

Monday April 11, 2016

Structured Products

Current Year	Previous Year
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ALL U.S. STRUCTURED PRODUCTS

Year to Date:

\$13.930 billion in 2215 deals	\$18.494 billion in 2664 deals
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Quarter to Date:

\$0.096 billion in 49 deals	\$0.548 billion in 111 deals
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Month to Date:

\$0.096 billion in 49 deals	\$0.548 billion in 111 deals
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BREAKDOWN OF YEAR TO DATE DEALS

EXCHANGE-TRADED NOTES

\$3.600 billion in 257 deals	\$5.238 billion in 302 deals
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ALL U.S. STOCK AND EQUITY INDEX DEALS

\$9.921 billion in 1704 deals	\$12.401 billion in 2005 deals
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SINGLE STOCK U.S. STRUCTURED PRODUCTS

\$0.691 billion in 371 deals	\$2.339 billion in 926 deals
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STOCK INDEX U.S. STRUCTURED PRODUCTS

\$8.902 billion in 1285 deals	\$9.537 billion in 1030 deals
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FX U.S. STRUCTURED PRODUCTS

\$0.036 billion in 7 deals	\$0.085 billion in 29 deals
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COMMODITY U.S. STRUCTURED PRODUCTS

\$2.664 billion in 220 deals	\$3.444 billion in 300 deals
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INTEREST RATE STRUCTURED PRODUCTS

\$0.061 billion in 9 deals	\$0.147 billion in 23 deals
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INTEREST RATE STRUCTURED COUPONS

\$13.306 billion in 519 deals	\$19.368 billion in 668 deals
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PROSPECT NEWS

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GS Finance' digital notes tied to Euro Stoxx 50 index emphasize protection, analyst says

By Emma Trinca

New York, April 8 – GS Finance Corp.'s 0% digital notes due Oct. 12, 2017 linked to the **Euro Stoxx 50 index**, are characterized by a low risk level perhaps to the detriment of the return, making this product more likely to appeal to bearish and risk-adverse investors than bulls, said Tim Vile, structured product analyst at Future Value Consultants.

The notes will be guaranteed by Goldman Sachs Group, Inc.

If the index return is greater than or equal to negative 15%, the payout at maturity will be the maximum settlement amount of \$1,080 per \$1,000 of notes, according to a 424B2 filing with the Securities and Exchange Commission.

Otherwise, investors will be fully exposed to any declines beyond 15%.

Absolute return

The note offers a positive return even if the index declines within a small range, Vile noted.

This makes the product slightly different from more commonly seen digital notes, which pay a fixed return when the index finishes above the initial price.

"This one pays below the initial price. It's a bit different. You get something more than just the protection. But you pay for that," he said.

"It allows you to outperform on the downside. But if you're bullish, your 8% return over 18 months is not very exciting."

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Final DOL fiduciary rule is more workable but still burdensome, lawyers say

By Emma Trinca

New York, April 8 – Market participants and lawyers in the structured product space breathed a sigh of relief after the Labor Department released its final fiduciary rule on Wednesday.

Published in the Federal Register on Friday, the final regulation defines who is a fiduciary under the Employee Retirement Income Security Act of 1974 (ERISA Act) as a result of giving investment advice.

The proposed rule issued last year made financial services firms in general and structured product market participants in particular very nervous. From the structured

product standpoint, the view was that making recommendations in an IRA under the new DOL fiduciary standard would generate higher costs to comply with a rule seen as overly complex even for specialized lawyers.

Clarifications

Most structured notes recommended by brokers are sold via a "variable compensation" or commission.

The rule now requires brokers to stop charging commissions and move to a fiduciary business model for IRAs and retirement accounts, which implies charging

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a fee, usually as a percentage of assets under management.

Of interest to firms were the possible exemptions. The proposed rule provided for two broad categories of them. But structured notes did not appear to benefit from those exemptions, or the wording was inconclusive, lawyers explained.

Now the final rule has expanded the scope of the exemptions and relaxed some of the requirements, lawyers said.

It has also clarified the notion of proprietary product sales, which is key in the structured product market.

“A lot of changes were made mostly in favor of the investment firms, broker-dealers to relax things and clarify a number of issues,” a San Francisco-based lawyer said.

“By and large, the things they did made it easier for brokers to sell structured products in a retirement account. I didn’t say easy. But it went from impossible to workable.

“Sellers of structured notes should be happy. It’s better than the proposal that came up last year. It’s still not as good as the 40-year-old Erisa regulation that we’ve had, which allowed pretty much everything, but it’s a progress.”

Allowed assets

The first major change brought by the final rule is to allow structured notes to be exempt under a category of exceptions called BICE for best interest contract exemption. The BICE exemption, which included a list of permissible assets, allowed brokers catering to a retirement account holder to get a commission provided that they met certain requirements. In the proposed rule, structured products were not in the list. But in the final version, the list has been removed.

“The BICE exemption has now been extended to all securities, which will include structured notes,” the lawyer said.

Under last year’s proposal, it was

prohibited to sell structured notes to an IRA or a small plan, he explained.

“Now they can be sold provided that the requirements of the exemption are followed.”

Brokers can continue to charge commissions when selling structured notes, but the exemption still imposes important disclosures that must be shown to the client in a contract.

A particular point of concern, which remains in effect, is the disclosure to clients of their right to sue or to bring class-action lawsuits.

“This is what scares a lot of people,” said Marcia Wagner, an Erisa lawyer at the Wagner Law Group.

Best interest

The adviser must also identify and mitigate conflicts of interest, provide appropriate asset diversification and disclose fees.

“It’s an extensive contract, one that definitely increases the cost of doing business,” said Wagner.

“Compliance is burdensome. The expected costs of litigation are a big deal as well”

But the final rule made some notable changes.

“The disclosure with respect with the fees is not as onerous,” Wagner said. In particular, the new text eliminated a widely criticized chart that required advisers to disclose the cost for each investment recommended for a period of one, five and 10 years. Also an annual disclosure requirement was eliminated.

“That was frankly impossible. It was also very costly,” Wagner said.

In addition, the advisor himself no longer has to sign the contract directly with the client. His firm can assume the responsibility and be the party to the contract with the client.

Finally, financial advisers have some

leeway in conducting their business prior to the signature of the contract with the client.

“Before, you had to get the contract signed before you could even have a conversation with the client. Now you can have your sales pitch before,” said Wagner.

Proprietary products

Lawyers specializing in structured products and Erisa attorneys were struggling with the term “proprietary product” in the initial version of the rule.

It was not clear whether proprietary products could benefit from the BICE exemption.

“We couldn’t make any sense of that. Now it’s clear that banks can sell proprietary products, including notes they issued,” the lawyer said.

“That’s a very good thing for the industry.”

Not having this exemption would have made it difficult for a Merrill Lynch broker to sell on a commission basis notes issued by Bank of America, he explained.

Sophisticated investors

Another improvement was the expansion of the definition of the so-called “seller’s exception.”

The proposed rule waived the fiduciary standard for big retirement accounts with more than \$100 million of assets on the view that the client was sophisticated enough. The threshold in the final rule dropped to \$50 million.

Reactions

“The DOL actually really listened to the industry,” said Wagner.

“I think they made a good-faith effort to make it a workable rule to protect the customers and to allow the industry to make, manufacture and sell products.”

Not everyone is happy yet. The brokerage industry’s trade group, the Securities Industry and Financial Markets

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Bank of America to price step-up autocallables linked to PHLX Housing

By Marisa Wong

Morgantown, W.Va., April 8 – **Bank of America Corp.** plans to price 0% autocallable market-linked step-up notes due April 2018 linked to the **PHLX Housing Sector index**, according to a 424B2 filing with the Securities and Exchange Commission.

The notes will be automatically called if the index closes at or above the initial index level on the observation date, which

will fall in May 2017. The redemption amount will be \$10.95 per \$10.00 principal amount of notes.

If the notes are not called and the final index level is greater than the step-up value, 116% to 122% of the initial index level, the payout at maturity will be par plus the index return.

If the final index level is greater than or equal to the initial level but less than or equal

to the step-up value, the payout will be par plus the step-up payment, 16% to 22%.

If the final index level is less than the initial level, investors will be fully exposed to the index's decline.

The exact step-up value and step-up payment will be set at pricing.

BofA Merrill Lynch is the agent.

The notes will price in April and settle in May.

Citigroup plans 21- to 24-month buffered notes tied to S&P 500 index

By Wendy Van Sickle

Columbus, Ohio, April 8 – **Citigroup Inc.** plans to price 21- to 24-month 0% buffered notes linked to the **S&P 500 index**, according to a 424B2 filing with the Securities and Exchange Commission.

The payout at maturity will be par plus

140% of any index gain, up to a maximum settlement amount expected to be between \$1,182.00 and \$1,212.80 for each \$1,000 of notes.

Investors will receive par if the index falls by up to 15% and will lose 1.1765% for every 1% decline beyond 15%.

The exact deal terms, including maturity and cap, will be set at pricing.

Citigroup Global Markets Inc. is the agent.

The notes (Cusip: 17298CEF1) are expected to price on April 11 and settle five business days after pricing.

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Association, remains skeptical.

Kenneth Bentsen Jr., Sifma president and chief executive officer, said in a conference call on Friday that the final rule is “voluminous and very complex” and that it will take time to interpret its implications.

“Our staff is in the process of going through the rule just as I suppose a thousand Erisa lawyers are around the country,” he said.

“We still have concerns about potential negative consequences for investors in terms of costs and choice.”

The fear among critics is that the increased costs of litigation and compliance incurred by banks will be passed on to investors through higher minimum account size requirements, pushing middle-income investors to less appealing options such as discount brokers or robo-advisers.

The deadline for compliance with the rule has been pushed to Jan. 1, 2018, while it was supposed to be at the end of this year in the original proposal.

The extra year to comply surprised some as it falls after the presidential election, giving a new president the chance to repeal the rule.

Critics of the proposed rule have been found on both the Democrat and the Republican sides.

Some even expected that the rule would be challenged in court. But that was before the final version.

“You can sue anybody anytime in this country. The question is, can you win? This rule is not as terrible as it was. I’m confident that it will not be overturned,” said Wagner.

Registered investment advisers who are

already abiding by a fiduciary standard and charge their clients a fee are usually in favor of the rule when asked.

“More transparency, more disclosure of conflicts of interest is going to be better for the industry overall. At the end of the day, it benefits the end-client,” said Tom Balcom, RIA and founder of 1650 Wealth Management, who sells structured notes to his clients.

“If fees are transparent, everybody wins. It’s good to know that one thing is cheaper than another. Of course the other side will tell you that cheaper is not better. But the point is, can you justify the higher cost?”

“I don’t always agree on what the government does, but in this case, it protects the consumer.”