoff type can be found in the Glossary section at the end of this report.

Structured products can be classified by payoff types, which refer to the particular strategy or return profile they expect to generate at maturity, according to the then level of the underlying assets. The composition of payoff type in Europe is constantly evolving in response to changes of the pricing environment (i.e., interest rate, market volatility, asset correlation etc.). Below is a snapshot of structured product payoff breakdown by sales volume over the past 10 years.



Source: www.StructuredRetailProducts.com

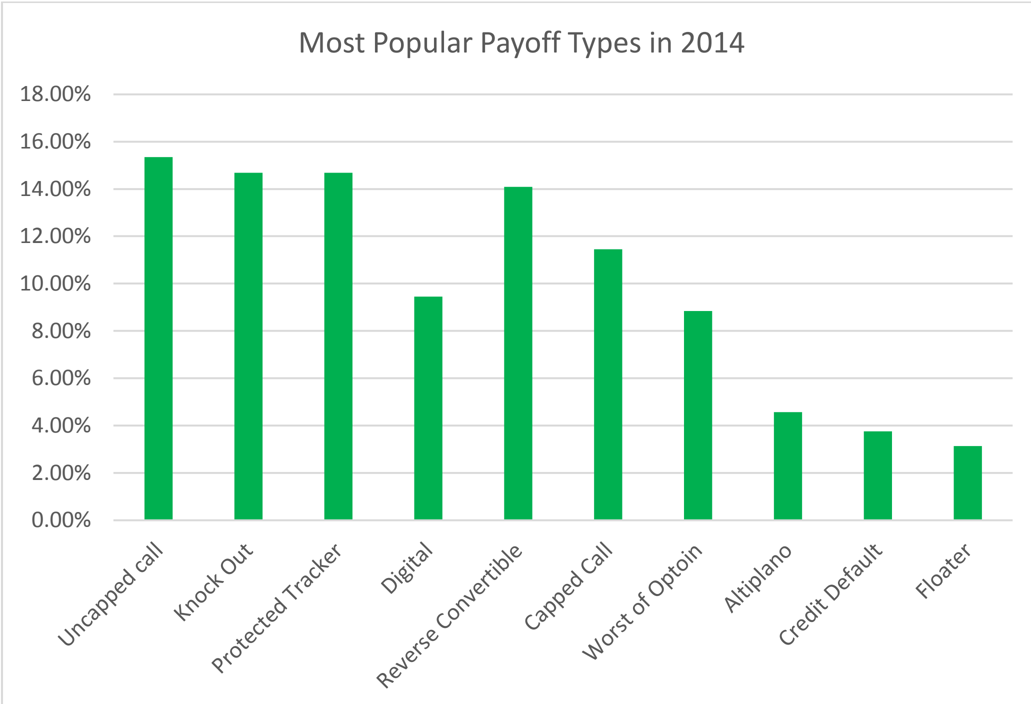
The uncapped call, featuring unlimited participation in the underlying, has gained traction since 2012, with around 23% of total sales, capitalizing on cheaper option pricing as a result of lower volatility in the generally bullish market. Similar strength can be observed for the combined structure of knock out and protected tracker, which maintained over 15% of total sales since 2013 on the back of low interest and the resulting high cost of protection prompting demand for more cost-efficient products with conditional or “soft” protection.

In contrast, reverse convertibles and other similar short-put structures suffered a fall in demand as the pricing environment in general has put a cap on the sales of options, making the coupons of income based products less attractive to investors. Overall, complexity of product design and risk profile has been kept in check following cases of product failure and investor complaints at the onset of the financial crisis. The number of products featuring multiple payoff types have diminished dramatically over the past 5 to 6 years.

The “back to basics” mentality that has emerged since the failure of complex credit products during the Lehman Brothers collapse has urged investors to shy away from “black box” structures and refocus on cost-efficiency and functionality. More self-directed investors began looking for direct investment solutions and simple derivatives – whose return is more connected to underlying performance.

While structured products can be inherently complicated, in contrast, listed equity options offer vanilla call or put strategies, which can be combined with other options or assets to achieve a wide range of positioning and investment outcomes, while preserving a degree of simplicity and transparency. Notional size and limited retail investor skills may be a challenge.

Most Popular Payoff Types in 2014



Source: www.StructuredRetailProducts.com

Europe: Most popular payoffs anticipated for 2015

Country	**Payoff**	**2015 Votes** (sample size of 693 responses)
Austria	Knock out	19%
Belgium	Uncapped call	28%
Czech Republic	Digital	26%
Denmark	Knock out, protected tracker	28%
Finland	Worst of option	35%
France	Callable, reverse convertible, worst of option	20%
Germany	Knock out, reverse convertible	19%
Hungary	Callable	29%
Italy	Capped call	20%
Norway	Knock out, uncapped call	22%
Poland	Accrual	20%
Portugal	Worst of option	19%
Spain	Callable, digital, worst of option	14%
Sweden	Callable	23%

Switzerland	Reverse convertible	32%
The Netherlands	Callable	32%
UK	Worst of option	21%
EUROPE	Reverse convertible	15%

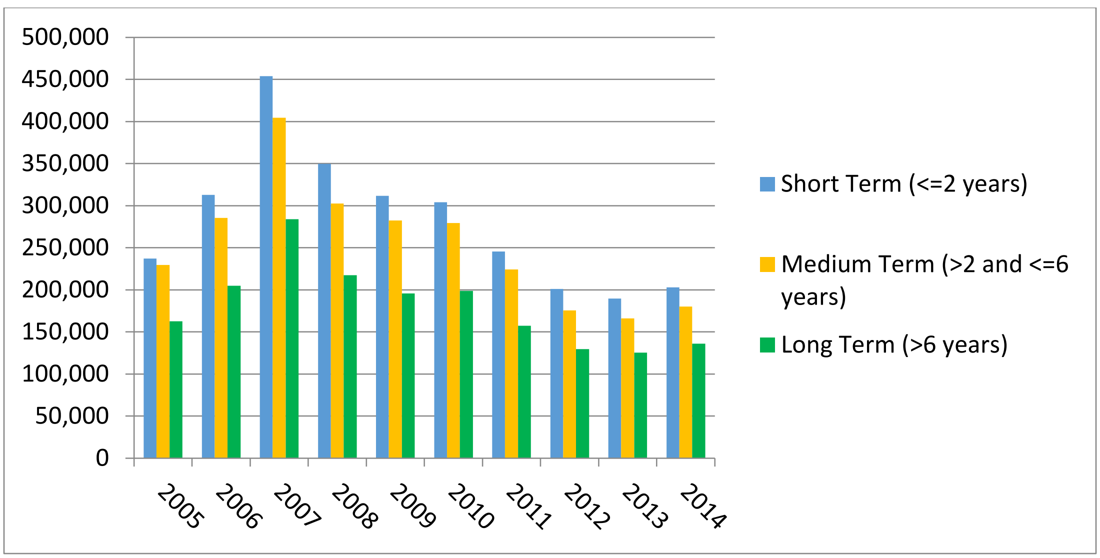
Source: www.StructuredRetailProducts.com

Investment Tenor and Performance

Structured Product Tenor

According to SRP statistics, short term products with maturity of less than two years have maintained a similar proportion of total sales throughout the past 10 years, ranging from 38% to 41%. While aggregate sales volume of all categories have fallen significantly since 2007, short term issuance still constitutes the largest portion.

Total Sales Volume by Average Tenor: 2005 - 2014



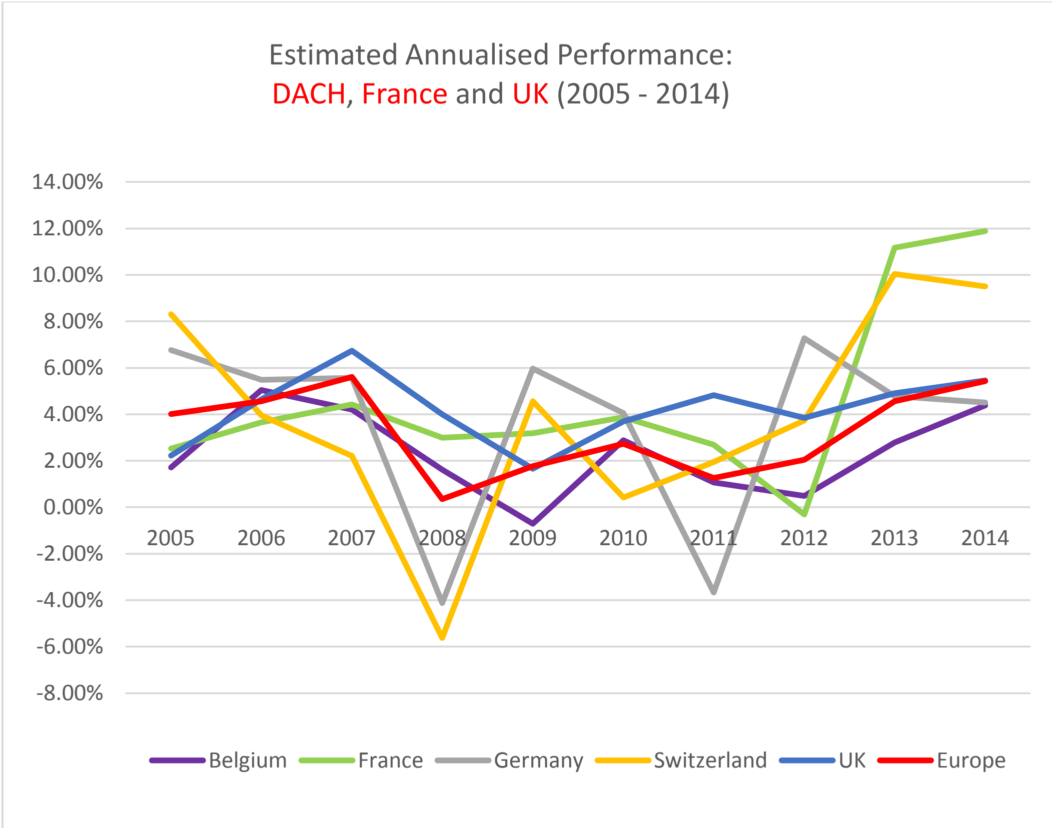
Source: www.StructuredRetailProducts.com

Product Performance

	Estimated Annual Performance (%)									
Country	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Belgium	1.71%	5.05%	4.20%	1.62%	-0.71%	2.88%	1.07%	0.49%	2.79%	4.38%
France	2.52%	3.65%	4.42%	2.99%	3.19%	3.88%	2.69%	-0.31%	11.17%	11.89%
Germany	6.76%	5.49%	5.57%	-4.12%	5.96%	4.05%	-3.67%	7.27%	4.78%	4.50%
Italy	2.50%	3.02%	4.29%	-1.95%	0.95%	1.23%	3.00%	2.71%	-0.92%	4.98%
Portugal	1.83%	0.93%	6.46%	3.51%	1.81%	0.93%	1.30%	2.23%	3.15%	3.42%
Spain	2.94%	4.65%	5.64%	3.16%	4.04%	2.37%	0.78%	0.38%	2.44%	0.48%
Sweden	6.73%	7.71%	8.62%	3.88%	0.92%	2.06%	2.35%	2.88%	4.55%	4.11%
Switzerland	8.3%	3.96%	2.21%	-5.62%	4.56%	0.42%	1.94%	3.73%	10.04%	9.50%
The Netherlands	4.63%	6.55%	7.89%	-3.97%	-4.70%	5.73%	-1.68%	-2.81%	2.76%	5.59%
UK	2.22%	4.64%	6.74%	4.00%	1.66%	3.70%	4.82%	3.84%	4.91%	5.46%
Europe	**3.14%**	**4.53%**	**6.03%**	**1.66%**	**0.90%**	**2.85%**	**1.79%**	**1.18%**	**4.57%**	**5.43%**

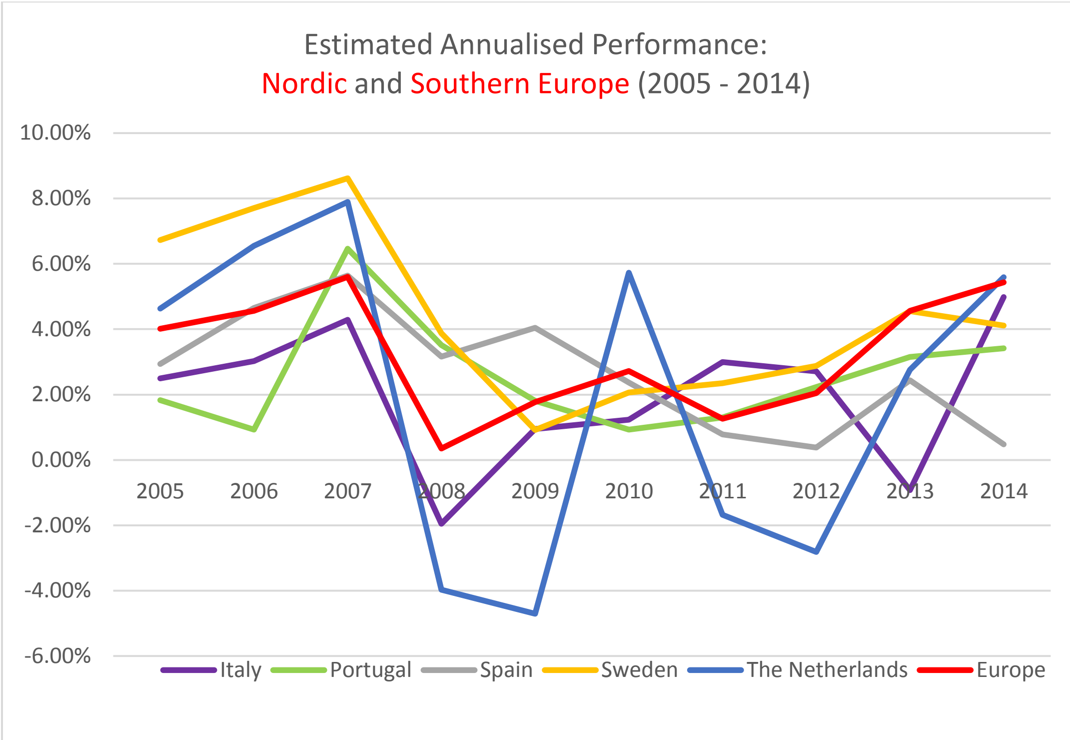
Source: www.StructuredRetailProducts.com

Note that the above figures are estimated based on only the structured products covered in www.StructuredRetailProducts.com which have performance data available.



Source: www.StructuredRetailProducts.com

Note that DACH includes Belgium, Germany, and Switzerland.



Source: www.StructuredRetailProducts.com

The performance of a structured product consists of two elements: headline coupon or any distribution of payouts over the product term, and the final payout at maturity. It is determined by the final performance of the underlying adjusted by the "payoff formula" or at times by the intra-period movement of the underlying for certain path-dependent structures.

The above statistics cover all retail structured products (excluding short-dated flow and leverage products) captured in the SRP database for which performance info is available. For ease of calculation we assume investors hold onto the products until maturity and hence do not concern with the profit or loss made through buying and selling them.

Due to the relative dominance of equity linked products, the annualised performance figures in each country demonstrates a strongly positive correlation to its respective underlying stock market. Structured products tend to underperform during bull markets but outperform at times of financial turmoil, as certain product features like principal guarantee, autocallable, shark fin, capped call act as a buffer to smooth out performance.

While high-grossing countries like Germany, Switzerland and the Netherlands exhibited a wider range of performance fluctuation due to the abundance of short-term equity linked leverage products, as opposed to less active markets where there are higher proportion of less aggressive, yield-enhancement structures delivering more stable return.

Regulation

Priips/Kids

In November 2014, the European Council (EC) adopted the regulation on Key Investor Documents (Kids) for Priips, which will come into force in 2017. This is intended to achieve consistent and efficient standards for investor protection, and ensure a level playing field for distributors and providers of retail investment products including investment funds, structured deposits, and life insurance policies with an investment element.

Priips recommends the use of a key investor information disclosure document (Kid), in which all competing financial products have to disclose the same information on risk, performance and charges.

UCITS

On July 23 2014 the EU adopted Directive 2014/91/EU relating to Ucits. Investment funds under Ucits meet the definition of a Priip, but there is an existing requirement in the Ucits directive for key investor information documents (Ucits Kiids) and these are largely identical to Kids. The regulation allows Ucits providers a transitional period of five years, during which they will be exempt from its terms and enforcement. It also provides for a review, on the fourth anniversary, to extend the transitional period or replace the Ucits Kiid with the Kiid.

Ucits V is aimed at 'preserving' the integrity of the Ucits brand and replaces Ucits IV (originally introduced in July 2011). It has been adapted to accommodate other regulatory changes such as Mifid II and Priips, including a complex and non-complex fund distinction to clarify issues around hedge fund underlyings and risk diversification.

Mifid II

In May 2014, ESMA launched a consultation on the revised Mifid II and Markets in Financial Instruments Regulation (Mifir). The central aim of Mifid II is to establish more robust and efficient market structures, taking into account technological innovations, increased transparency in over-the-counter (OTC) derivatives, reinforced supervisory powers, a stricter framework for commodity derivatives markets, as well as stronger investor protection.

In addition, the Mifid II/Mifir rules introduce a new category of trading venue called an Organised Trading Facility (OTF), tighter customer and product classification, and new guidelines on the use of derivatives which will be required to have sufficient liquidity and be traded on eligible platforms or multi-lateral trading facilities (MTFs).

Mifid II/Mifir creates a new protection framework for retail investors, limits on the use of commissions, conditions for the provision of independent investment advice, stricter organisational requirements for product design and distribution, product intervention powers, and the disclosure of costs and charges.

IMD II

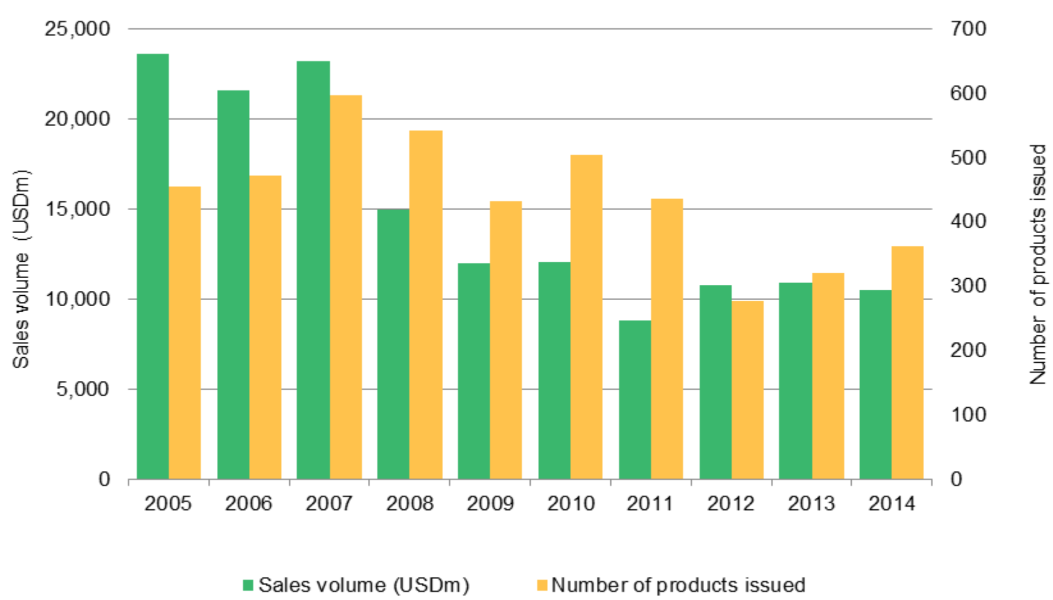
On January 14 2014, the European Parliament, Council and Commission agreed to amend the Insurance Mediation Directive (IMD) through Mifid II. The amendment of IMD is an interim solution, as it will be replaced by IMD II which is being debated by the EU institutions. IMD II is expected to be out at the same time as Priips, and will have equivalent selling requirements for insurance Prips so that there is consistency across all wrappers.

The IMD II contains a range of changes to the way insurance products, including investment-based insurance products, are sold.

Summary by Country

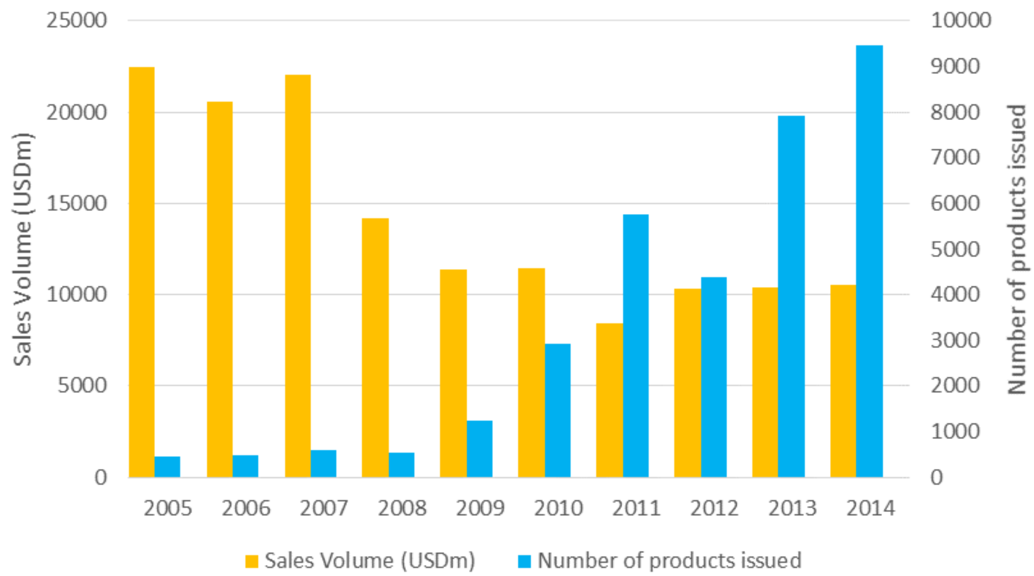
Belgium

Sales and issuance 2005-2014 (core products)



Source: www.StructuredRetailProducts.com

Sales and Issuance 2005-2014 (Including flow and leverage products)



Source: www.StructuredRetailProducts.com

Profile

- The Belgian market was shaped by the Belgian Financial Services & Markets Authorities (FSMA) moratorium on the distribution of complex structured products (2011)
- Six Belgian providers teamed up in 2013 to establish the Belgian Structured Investment Products Association (Belsipa). The six founding members are Belfius, BNP Paribas Fortis, KBC, ING Belgium, Commerzbank and Societe Generale
- KBC remained the top provider in 2014 (since 2005) with a 50% market share (down from 61% share in 2013), followed by Belfius (14%) and BNP Paribas (12%).
- Uncapped call payoffs are the most popular: 26% of products having this payoff in 2014 (2013: 27%) and their market share by sales volume increased to 24% (2013: 22%).
- Notes are the most popular wrapper, with 60% of products issued using this wrapper while issuance of funds (17%) and life insurance products (23%) remains stable. In terms of market shares, notes increased to 43% (2013: 28%) of the total sales volumes, funds fell to 29% (2013: 33%) and life insurance products fell to 29% (2013: 38%).
- Assets under management (AUM) of capital-protected funds in Belgium increased by €1.11bn (10.3%) during 2014, recording the first increase in assets for five years, according to the latest figures released by the Belgian Asset Managers Association (Beama).

- Products with less than 100% capital protection increased market share to 40% (2014) from 21% (2013) and from 4% (2012) as the pricing environment is making it difficult to offer attractive capital protected products.
- Twenty percent of all structured products were linked to the US currency in 2014, compared to just 8% in 2013. The high interest in the US dollar compared with the euro means more money can be used to buy the option to participate on the upside of the underlying.
- A total of €9.1bn matured in 2014 from 373 products.

Prospects

- The trend of US dollar denominated products continues in 2015
- A total of $13.7bn is due to mature in 2015, from 407 products

Key Regulatory Developments

- The moratorium on the distribution of particularly complex products in Belgium (2011) has led to a simplification of the market for structured products according to the FSMA
- Measured by sales volume, 38% of the products marketed under the moratorium use three mechanisms to calculate the return; 37% use two mechanisms; and 24% have only one mechanism. Before the moratorium some products used seven payoff structures or more
- The Belgian regulator Financial Services and Markets Authority (FSMA) announced new information requirements on the distribution of financial products, including a risk label to provide better protection for retail investors. The risk label will be implemented in June 2015

Tax Treatment

Structured products

- Coupon payments from bonds are taxed at 25%. Products paying coupons are therefore typically structured as notes
- Withholding tax is not paid on unit linked life products (Branch 23) with a maturity of more than eight years
- Capital gains on funds are not taxed

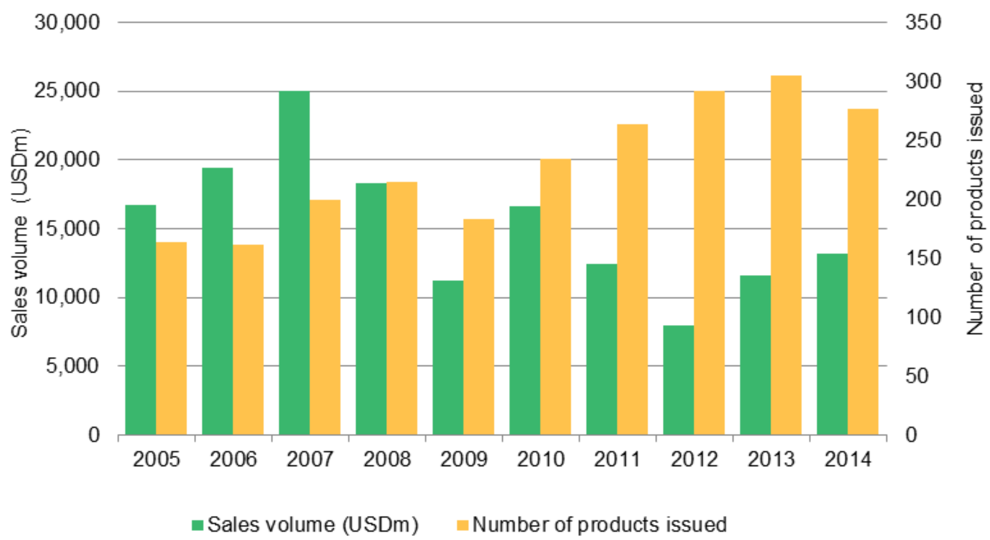
Listed options

- For listed equity options, the taxable asset is the fair value of the option.

- For unlisted options the taxable asset is determined as a lump (18% since January 2012; 15% prior to that) of the value of the underlying shares at the time of the offering, plus the positive difference between the value of the share and the exercise price of the option.
- For options on more than five years this rate is increased by 1% for each year exceeding the initial five years.

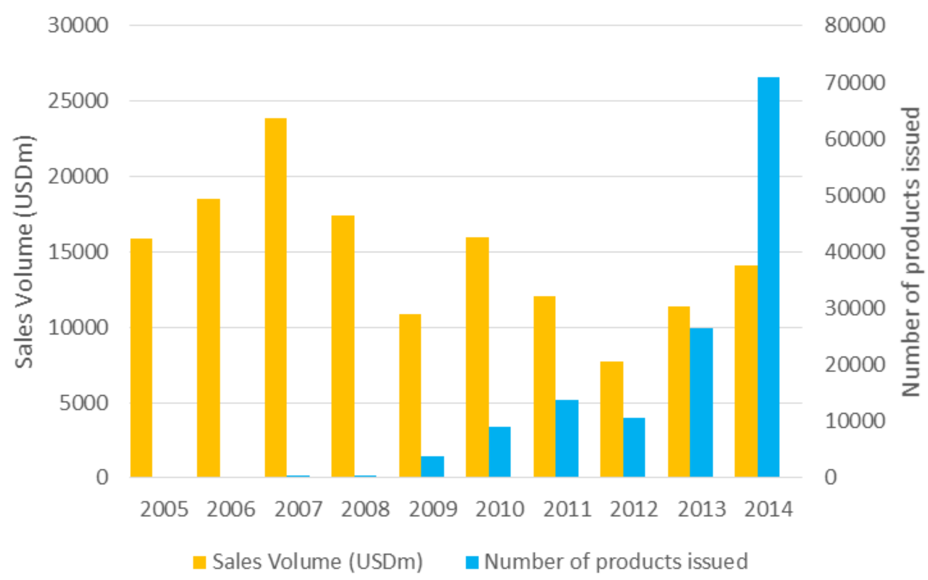
FRANCE

Sales and issuance 2005-2014 (core products)



Source: www.StructuredRetailProducts.com

Sales and issuance 2005-2014 (including flow and leverage products)



Source: www.StructuredRetailProducts.com

Profile

- Since 1996, the French structured products market has been shaped by the regulator, Autorité des Marchés Financiers (AMF)
- Société Générale and Crédit Agricole are still the leading providers, with a share of 27% and 23%, respectively, of the French market in 2014.
- The Association française des produits dérivés en bourse (AFPDB) was set up in 2008 to promote and to further the development of the derivatives industry in the French retail market, taking a clear focus on listed products.
- Citibank is one of the leading issuers of leveraged products in the French market after 2008. Morgan Stanley's issuance of core products has diminished after its peak in 2012 but the bank is still among the important participants in the market. JP Morgan is no longer active as an issuer after 2008.
- Due to the low interest rate environment, banks have tried to issue products with longer maturities in order to provide structured products with higher yields. Non capital guaranteed products increased both in terms of sales and issuance (almost 80% of the tranche products).
- Knock out, protected tracker (autocall) payoffs are even more popular than last year: 64% of products having this payoff in 2014 (2013: 55%) and their market share by sales volume increased to 47% (2013: 43%).
- Notes are still the most popular wrapper, with 78% of products issued using this wrapper while issuance using the FCP wrapper remains stable (17%). In terms of market

shares, notes are stable at 52% of the total sales volumes, FCP fell from 26% to 20%. Exposed to bank credit risk, notes are able to offer market leading coupon rates.

- Increased volatility in stock market would create demand from investors for capital protected structures which are difficult to structure in the current low interest rate pricing environment.

Prospects

- The macroeconomic environment will positively influence the market and the European stocks will rise.
- Regulation will still be the main challenge to the market in 2015 - EMIR regulation is about to be applied across Europe for OTC products.
- Greater transparency will drive a trend from sales within the retail channel to private banking.
- Reverse convertible and callable/worst of option (autocall) structures are expected to be the top payoff types. Reverse convertibles are popular when the underlying is expected to grow, which is the case for the Eurostoxx50
- A total of $15.8bn is due to mature in 2015, from 185 products

Key Regulatory Developments

- Regulatory concerns have decreased but EMIR regulation is about to be applied across Europe for OTC products, therefore regulation will still be the main challenge to the market in 2015. However greater transparency (especially on commissions) will drive a trend from sales within the retail channel to private banking.

Tax Treatment

Structured Products

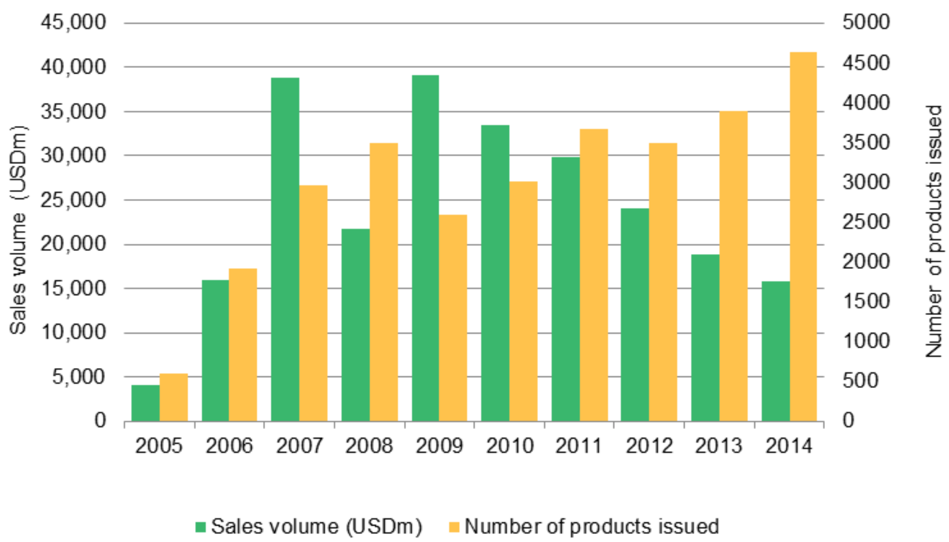
- PEA (Equity savings plan - Plan d'épargne d'actions): payments are limited to 150 000€
- Life contracts: €4,600 (€9,200 for a married couple) are exempt from tax if held for 8 years
- FCP (A Fonds Commun de Placement or “unincorporated investment fund” is an investment vehicle whose management is entrusted to a regulated body or “société de gestion”): €12,000 (€24,000 for a married couple) are exempt from tax if held for 5 years
- Cost: 7.5% to 35% depending on product tenor

Listed Options

- No taxes if profit is less than 15%
- Cost: progressive rate of income tax

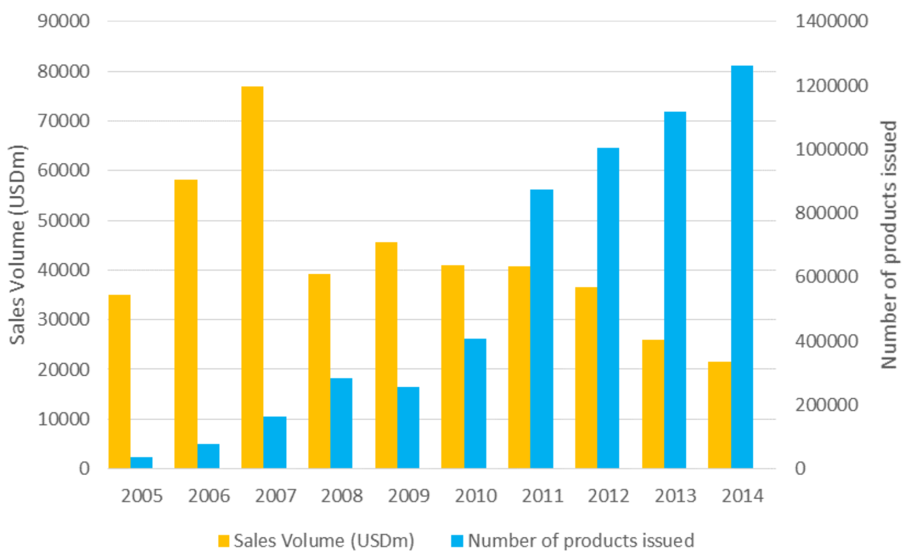
GERMANY

Sales and issuance 2005-2014 (core products)



Source: www.StructuredRetailProducts.com

Sales and issuance 2005-2014 (including flow and leverage products)



Source: www.StructuredRetailProducts.com

Profile

- Structured products were introduced in 1991 with certificates and notes as the dominant wrapper.
- In 1999 the Stuttgart stock exchange launched the Euwax, for structured products trading and that boosted growth.
- Deutscher Derivate Verband (DDV), the German Derivatives Association, is the industry representation for the 17 leading issuers of derivatives in Germany. It was established in 2008 and represents about 90% of the total certificates market
- The outstanding volume as reported by the DDV increased from $57bn in 2004, peaking at $166.8bn in 2007, to $111.6bn in 2013 and to $101.8bn in September 2014.
- The DDV compiled a Fairness Code (2013) which relates to cost and product transparency for investment certificates
- The code includes the requirements (from May 2014) for an issuer estimated value (IEV) and the probabilities for the minimum and maximum interest yield for investment products with full capital protection.
- The German investor is typically risk averse and invests mainly in fully capital protected products: over 60% of the outstanding volume is within this product category. However retail investors of structured products are seen as self-directed and making own investment decisions.
- The most popular capital protected payoffs are floaters, callable, capped calls and uncapped calls while within the capital at risk category reverse convertibles with or without a knock out feature and credit defaults are preferred.

- Fully capital protected products continued loosing investor's favour during 2014 as they could not return satisfying yields considering the inflation rate and market conditions. Also it was difficult to offer interesting capital protected structures due to the pricing environment.

Prospects

- A total of $20.8bn is due to mature in 2015, from 2,802 products

Key Regulatory Developments

- The regulatory/supervisory body in Germany is BaFin, the Federal Financial Supervisory Authority
- Focus is on harmonising regulation in the financial markets (Mifid II, Product information sheet) and enhancing investor's protection through product transparency
- The short document Produktinformationsblatt (PIB) is the equivalent of the Key Information Document and has been in place since 2011

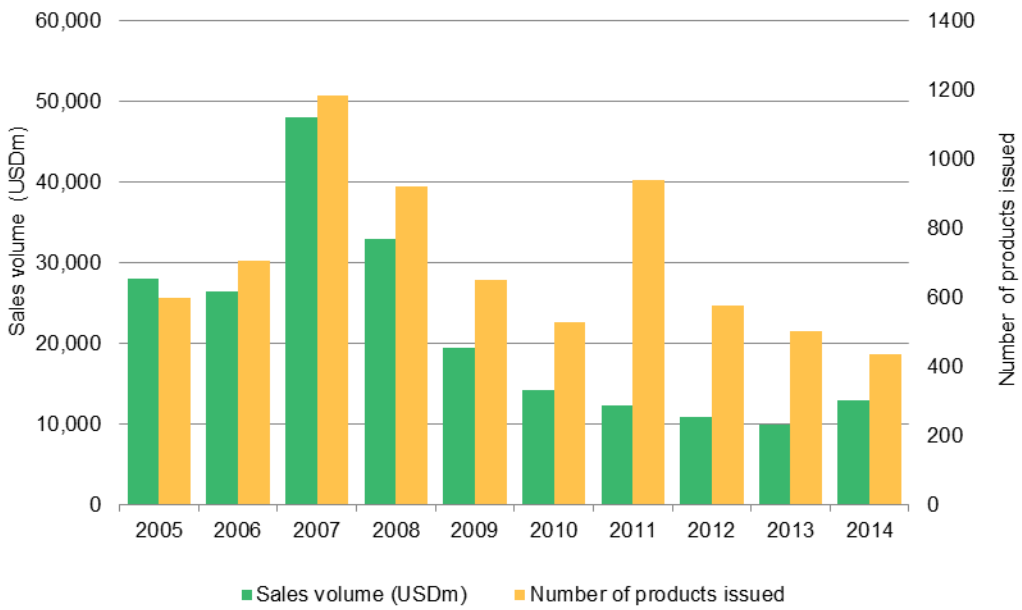
Tax Treatment

Structured products

- Since Jan 2009 a 25% capital gains tax (withholding tax) is on interest income and realised capital gains
- Listed options
- Tax not applicable to retail investors

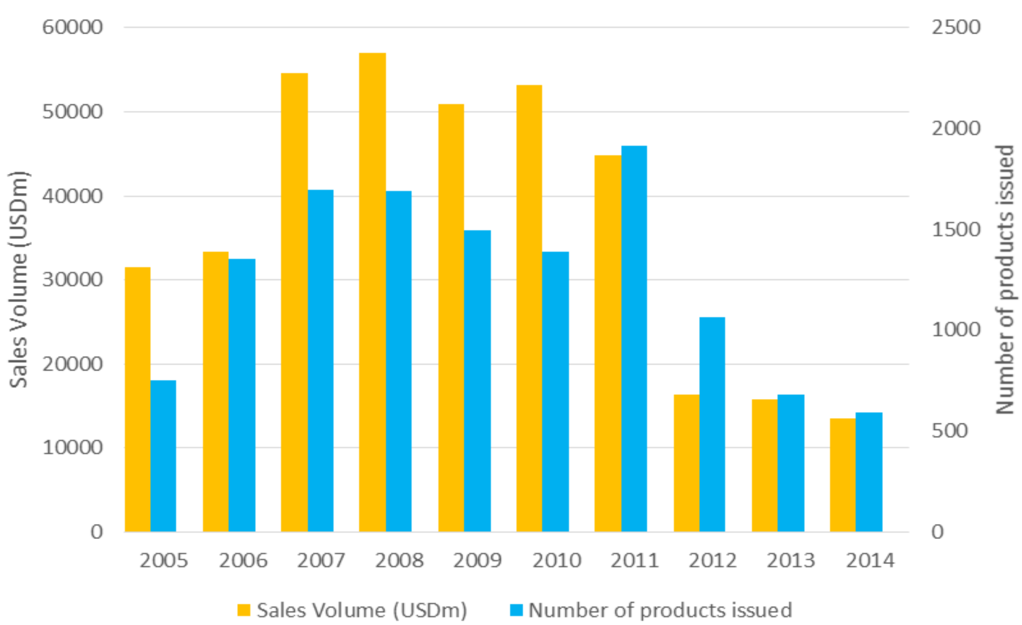
Italy

Sales and issuance 2005-2014 (core products)



Source: www.StructuredRetailProducts.com

Sales and issuance 2005-2014 (including flow and leverage)



Source: www.StructuredRetailProducts.com

Profile

- The Italian market is rather concentrated, with 18 providers distributing structured products throughout 2014, down from the peak of 219 in 2007.
- After six years of steady decline in sales volumes, the Italian structured product market grew from $9.9bn in 2013 to $12.8bn in 2014, a growth of 26%. These figures remain far from the market's peak of $56.7bn in 2007 but there are positive signs that the growth trend will continue into 2015.
- Investors are increasingly turning to capital-at-risk products as the current pricing and interest rate environment makes it difficult to offer attractive returns on fully capital-protected products. Of the 429 tranche products issued in 2014, only 66 structures offered full capital protection.
- Intesa Sanpaolo remained the top provider in 2014 with 34% market share (down from 44% share in 2013), followed by Banco Popolare (20%, 2013: 9%) and BNP Paribas (19%, 2013: 22%).
- The Eurostoxx50 is the most popular underlying, followed by the FTSE MIB, building on renewed confidence in economic recovery of the Eurozone.
- Rise in sales attributable to market consolidation and finer tuning of banks' internal distribution networks following on from the max exodus of over 200 small retail distributors over the last five years.
- American players such as Goldman Sachs and Bank of America used to gather large volumes before the financial crisis, but have drastically reduced their activity since 2009 and have not yet returned to the market in full force.
- Huge increase in investment certificates, in particular standardised bonus cap and turbo certificates issued on large scale, known as flow products. These tend to gather much lower sales volumes than core tranche structured products.
- The move toward certificates is led by their lower structuring costs and their greater liquidity. Moreover, the lower barrier of entry on such products is particularly beneficial to foreign issuers.
- Savings accounts and delta one structures are a popular alternative to structured products. Others include Italian Government bonds, funds, corporate bonds, high yield bonds, subordinated debt, deposits and gold ingots
- The Associazione italiana certificati e prodotti di investimento is the specified trade body for the issuers of structured products in Italy, established in 2009.

Prospects

- Demand for capital-at-risk products has increased steadily over the past five years, and this is expected to continue in 2015.

- The trend towards knock-out, capped call, digital and worst of option payoff types should continue into 2015
- A total of $16.6bn is due to mature in 2015, from 589 products

Key Regulatory Developments

- The Italian market is regulated by Commissione Nazionale per le Societa e la Borsa (Italian Securities and Exchange Commission – CONSOB)
- CONSOB proposed a voluntary moratorium on the manufacturing and distribution of "complex" structured products (2014) and announced a public consultation in a surprising move
- Issuers and trade bodies, including the European Structured Product Association (Eusipa), led by Associazione Italiana Certificati e Prodotti di Investimento (Italian Certificates and Investments Association – Acepi), unanimously rejected the proposals, citing "no evidence, precedent or otherwise significant example of serious failure in the market" to justify regulation exceeding established EU directives. CONSOB is considering the response
- The Key Information Document (KID) is now in place for fund providers in Italy
- Italian bonds must provide detailed information on the products including the price of the structure split in its different components (zero coupon bond price, derivatives cost, sales commission and implied margin)

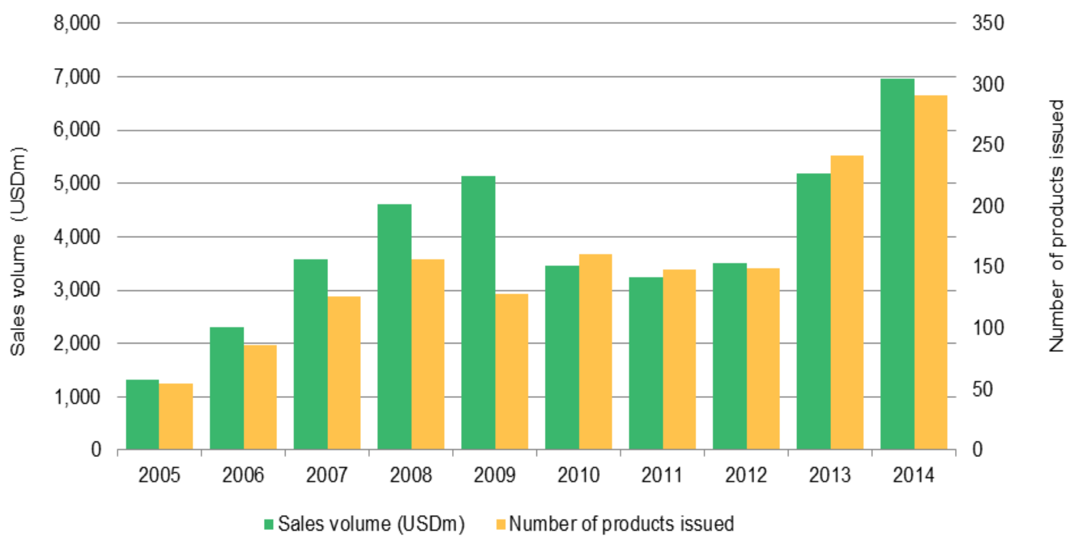
Tax Treatment

Structured products

- Tax rate of 12.5% applies to all products, regardless of wrapper, on any return as long as they are at least 18 months in term. Products are taxed at 20% if their term is shorter than 18 months. However, certificates have an across-the-board tax of 12.5% regardless of the term

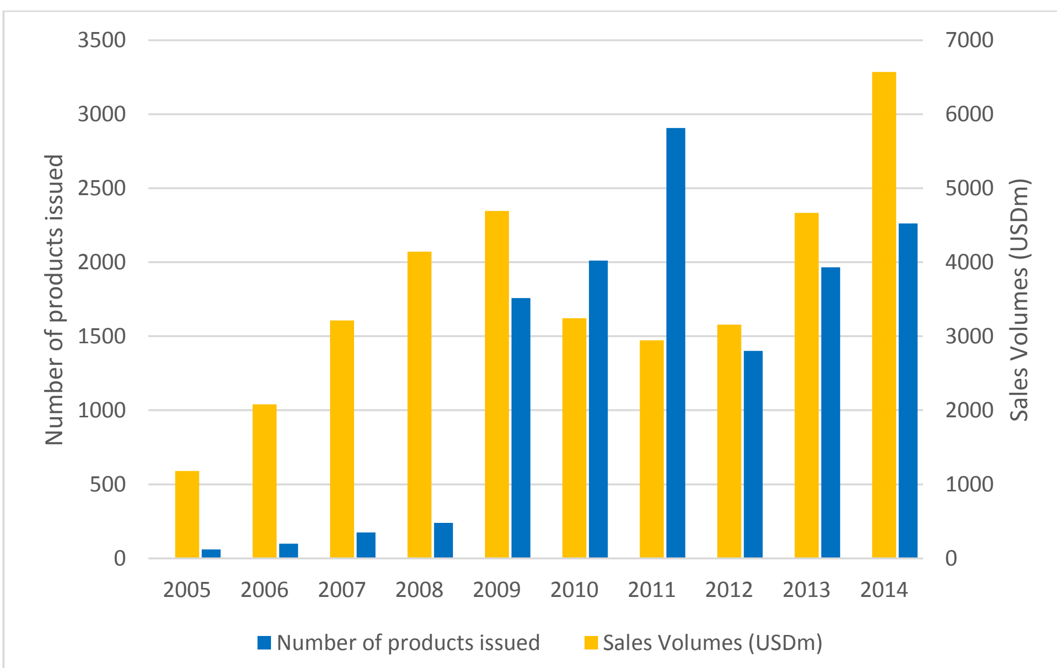
PORTUGAL

Sales and issuance (core products)



Source: www.StructuredRetailProducts.com

Sales and issuance 2005-2014 (including flow and leverage)



Source: www.StructuredRetailProducts.com

Profile

- Deposits were the most popular wrapper in 2014, both in terms of issuance and volumes sold
- Millennium BCP was the most active provider issuing 61 products with sales of $2bn in 2014 which translated in a market share of 32% (2013: 16%), ahead of Caixa Geral de Deposits (25%, 2013:13%) and Deutsche Bank (18%, 2013: 25%).

Prospects

- The Portuguese market will continue to grow mainly because structured products are the only alternative for those investors trying to get higher returns than the ones offered by fixed income products, mainly deposits.
- A total of $4.2bn is due to mature in 2015, from 236 products

Key Regulatory Developments

- Guidelines from the regulator Comissao do Mercado de Valores Mobiliários (CMVM) regarding the information to be provided in the marketing of complex financial notes (CFPs), their advertising and the marketing of unit-linked insurance plans (2013)
- The marketing material of CFPs must include the key investor information document (KIID)
- To help classify the product's risk, the CMVM has created a set of identifying colour coded symbols ranging from green. The regulation also govern all pre-contractual and post-contractual information
- CMVM has signed a protocol agreement with 19 banks on the marketing of complex financial products targeted at retail investors. The banks must ensure that its sales force understand the products; provide clients with complete and accurate information; ensure that any transaction is preceded by appropriate warnings; conduct product suitability tests on behalf of investors (2014)

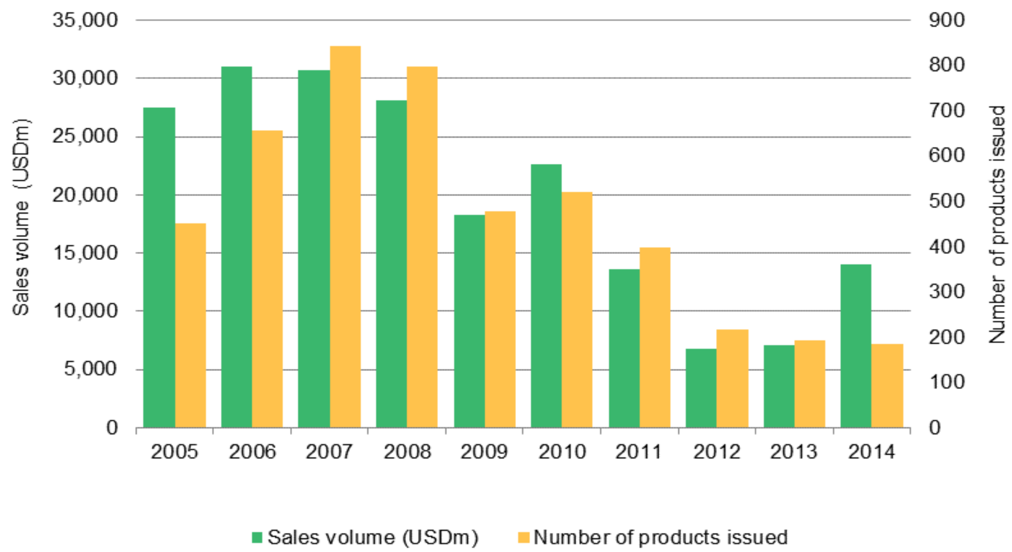
Tax Treatment

Structured products

- A flat rate of 28% tax is applied to all types of structured products, except insurance products
- Insurance products have a tiered tax regime, where they are subject to 21.5% tax for the first five years, from the fifth year until the eighth 17.2% and for the eighth year onwards 8.6%.

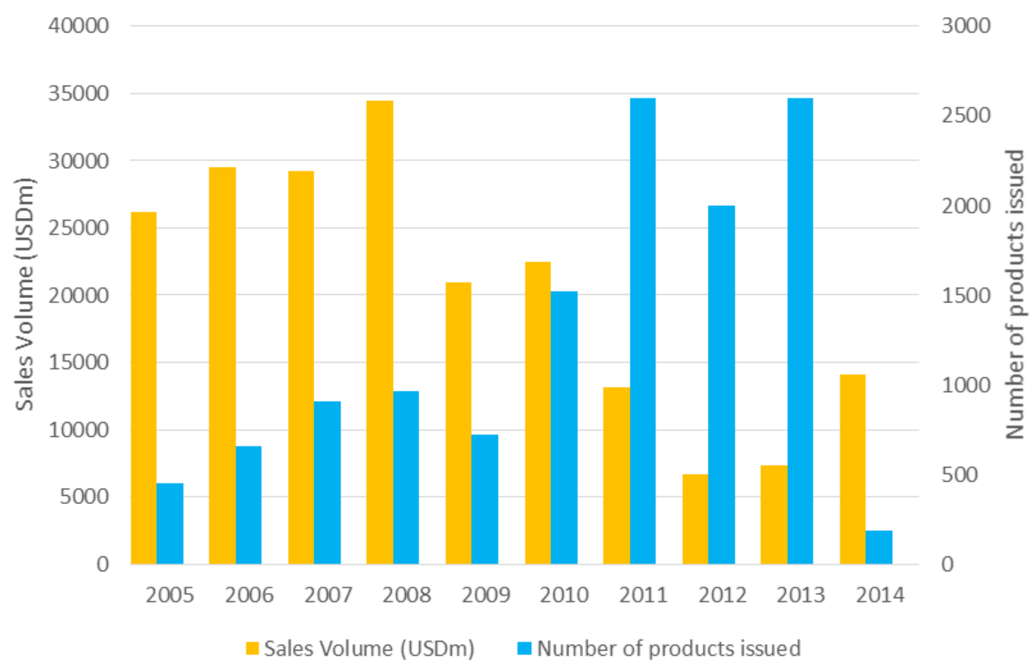
SPAIN

Sales and issuance 2005-2014 (core products)



Source: www.StructuredRetailProducts.com

Sales and issuance 2005-2014 (including leverage and flow)



Source: www.StructuredRetailProducts.com

Profile

- The Spanish structured products market was severely affected by the financial crisis. Sales volumes have declined from a peak of more than $30bn in 2006 to current levels of $12bn.
- The market is relatively concentrated, with 25 providers issuing products in 2014, down from the peak 92 in 2008 after the market has undergone a process of restructuring with several major mergers and acquisitions.
- The Spanish investor is rather risk averse: complicated payoffs are disappearing from the market and the simple uncapped call is now the most frequently invested structure.
- Since 2012, single indices (in particular the Eurostoxx50 and Ibex35) have replaced share baskets as the most popular asset class. At the end of 2014, $38bn was invested in 941 products.
- The market is dominated by simple structures like uncapped call, which increased its market shares in 2014 to 39% (2013: 23%).

Prospects

- The trend toward simple structures such as uncapped and capped calls will continue in 2015
- Consumer demand will help the market in 2015 as investor risk appetite resurfaces. Interest rates offered on fixed income deposits are low and investors are looking for alternatives that can deliver high returns.
- A total of $15.7bn is due to mature in 2015, from 369 product

Key Regulatory Developments

- The Bank of Spain recommended that financial institutions do not offer rates of more than 1.75% for one year deposits, 2.25% for two year deposits and 2.75% for longer maturities in a move to end the intense and potentially destabilising competition over deposit rates (2013)
- This became mandatory when the government signed the Memorandum of Understanding to access the EU bailout. Foreign deposit providers such as ING (The Netherlands) and Espirito Santo (Portugal) were not affected.
- The Comisión Nacional del Mercado de Valores (CNMV) is the main regulator of structured products, due to the widespread use of the fund wrapper (structured deposits are regulated by the Bank of Spain.
- Dirección General de Seguros (DGS) is the regulator for life (including structured life insurance) and pensions products

- CNMV launched a consultation to introduce new criteria for the classification of financial products with the aim of alerting retail investors to the risks of certain financial products. With this measure, the Spanish regulator anticipates the future European level 2 regulations that should stem from the European Securities and Markets Authority's (Esma) work on this legislation (2014)

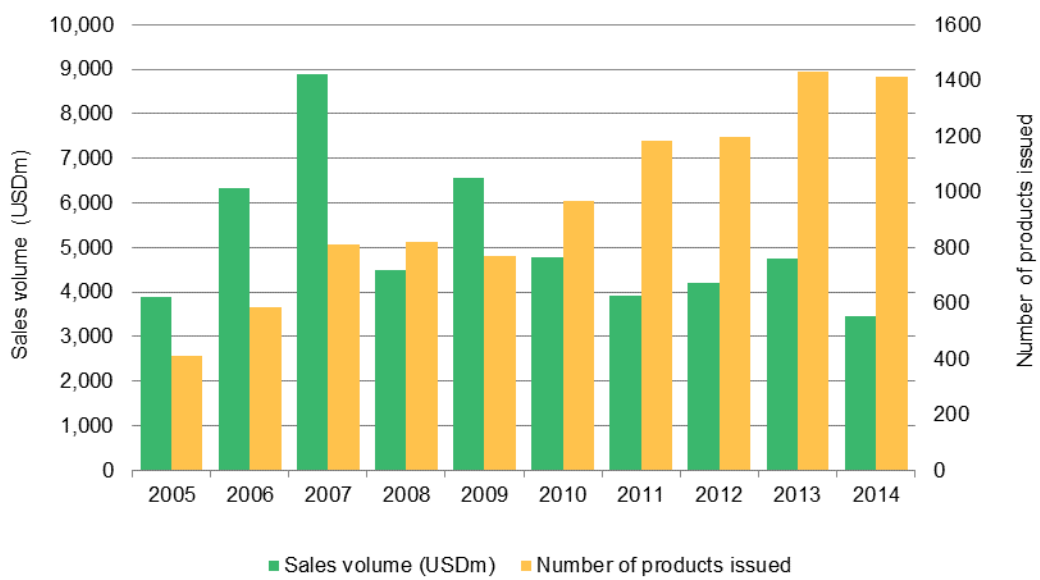
Tax Treatment

Structured products

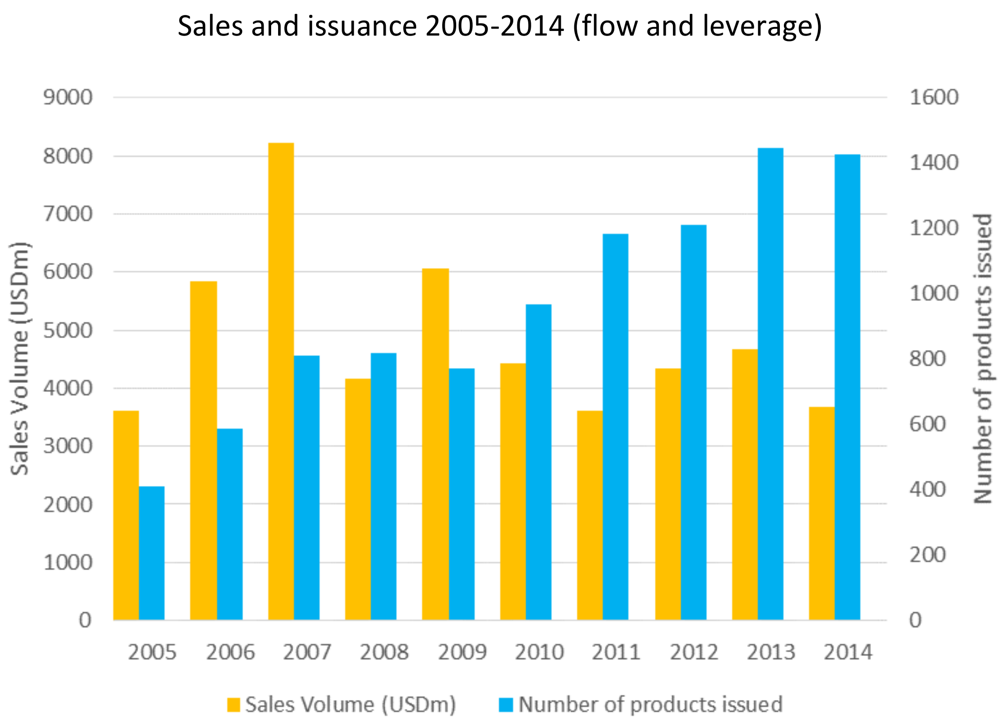
- The first €6,000 of capital gains is taxed at 21%; between €6,001 and €24,000 is taxed at 25%; above is taxed at 27%. There is no tax on income

SWEDEN

Sales and issuance 2005-2014 (core products)



Source: www.StructuredRetailProducts.com



Source: www.StructuredRetailProducts.com

Profile

- The first structured products were launched in Sweden back in the 1990s.
- The Swedish market peaked in 2007 with $8.8bn raised by 811 products. In 2014 sales totalled $3.4bn from 1,422 products.
- Garantum Fondkommission was the top provider in 2014 selling $660m worth of structured products which translates in a 20% market share (up from 16% share in 2013), followed by Handelsbanken (13%, 2013: 18%) and SEB (12%, 2013: 13%).
- The typical product is equity-linked (share basket) and wrapped as an MTN. The market has shifted from capital protected products to favouring risky investments (in 2004 only 39% of products by sales volume risked capital – in 2014 the figure is 82%). Part of the reason for this is the low interest rate environment but the Swedish investor also likes risky products due to the potential for high returns
- The competition is getting increasingly fierce with foreign issuers such as BNP Paribas, Societe Generale and ING gradually issuing products during the last two years.
- The Swedish market distinguishes itself from other Nordic markets by having a wide network of IFAs distributing products.
- The Swedish association for exchange traded products (Setipa) was created in 2009.
- SSDA (Swedish Securities Dealers Association) launched a structured products trade organization SPIS (Structured Products In Sweden). The aim of the organisation is to

increase the transparency, comparability and understanding of structured investments (2013)

Prospects

- A total of $3.2bn is due to mature in 2015, from 914 products

Key Regulatory Developments

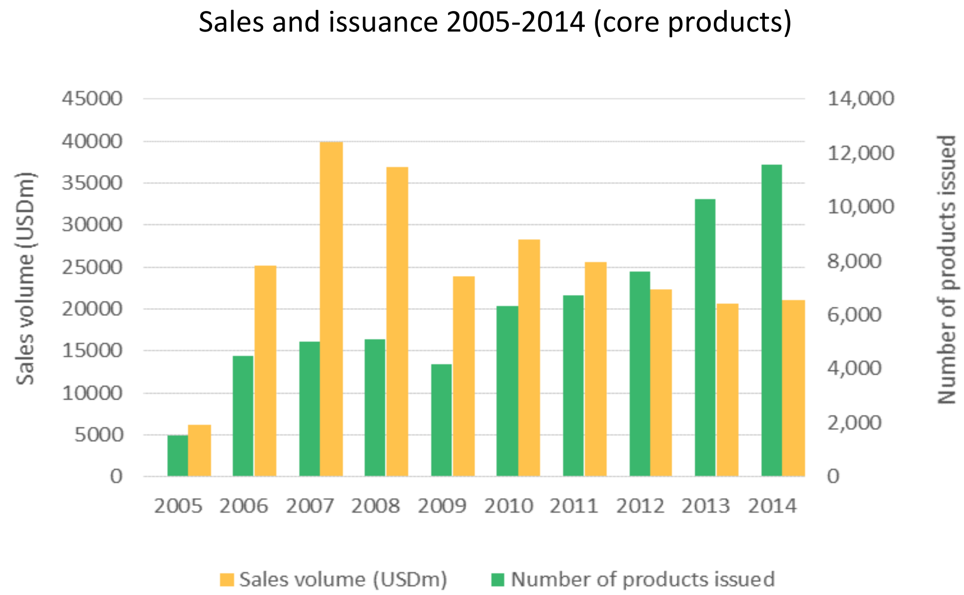
- The Swedish regulator Financial Supervisory Authority (FSA) implemented a ban on upfront fees on investment products, which could lead to a decreasing amount of small providers in the market (2015)
- According to the regulator this would remove incentives and conflicts of interest when selling investment products to retail clients with high initial costs, and would also reduce the incentives to suggest the restructuring of products in order to generate more revenue

Tax Treatment

Structured products

- Generally Swedish tax rules state that gains from structured products are subject to Reavinstskatt or Skatt på kapitalvinst, a tax of 30% on capital gains.
- A new investment account (ISK) was introduced at the beginning of 2012, through which private investors pay an overall flat tax of 30% rather than paying taxes on a trade-by-trade basis

SWITZERLAND



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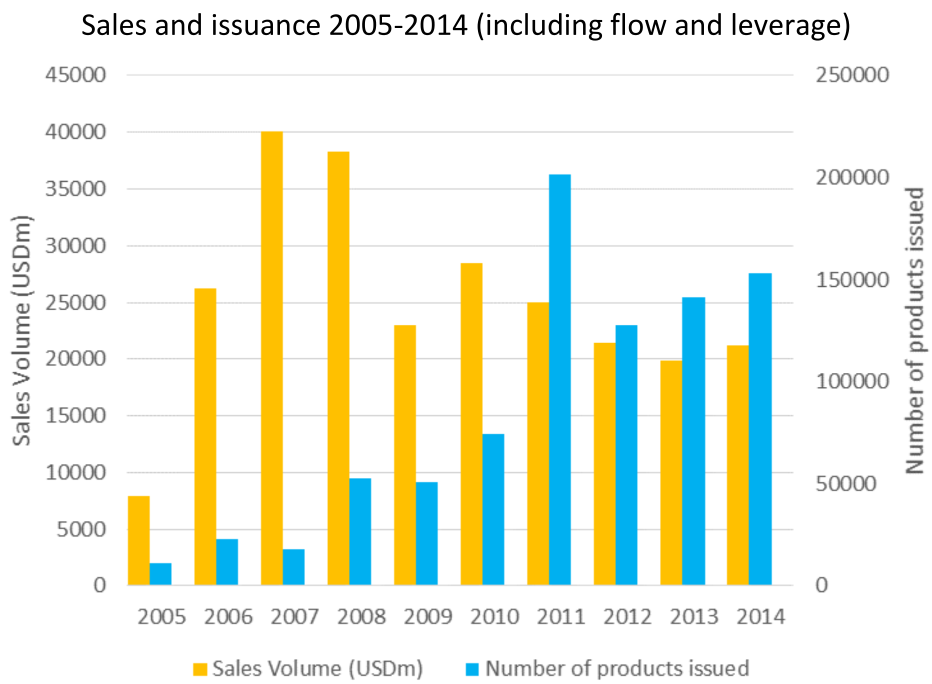


Source: www.StructuredRetailProducts.com

Profile

- Issuance of structured products has increased significantly over the last seven years, while the sales volume has decreased, leading to the near future accommodation from the buy-side, for instance by introducing lower minimum investment requirements.
- Vontobel was the top provider in 2014 selling $4.5bn worth of structured products which translates in a 22% market share (down from 27% share in 2013), followed by Leonteq (17%, 2013: 13%) and Credit Suisse (14%, 2013: 17%).
- In response to the increasing regulation pressure for more transparency, deritrade the multi-issuer platform of Vontobel (initiated in 2012) attracted increased attention.
- Members of the Deritrade platform are Deutsche Bank, Morgan Stanley, Société Générale, UBS, Vontobel and ZKB, thus capturing about 70% of the structured product exchange-traded volume in Switzerland; the main benefits of the multi-issuer platform are higher comparability, more transparency, diversification and an easier way to find products tailor-made to investors` preferences
- Floored floaters with a reference bond are increasingly popular; by employing the credit risk of a reference bond they can offer higher yields in the current low interest environment; exposure lies outside the financial sector; often those product have an additional COSI feature, which diminishes the issuer risk
- Current levels of interest rates will drive demand for capital at risk structures (Reverse Convertible, Worst of Option being the most preferred) while low volatility makes it harder to structure capital at risk payoffs because less coupon/upside can be bought but also encourages demand for e.g. reverse convertible structures
- SSPA the Swiss Structured Products Association (Schweizerischer Verband für Strukturierte Produkte – SVSP in German) was established in 2006.

Prospects

- By focusing on more standardised products, the Swiss structured product market is about to enter into a competitive area with other products such as ETFs; in order not to lose interest from investors, issues should focus on inventing products on smaller or less liquid underlyings, preferably not present in certain indices or funds, or industry representing underlying baskets.
- A total of $25.7bn is due to mature in 2015, from 10,165 products
- Products based on share basket tend to focus on a certain industry thus enabling investors to bet on certain sector developments; most favoured so far are the pharmaceutical, the social media and the automotive industry; for 2015 IT and Health are likely to remain the most favoured sectors for investment

Key Regulatory Developments

- Swiss Supreme Court confirmed rules for banks to repay retrocession fees (fees received by a bank for distributing third-party products) relating to discretionary mandate services, in line with the rules for Swiss independent financial advisers and other jurisdictions (2012).
- Automation and standardization will be key points in dealing with the new requirements, i.e. manufacturers will need to standardise and automate the provision of information on their offered products in order to minimise costs for distributors in order to keep their incentive for the distribution of structured products
- Kid/Prips: SP issuers offering products to retail clients will have to provide a publicly available standardised key investor document with detailed product information, the risk profile and factors that could affect the product value; products for private clients are exempt from this
- Issuers and providers will also be required to publish all the product documentation in a central electronic platform which will be supervised by the regulatory authority before the product is brought to market

Tax Treatment

Structured products

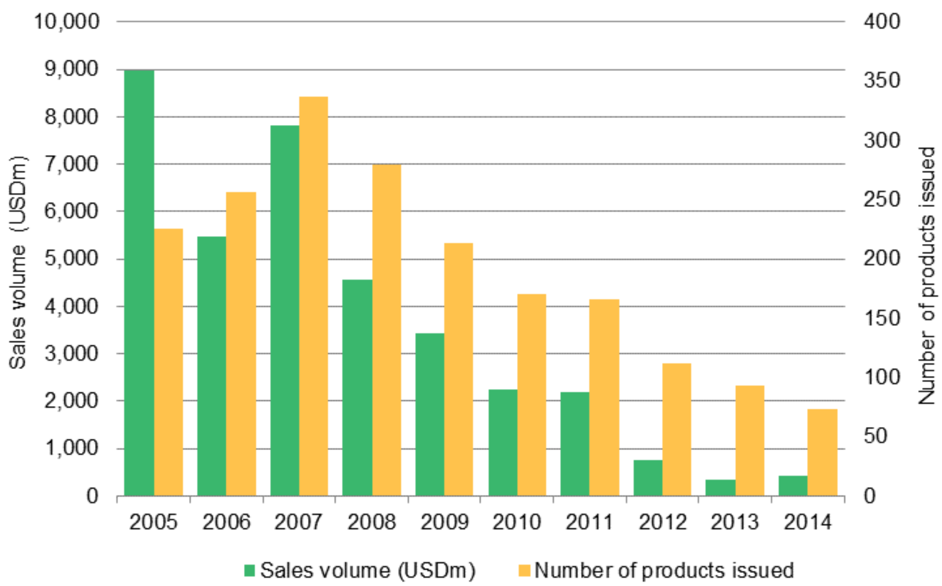
- Structured products are classified as derivative financial instruments; the term sheet contains only a general tax summary and it does not consider tax implications for investors who reside abroad and the expertise of a personal advisor is needed; also, product specific features are important for the calculation of the tax burden if any; some profits are subject to withholding tax of 35% for Swiss residents;
- Some tax laws differ in different cantons;
- A potential differentiation between the SP components is needed; in the case of classical SP, realised profits and losses are income tax free; interest rate, discount and premium are taxed tough)
- Leverage products: in general tax free, exceptions are possible if there is a taxable component present

Listed options

- According to Art. 16 Abs.3 DBG: capital gains are tax free, losses are non-deductible;
- From 2013 the Swiss government harmonised the taxation of stock options across the cantons (actual rate of income tax varies tough)

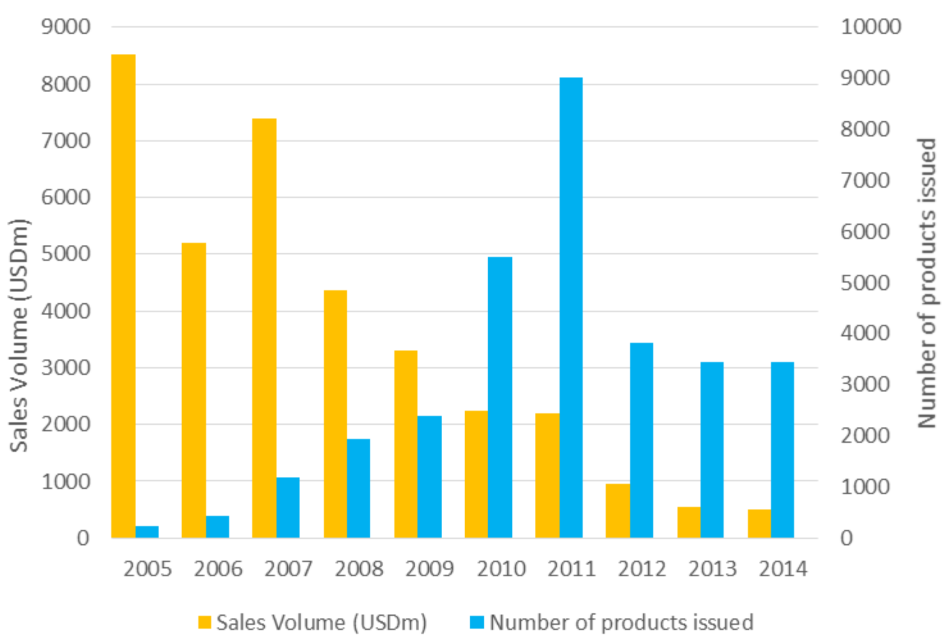
The Netherlands

Sales and issuance 2005-2014 (core products)



Source: www.StructuredRetailProducts.com

Sales and issuance 2005-2014 (including flow and leverage)



Source: www.StructuredRetailProducts.com

Profile

- The shape of the Dutch structured product market has changed dramatically during the last decade.
- In the mid-2000s retail investor were able to choose from numerous tranche products from large local players such as ABN Amro, ING and Rabobank as well as from a large contingent of foreign issuers including Barclays, Deutsche Bank and UBS.
- In 2007 market leader ABN Amro, which up to then had a share of 50% of the Dutch market, was taken over by a consortium led by Royal Bank of Scotland (RBS).
- Two members of the consortium RBS and Fortis ran into serious trouble soon after that: the large debt created to fund the takeover had depleted the banks' reserves just as the financial crisis of 2007–2010 started. As a result, the Dutch government stepped-in and bailed out Fortis in October 2008, before splitting ABN AMRO's Dutch assets (which had primarily been allocated to Fortis) from those owned by RBS.
- In February 2010 the assets state owned ABN Amro owned were legally demerged from those owned by RBS. This demerger created two separate organisations, ABN AMRO Bank N.V. and The Royal Bank of Scotland N.V.
- Rabobank, which had the highest share in the Dutch market in 2005 ($4,162m/47%), 2010 ($901m/40%) and 2011 ($791m/37%), announced the closure of its equity derivatives division in March 2013.
- ABN Amro closed its structured products sales desk in June 2014. The bank announced it will stop selling equity derivatives and its own structured products, including its range of leverage turbo certificates. Increased regulations, changing customer needs and high cost of technology have led the state owned Dutch bank to review the activities of its markets division which sells structured products to clients worldwide.
- Seven providers offered products in 2014. At its peak, in 2006, 30 providers were active in the Netherlands.
- Kempen & Co, the merchant bank which is part of private bankers Van Lanschot, was the top provider in 2014 selling $280 worth of structured products which translates in a 70% market share (up from 54% share in 2013).
- Fifty percent of the total amount invested in core structured products was invested in autocallable products ($201m).
- The Dutch Structured Investment Products Association (Nedsipa) was launched in January 2014. The founding members are ABN Amro, Commerzbank, Citi, ING and Royal Bank of Scotland (RBS).
- The ban on return commissions, application fees and main distribution fees for investment firms was implemented on January 1, 2014.

Prospects

- A total of $3.7bn is due to mature in 2015, from 131 products

Key Regulatory Developments

- The Dutch regulator, Autoriteit Financiële Markten (AFM), launched a report in September 2013 which reviewed leverage products offered to the public in the Netherlands and reached the conclusion that certain leverage products do not offer investors any added value and are unsuitable for accumulating wealth in the long term
- Following this providers implemented a series of measures: A website for independent information about how leverage products function, especially the leverage factor itself; providers to pay closer attention to risk warnings on their own websites; to stop issuance of products with extremely high leverage factors (and to remove them from the market if currently traded)
- The Nederlandse Structured Investment Products Association (Nedsipa) was formed in light of this report. The association includes Commerzbank, ABN Amro, Citi, ING and RBS as founding members, representing the five main providers responsible for the issuance of leverage products
- Nedsipa joined the European Structured Investment Products Association (Eusipa) in January 2014 and is open to providers of structured products other than leverage certificates
- In January 2014 the ban on return commissions and application fees for investment firms was implemented: compensation is now received directly from investors.

Tax Treatment

Structured products

- No specific tax regime for structured products. Income for the year is taxed at 1.2% based on average net assets on 1 January and 31 December, as long as this average exceeds the tax-free allowance of 21,139 EUR per person

Listed options

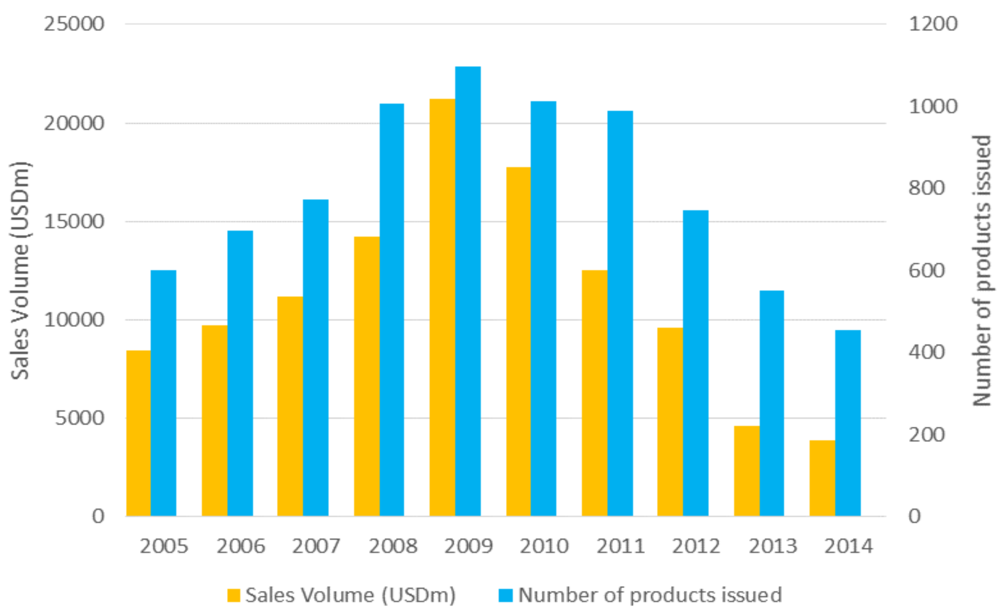
- For listed equity options, the taxable asset is the fair value of the option. For unlisted options the taxable asset is determined as a lump (18% since January 2012; 15% prior to that) of the value of the underlying shares at the time of the offering, plus the positive difference between the value of the share and the exercise price of the option.
- For options on more than five years this rate is increased by 1% for each year exceeding the initial five years.

UK

Sales and issuance 2005-2014 (core products)

Source: www.StructuredRetailProducts.com

Sales and issuance 2005-2014 (including flow and leverage products)



Source: www.StructuredRetailProducts.com

Profile

- Sales volumes have steadily declined by 82% from their peak of 21.8bn USD in 2009, exacerbated by new regulation, negative press coverage and the exit (RBS, HSBC) or retrenchment (Barclays, Santander) of big-name providers from the market. Sales volumes year-to-date are 3.9bn USD, 16% less than 2013.
- Sixteen providers offered products in 2014 following considerable market consolidation, 11 fewer than 2013.
- RDR is partly blamed for market declines, as many providers lack the funds and infrastructure to offer suitable advisory service
- The UK investor has become increasingly less risk-averse, with 82% of products sold year-to-date risking capital (2008: 17%). The FTSE100 index remains the single most popular underlying in the market, but other commonly used underlyings include the Eurostoxx50 and S&P500.
- Investor confidence has struggled amid ongoing economic uncertainty and bad publicity following the collapse of several major providers (NDFA, Arc Capital, Keydata)
- Numerous building societies previously active in execution of structured products pulled out of the market for not having a suitable advisory model.
- More foreign investment banks seeking to get a foothold in the market via distribution agreements with third-party brokers and asset managers.
- Equity-linked products make up 98.8% of the core retail market.
- Eurostoxx50 index has increased its market share in last few years, with 19% of products linked to the European index in 2014.
- Eighty-two percent of the market made up of capital-at-risk products as the current pricing environment makes it difficult to offer attractive headline rates on capital-protected structures.

Prospects

- Eurostoxx50 expected to continue rising as a diversifier to the FTSE100 and S&P500
- Opportunities for structured product providers seeking to tap into the pension space as annuities no longer compulsory under new government plans, which offer greater flexibility to retirees
- A total of $13.4bn is due to mature in 2015, from 762 products

Key Regulatory Developments

- In 2013 the FSA was replaced by two new regulatory bodies:
- The Prudential Regulation Authority (PRA), a subsidiary of the Bank of England, is responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions
- The Financial Conduct Authority (FCA) is responsible for regulation of conduct in financial markets and the infrastructure that supports those markets. As part of their product intervention powers, they have the ability to ban or exclude certain products or some of their features without consultation
- The FSA launched its Retail Distribution Review (RDR) aimed at building trust and confidence in the retail market in 2012. Requirements include: distributors to offer financial advice through a suitable advisory business; no more direct execution sales to investors without providing advice; Independent financial advisors required to offer advice across all asset classes; Advisor remuneration to be fee based and no longer on commission received from product providers

Tax treatment

Structured products

- Individuals have a tax-free allowance for income tax of £9,440 for tax year 2013/2014, rising to £10,000 for tax year 2014/2015. The basic income tax rate is then 20% on extra income up to £34,800, then 40% up to £150,000 and 45% above that
- Individuals have a tax-free allowance on Capital Gains Tax (CGT) of £10,900 for tax year 2013/2014, rising to £11,000 in 2014/2015. The CGT rate is then 18% or 28%, depending on the total amount of taxable income
- Tax-free Individual Savings Accounts (ISAs) have been replaced by New ISAs (NISAs), increasing the tax-free annual limit from £11,280 to £15,000. Moreover, one NISA can be used for cash, stocks & shares in any combination

About SRP

This report, written by research firm Structured Retail Products (SRP), is based on both quantitative and qualitative data and analysis. In addition to drawing on their proprietary data, SRP surveyed structured products professionals in Europe in December 2014, collecting over 75 validated responses and perspectives on prospects of the market. 62% of respondents represented structured product issuers, including 8 out of the top 10 most active issuers by volume in Europe in 2014.

This research paper covers the top 10 European markets, namely Belgium, France, Germany, Italy, Portugal, Spain, Sweden, Switzerland, the Netherlands and the UK.

Structured Retail Products Ltd (SRP), part of the Euromoney group, is a research firm based in London, New York and Hong Kong, providing intelligence for the global structured products industry. Clients include hundreds of blue chip companies from around the world, including all of the major global financial services groups, financial regulators, stock exchanges, index providers and professional services firms. SRP owns and maintains the specialist industry website StructuredRetailProducts.com, which is used by financial regulators, index providers, investment banks, stock exchanges, retail banks, insurance companies, asset and wealth managers, consultants, lawyers and other firms involved in the market.

SRP's dynamic online database of structured products (the most comprehensive in the world) contains over 9.5 million individual product listings from 2806 companies, representing total sales of over $8 trillion. SRP's product and market data spans over 16 years across 41 different countries and is supplemented by extensive independent analysis, daily news, people moves and exclusive interviews from key figures within the structured products space.

For more information readers are directed to part 1 of this study, which includes the results of the survey providing an exploratory review of the European structured product industry and can be downloaded at www.optionseducation.org/structured_retail_products_2015.html.