



International Structured Products Forum
Lucerne, 6–7 September 2022

Executive Summary







Dear Friends of the Structured Products Industry,

Having navigated the pandemic, the world is now facing a period of renewed geopolitical tensions following the war in Ukraine and growing acrimony between the US and China. Compounding matters further is that inflation is at levels not seen in decades, while many countries teeter on the brink of recession. Amid this backdrop, the International Structured Products Forum (ISPF) 2022 took place in Lucerne between September 6–7. ISPF welcomed more than 100 leading Swiss, UK and EU representatives from across the structured products industry to discuss many of the challenges facing the sector today.

Thank you all for being part of this outstanding event. It was a great pleasure seeing you all in person after such a long time. I hope you all stay healthy and well and I look forward to welcoming you again at next year's ISPF, which will run from September 5–6, 2023. But now, we are delighted to give you a comprehensive review of the main talking points, namely ESG (environmental, social, governance), regulation and digitalisation.

Yours sincerely,
André Buck

ESG – The New Battleground for Investing

Environmental, social, governance (ESG) investing was one of the main areas of discussion at ISPF. **Despite Europe suffering from a profound energy crisis, Sylveline Besson, Head of Capital Markets at CA Indosuez Wealth Management and Member of the Swiss Structured Products Association (SSPA) Committee, Buy Side Representative, says demand for ESG products is buoyant, fuelled by next generation investors, many of whom take sustainability very seriously.**

Although value alignment is a critical driver behind ESG asset allocations, Sabine Dobeli, CEO at Swiss Sustainable Finance, says academic research has indicated that the risk return profile of ESG investments is very compelling. While Europe has historically been a leader in terms of ESG investing, other markets – including those in Asia – are beginning to catch-up, says Youri Siegel, Head of Institutional Sustainable Structuring at BNP Paribas.



“The new generation of investors are very interested in ESG.”

Sylveline Besson

Sylveline Besson,
Head of Capital Markets, CA Indosuez
Wealth Management and Member of the
SSPA committee, buy side representative

“
*ESG can help
mitigate risk
in portfolios.*

Sabine Döbeli



Sabine Döbeli, CEO, Swiss Sustainable Finance

“
*Asia is taking more time to develop on
ESG, but it is starting to happen.*

Youri Siegel

Daniel Hügli, Editor-in-Chief, Cash
Thomas Wulf, Secretary General, EUSIPA
Sylveline Besson, Head of Capital Markets,
CA Indosuez Wealth Management
Youri Siegel, Secretary General, EUSIPA
Sabine Döbeli, CEO, Swiss Sustainable Finance





Christian Reuss, Head SIX Swiss Exchange

Platforms for capital raising and price formation are essential for successful ESG investments.

Christian Reuss

The structured products industry has taken note, with a growing number of ESG linked solutions being launched. According to market research, there is strong appetite for structured products which allow investors to obtain specific exposures to ESG sectors, while maintaining bespoke risk characteristics.

Christian Reuss, Head of SIX Swiss Exchange, says in his welcome address that the industry's understanding of the 'G' component within ESG is probably more advanced than "E" and "S", having been on investors' radars since the Enron scandal in 2001. "E is becoming more tangible thanks to measures such as the Scope 1, 2 and 3 carbon emissions rules and the Financial Stability Board's Task

Force for Climate Related Financial Disclosures (TCFD). 'S' is probably the most difficult to measure and standardise for broad use," comments Reuss.

Reuss notes the exchange's purpose is not to direct capital flows towards ESG issuers, but rather to support capital raising and price formation. "We can help the ESG investment process by creating transparency frameworks and supporting harmonisation," he adds. While Reuss concedes SIX Swiss Exchange cannot make ESG disclosure mandatory, he notes standardisation would help issuers provide comprehensive and consistent ESG data to investors, and prevent greenwashing.

I do not expect there to be legislation in Switzerland on sustainable investing, but rather self-regulation from the SSPA.

Sabine Döbeli



Julian Osborne, Founder & CEO, Pelt8

The structured products industry is looking to bring about greater standardisation in the area of ESG. Markus Pfister, President of the SSPA, Member of the Global Executive Board and Head of Structured Solutions & Treasury at Vontobel, says the SSPA is currently working on ESG guidelines for the industry, an initiative which has largely been welcomed by Swiss market participants. In contrast to the EU which has legislated on ESG invest-

ing through rules such as the Sustainable Finance Disclosure Regulation (SFDR) and Corporate Sustainability Reporting Directive (CSRD), Döbeli doubts the Swiss authorities will impose prescriptive laws tackling sustainable investing. Instead, she says there will likely be a more self-regulatory and principles-based approach towards ESG investing in Switzerland.



Thomas Wulf,
Secretary General, EUSIPA

“We need to be careful about having ESG risk weighted capital requirements.”

Thomas Wulf

Keynote speaker Thomas Wulf, Secretary General at EUSIPA (European Structured Investment Products Association), warns that ESG regulation could have unintended consequences for certain financial institutions. In particular, he advises against imposing risk weighted capital requirements on banks based on the ESG quality of their loan books, as ESG and credit risk are not necessarily correlated.

Nonetheless, there has been a backlash against ESG investing in some quarters, especially in the US. Daniel Hugli, Editor-in-Chief at Cash, highlights several anti-woke ETFs – namely products which invest in politically conservative causes – have raised a fairly substantial amount of money since their inception.

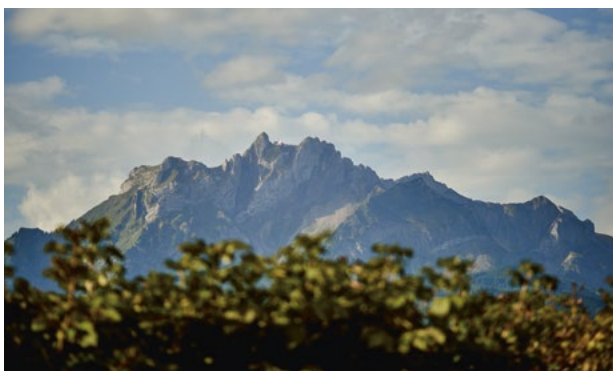
“I wonder how serious the establishment of anti-woke ETFs will be.”

Daniel Hugli



Daniel Hugli, Editor-in-Chief, Cash









Regulation – No Rest for the Industry

Regulation was covered extensively at ISPF. Top of the agenda – especially within the EU – is ESG. The EU is currently pushing ahead with its implementation of SFDR, which imposes sustainability reporting requirements on investment firms. **However, Henning Bergmann, CEO and member of the Board of Directors at Deutscher Derivate Verband, the German derivatives**

association, says there is ongoing uncertainty about whether structured products are covered by the rules. Bergmann also notes the structured products industry will be monitoring for developments in the EC's upcoming Retail Investment Strategy review - an initiative designed to harmonise consumer protection across different asset classes and product wrappers within the EU.

“The industry needs to have a position for the Retail Investment Strategy review.”

Henning Bergmann



Henning Bergmann,
CEO and Member of the Board of Directors,
Deutscher Derivate Verband (German Derivatives Association)



Daniel Häberli,
Partner, Homburger AG and
Head Legal & Regulation SSPA

“FINMA has yet to issue general guidance on its current position on AMC issues.”

Daniel Häberli

Although the EU is arguably engaging in regulatory over-reach, Daniel Häberli, Head of Legal & Regulation at the SSPA, says supervisors in Switzerland have been relatively quiet. He says the Swiss Financial Services Act (FINSA) introduces a Key Information Document (KID) which is relatively similar to the PRIIPs (Packaged Retail Investment and Insurance Products) KID in the EU. He continues the PRIIPs KID is considered equivalent, meaning it can be used instead of the Swiss KID.

Nonetheless, Häberli says there is some uncertainty following the recent re-characterisation of actively managed certificates (AMCs). Established guidance says that AMCs guaranteed by banks or securities firms do not qualify as collective investment schemes, yet there is a lack of clarity over whether this applies to AMCs issued by special purpose vehicles, and which are collateralised with underlying assets, comments Häberli. He adds there has so far been no guidance from FINMA about this issue.

“Regulatory divergence between EU and Switzerland is increasing.”

Christian Reuss



Christian Reuss, Head SIX Swiss Exchange

At a high-level, ongoing disagreements between the EU and Switzerland (and also the UK) are raising serious doubts about the virtues of EU equivalence. **Reuss questions whether it is desirable for countries to have equivalence with the EU, especially if the designation can be withdrawn arbitrarily for political reasons, as it was with Switzerland.** As such, regulatory divergence between the EU, Switzerland and the UK is only likely to intensify moving forward. “It is now evident that there will be three different regulatory regimes in the longer term

in Western Europe. However, the actual differences are still to be formalised and many of them may not be that material,” continues Reuss. “Tick sizes may remain harmonised across jurisdictions, but as for large-in-scale values, these are determined by the traded market, so these could differ across jurisdictions. This could allow dark trading to take place at different values, leading to an impact on trading behaviour. One assumption is that dark trading in EU shares could move to a more benevolent market like the UK,” argues Reuss.









Digitalisation Makes Waves in the Structured Products Industry

“We are at the verge of a mind-bending technological transformation.”

Gerd Leonhard



Digitalisation was a recurrent theme throughout ISPF, with keynote speaker and futurist Gerd Leonhard noting that the world is on the cusp of some of the biggest technological transformations ever seen, something which will be facilitated by Blockchain, artificial intelligence (AI), robotics, genome sequencing and energy storage.

Gerd Leonhard,
Futurist & Humanist, Author,
CEO The Futures Agency



Mathias Studach,
Head Finance, Risk, and Organizational
Development, SIX Digital Exchange



Dr. iur. Anna-Naomi Bandi-Lang,
Global Securities Trading –
Legal Structuring, UBS AG

“Liquidity in tokenised assets steadily growing.

Dr. iur. Anna-Naomi Bandi-Lang

Another area that was discussed at length was tokenisation. Tokenisation is when an asset – liquid or illiquid - is transformed into a digital iteration of itself, which is traded on a distributed ledger (DLT) or Blockchain. By virtue of being transacted on a Blockchain, the trading of security tokens is more transparent and efficient than what we have in today's existing markets. Through smart contracts, many of the intermediary processes in the trading lifecycle can also be automated, producing cost synergies. As assets can be fractionalised into smaller units, they will be cheaper to buy, which could precipitate greater retail participation in financial markets, leading to more liquidity.

Exchanges are taking note. SIX Digital Exchange (SDX), a fully integrated trading, settlement and custody infrastructure for digital assets within SIX, is at the forefront of enabling asset tokenisation, having issued a tokenised bond in 2021 – the first to take place on a regulated market infrastructure, according to Mathias Studach, Member of the Management Board at SDX. However, there is limited liquidity in the tokenised bond market, and experts doubt this will change anytime soon. **Dr. iur. Anna-Naomi Bandi-Lang, Global Securities Trading – Legal Structuring at UBS, argues mass tokenisation will not emerge overnight – adding its adoption will likely be a protracted process.**



Daniel Manser, CEO, Avaloq Evolution
Mathias Studach, Head Finance, Risk and Organizational Development, SIX Digital Exchange
Dr. iur. Anna-Naomi Bandi-Lang, Global Securities Trading – Legal Structuring, UBS AG
Florian Marty, Head Blockchain Solutions, Vontobel

“I wonder if private equity is an asset class where tokenisation could have an impact.”

Daniel Manser

Some believe tokenisation will flourish in other markets which are chronically inefficient, especially those which are further down the liquidity spectrum. In particular, **Daniel Manser of Avaloq Evolution**, suggests that non-bankable assets such as private equity are ripe candidates for tokenisation, adding it could potentially make them bankable.

So will tokenisation flourish in the structured products universe? **Florian Marty, Head of Blockchain Solutions at Vontobel**, believes **structured products will not be tokenised until at least 2026, highlighting the industry needs time to replace legacy technology and update its systems**. Marty also adds investor education will be vital if people are to become comfortable with the idea of buying tokens. Other challenges facing to-



Florian Marty, Head Blockchain Solutions, Vontobel

kenisation are more fundamental. Dr Bandi Lang says tokenisation's promise to support atomic trade settlement, namely instant delivery versus payment between two trading counter-parties, will not happen unless the payment leg of the transaction takes place instantaneously too. She also warns that tokenisation will not necessarily bring about greater liquidity.

“*Investor education will be vital.*”

Florian Marty



Jonathan Llamas,
Co-Founder and Head of Business Development, Verum Capital

Underpinning tokenisation is Blockchain, a technology which leading financial market infrastructures such as SIX Swiss Exchange are looking to leverage to their own advantage. Jonathan Llamas, a Blockchain specialist at VerumCapital, says more traditional stock exchanges increasingly see Blockchain technology and smart contracts as being critical to their future development.

“We see a unique opportunity for exchanges to use DLT and smart contracts.”

Jonathan Llamas



Bartłomiej Pawłowski, Senior Business Analyst, SIX Swiss Exchange

“CONNEXOR will bring about greater connectivity between old and new market ecosystems.”

Bartłomiej Pawłowski

Bartłomiej Pawłowski, Senior Business Analyst at SIX Swiss Exchange outlines how the Exchange’s CONNEXOR solution, an XML-based platform that facilitates the management of reference data during the life cycle of financial products, is now utilising Blockchain technology. This initiative, continues Pawłowski, could help bring about greater connectivity between DLT and traditional ecosystems. In

addition to enabling SIX Swiss Exchange to provide DLT-based structured products to its clients on the Exchange’s regulated market (i.e. through a traditional listing), Pawłowski says CONNEXOR Blockchain Solution will also help future proof CONNEXOR itself. It will do this by ensuring that CONNEXOR is well-positioned to support clients in an ecosystem where data is disseminated via DLT.

AI facilitates individual portfolio construction.

Stefan Klauser

Growing clout of retail investors reinforces importances of data.

Julian Osborne



Stefan Klauser,
CEO, Aisot Technologies

Data and AI were also discussed at length while Julian Osborne, Founder and CEO of Pelt8, a fintech, highlights that data management and APIs (application programming interfaces) will be integral in helping corporate issuers disclose information about ESG to investors, business partners and even employees, many of whom are becoming increasingly conscientious about sustainability. The growing clout of retail investors in markets today – together with their insatiable demand for highly customised portfolios – is reinforcing the importance of data and AI as well. **Stefan Klauser, CEO of Aisot Technologies, a fintech, believes AI will play a vital role in portfolio construction allowing investors to optimise their asset allocations in real time based on their risk appetite, asset class preferences and interest in ESG.** Such solutions are being trialled to assist investors buying equities and crypto, although Klauser says these tools could one day be used for structured products platforms.

“*Meta platforms amplify network effects between marketplaces.*”

Lukas Ruflin

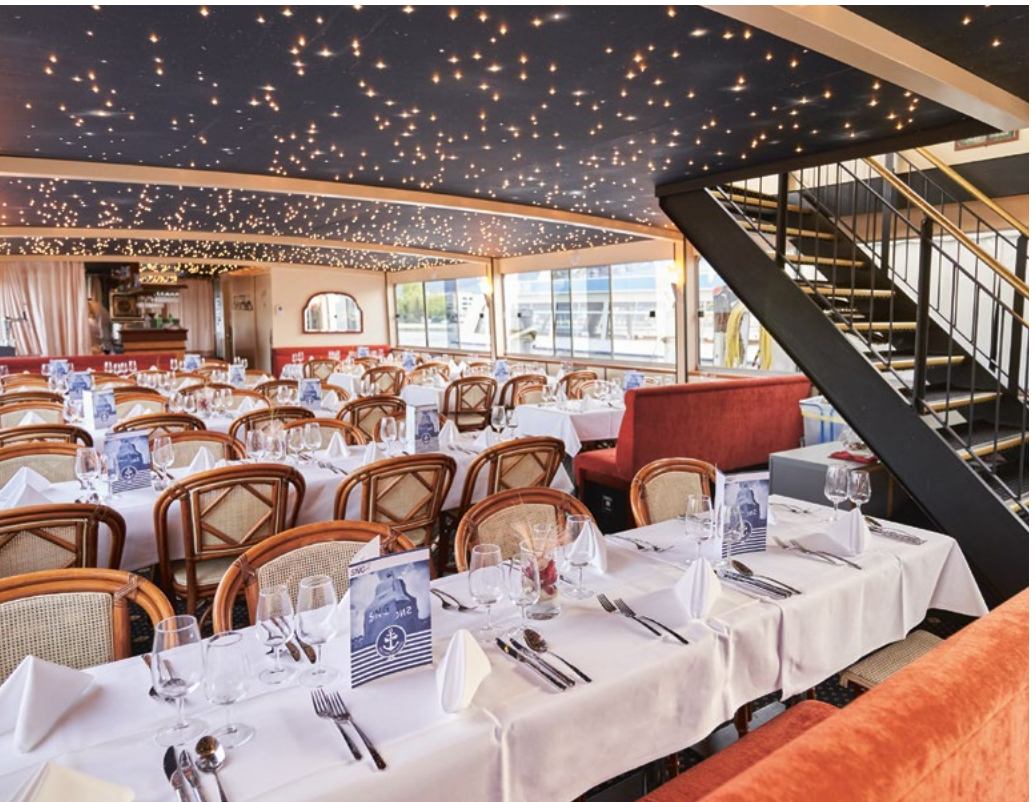


Lukas Ruflin, CEO, Leonteq Securities AG

André Buck, Global Head Sales & Relationship Management

Elsewhere, keynote speaker Lukas Ruflin, CEO at Leonteq, spoke about how so-called meta-platforms could reshape the structured products universe. Meta-platforms enable platform to platform openness and can amplify network effects in specialised marketplaces. He continues meta platforms are highly scalable, offer open architecture, and provide full white labelling services, and could potentially help democratise the investment process in structured products.









Prof. Dr. Thorsten Hens,
Deputy Head of
Department of Banking
and Finance and Professor
of Financial Economics,
University of Zurich



Structured products can help with finding orientation within transformation.

Prof. Dr. Thorsten Hens

Until Next Year...

The Swiss structured products industry is under no illusions that the next 12 months will be transformational – especially with the macro and geopolitical headwinds facing financial services. **For instance, keynote speaker, and leading economist Prof. Dr. Thorsten Hens stresses that there are many difficulties facing markets today, but notes structured products could help investors navigate these challenges.**

There will also likely be a growing focus on ESG, regulation and digitalisation, which will reshape the structured products universe moving forward. “The ISPF was rich in meaningful content and covered a lot of ground over two days, while it was fantastic to hold this event again physically, and reconnect with clients in person. The ISPF will return next year to Lucerne on September 5 – 6 2023,” concludes Buck.

Thank You to All the Sponsors of The International Structured Products Forum 2022.

Julius Bär



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