



Consultation on Structured Products

TISA
leading on tax incentivised savings

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STRUCTURED PRODUCTS
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Consultation on Structured Products

Contents

- Reflections on CP11/11 Section 5
 - Fair, Clear and Not Misleading
 - Distinction between Structured Deposits and Structured Notes
- Illustration
 - Example product
 - Product design in context
- Conclusions

16

CP11/11 Section 5

A communication or a *financial promotion* should not describe a feature of a product or service as “guaranteed”, “protected” or “secure”, or use a similar term unless:

- That term is capable of being a fair, clear and not misleading description of it; and
- The *firm* communicates all of the information necessary, and presents that information with sufficient clarity and prominence, to make the use of that term fair, clear and not misleading

17

Consultation on Structured Products

Fair, Clear and Not Misleading

- How to describe capital protection on a structured deposit?
 - *This account is a deposit with a five-year term. At maturity you will receive full repayment of your initial deposit, irrespective of the level of the index. If you withdraw early, you may get back less than you invested.*
- How to disclose credit risk?
 - *Repayment of your deposit is provided at maturity. Please note that the account is not guaranteed by any third party. Repayment of your deposit and payment of any return will depend on the ability of Barclays Bank PLC to pay such amounts when due.*

18

Structured Deposits and Structured Notes

STRUCTURED DEPOSIT

- Incorporates credit risk to the deposit taker
 - But this risk is eligible for FSCS coverage
- Must repay capital in full at maturity
- Eligible for a Cash ISA

STRUCTURED NOTE

- Incorporates credit risk to the issuer
 - But this risk is not eligible for FSCS coverage
- Can be designed to repay capital in full at maturity
 - But allows greater flexibility
- May be eligible for a Stocks & Shares ISA

19

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20

Example: Defined Returns Plan

- Client Context:
 - Generate a return above inflation after costs and tax
 - Willing to take equity market risk
 - Market view between moderately bearish and moderately bullish
 - Willing to invest for a 5 year term
 - Willing to take credit exposure to Barclays
- Market Context:
 - 5-year swap rate 2.3%
 - 5-year CDS on Barclays 1.3%
 - FTSE dividend yield 3.7%

21

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Example: Defined Returns Plan

- Product Features
 - 5 year term, linked to FTSE-100
 - Structured Note issued by Barclays Bank PLC
- Illustration, assuming FTSE initial level of 6000:

Level of FTSE at Maturity	Product Return
At or above 5400 (i.e. 90% of initial)	Full return of capital plus 45%, i.e. 7.7% per annum return
Below 5400, but has not breached 3000 during the term	Full return of capital. 0% return.
Below 5400, and has breached 3000 during the term	Tracks the capital return of the market 1:1

22

Product Design in Context

- Rationale for Investing in Structured Products
 - Risk / Reward trade off
 - Clarity and Objectivity
 - Market Access
- Considerations:
 - Negative real rates of interest
 - Dividends and capital vs. defined upside
 - Credit Risk as a mitigant of equity Market Risk
 - Costs
 - Complexity

23

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24

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25