DDV
Deutscher Derivate Verband

SETTING STANDARDS IMPROVING TRANSPARENCY

Annual Report 2012

Focusing on what really matters

→ One of the most undervalued achievements of human civilisation is without a doubt the idea of reaching agreement on generally accepted standards. The way that a screw fits into a dowel or a plug into the power socket, for example, is so handy. It is as though they had been made for each other by some higher intelligence – which, strictly speaking of course, is precisely the case. Standards such as DIN in Germany make our lives much easier and our work vastly more efficient.

Take this annual report as another example. Rather than sitting around for hours debating its height and width, we simply adopted the commonly used DIN A4 standard. That meant we could focus right away on what really matters to us – the content. Although many people take a somewhat negative view of standards, it is not at all true that they produce boring uniformity. Quite the reverse, in fact. They promote a level of diversity that would otherwise be impossible. That is why binding standards play such an important role in the certificates sector – and in the work of our association. They provide investors with a high degree of clarity, transparency and comparability in an enormously diverse macrocosm of products.

One of the main aims of our association is to make our products more understandable and more transparent. To this end, we need standards – from risk categories and product classifications in the Derivatives League through to uniform terminology and specifications for our product information sheets (see page 6). Standards to improve product transparency are a key aspect of our association's most important activity, political communications (see page 8). There is a growing emphasis on the international dimension, too, with efforts to create EU-wide standards (page 12). With this objective in mind, DDV works closely with the other members of our European umbrella association EUSIPA (page 14). Together, we aim to promote appropriate standards while avoiding excessive zeal of the type that allocates precise values to the curvature of bananas and cucumbers or the electrical conductivity of woodland honey.

Dr Hartmut Knüppel

> 'Standards are indispensable. They give investors greater transparency and comparability.'

It is now five years since DDV, the German Derivatives Association, was founded. It has been an eventful period – and thanks to the active support of our members a successful one. We would like to take this opportunity to express our gratitude.

Berlin / Frankfurt am Main, March 2013

Dr Hartmut Knüppel
CEO and Member of the Board of Directors

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Political communications: a difficult balance

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DDV engages in an intensive dialogue with political decision-makers in Berlin and Brussels.

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The transparency initiative is and will remain at the heart of the association's communications work.

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A chance to discuss the matters that concern issuers, politicians, journalists and academics.

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Setting standards, improving transparency: **the key to the future**

One of the core tasks of our association is to set industry standards. With the Derivatives League, standardised terminology, model product information sheets and the Derivatives Code, we think our record so far is pretty good. Of course, there is clearly a lot more to be done, especially in terms of improving the comparability of financial products. Obviously, this is also a matter that needs to be addressed by political leaders.

→ Many people regard norms and standards as boring, restrictive and bureaucratic. Yet they make our lives so much easier. Very few standards are actually prescribed by law. They usually emerge from a consensus of those involved and have to meet everyone's needs to have a chance of being accepted. The same is true, of course, in the financial industry and in particular the certificates sector. Accordingly, one of the core tasks of our association is to work with our members to draw up appropriate standards for the sector. Investors also benefit from the guidance provided by those standards.

The Derivatives League: football line-up represents product categories

One of the first standards we created was a system of classifying products based on our Derivatives League. This provided a structure for the previously confusing macrocosm of investment certificates and leverage products and in doing so brought greater transparency. Each product can now be assigned to one of the eleven categories.

Terminology: talking the same language

In 2010, we reached another milestone with agreement between issuers and stock exchanges on uniform definitions for the most important terminology used in the world of certificates and leverage products. These terms are essential to explain the particular features and function of each type of certificate.

Before this, every bank used its own terminology to describe its certificates. Unfortunately, this linguistic diversity made it difficult for investors to compare products against each other. Let us take an example. The terms 'kick-out level', 'protect level', 'price threshold', 'barrier value' and 'limit value' were all used in connection with bonus certificates to refer to the same thing, i. e. the barrier. This is a specified price level for the underlying asset. For the bonus to be paid out, the price must not hit or fall below that level during the term of the certificate.

Uniform terminology is an important standard for the certificate sector. Although issuers are under no legal obligation to use the agreed terms, nearly all our members have now adopted them in recognition of the fact that they benefit investors.

Product information sheets: making improvements together

Germany's Investor Protection Act recently established a series of specifications that apply to product information sheets for all securities including certificates. These concise, three-page information sheets allow investors to identify the key features of a product very quickly.

In fact, DDV was ahead of the game here. Well before these new rules in the German Investor Protection Act came into force, the association had already produced model information sheets for its members based on the eleven certificate types.

The new specifications are clearly in the interest of investors, although they do still contain some complex and ponderous terminology. However, even legal standards are not set in stone, and Germany's Consumer Protection Ministry has set up a working group to make product information sheets more understandable. DDV is a member of this working group and takes a pro-active role in efforts to simplify and standardise some of the more complex terminology.

‘Sector and product standards provide greater security, act as a guide for investors and reduce costs.’

Dr Hartmut Knüppel

Derivatives Code: playing by the rules

As we know (at least since 1788, when the German writer Freiherr von Knigge wrote his most famous book ‘On Human Relations’), standards and behavioural norms also play an important role in social interaction. Of course, that should not just be the case in our personal lives but also in business. Accordingly, the certificate sector has developed its own form of Knigge’s work in the form of a Derivatives Code, which sets out guidelines on responsible conduct for issuers with regard to the capital and trust of investors.

All seventeen members of the German Derivatives Association have committed themselves to upholding certain standards covering the issue, structure, sale and marketing of derivative securities. At European level, too, there is a similar code of conduct for the certificate sector. The member associations of our European umbrella organisation (EUSIPA) have reached agreement on a set of principles that match those in the German and Austrian codes on all the key issues.

Key indicators: simplifying the task of comparing products

If we look ahead and ask ourselves what further significant improvements could be made to the transparency and comparability of financial products, once again standards are essential. They should not just apply to products in a single investment class but to all financial products that private investors may wish to purchase. To this end, academic studies have already identified six valuation criteria: risk of loss, creditworthiness risk, saleability, management costs, potential yield and selling costs. For each of these criteria, the researchers have defined an appropriate indicator based on a given scale. Together, these indicators provide a rating for each financial product. As such, private investors would have a brief summary of all the information they need to compare and make reliable judgments on individual products.

Such ideas are not limited to the realm of academia. Legislators recently began to draw up a risk classification system for investment funds that will find its way into product information sheets. A voluntary system of this kind has been in place for certificates since as long ago as 2005. Over 800,000 investment certificates and leverage products are now regularly subjected to a uniform risk assessment on the value-at-risk basis already established in other financial sectors. Anyone who wishes to do so can look up the risk classification of a particular certificate on the DDV website.

This empirical risk indicator should be applied to all financial products and not just to certificates and investment funds. Nevertheless, it is the first important step towards complete product transparency. The challenge now is to develop uniform, easily comprehensible and appropriate standards for the remaining five rating criteria in order to produce overall ratings for all the main financial products. Private investors would then be able to tell immediately whether a particular product is suitable or not. This outcome would certainly be a revolution in product transparency, so it is well worth participating in consultations across every sector. Of course, politics can also make an important contribution in this area.

Political communication: **a difficult balance**

Every association tries to defend itself against regulation of the sector it represents, or so we are led to believe. At the same time, there is without doubt not a single association that one could describe as an ardent supporter of state regulation. As is so often the case, however, the truth probably lies somewhere in the middle. What is certain is that a clear regulatory framework is vital to every properly functioning market economy and that even the financial industry needs a set of rules and a system of monitoring to ensure those rules are upheld.

→ In its regulation of the financial markets, Germany's federal government adheres to five basic principles. In the words of the country's Finance Minister, Dr Wolfgang Schäuble: 'We are reasserting the principle of liability, making the financial system as a whole more resilient in the face of crises, increasing the transparency of markets and products, making sure that those who caused the crisis help to pay for it and strengthening financial supervision.'

Each of these five basic principles is appropriate and important. There was never any doubt about issuer liability within the certificate sector, which does not remotely pose a systemic threat. Nor is there any need for action with regard to supervision. Yet, to some extent, the regulatory initiatives designed to implement the principles of product transparency and equitable burden-sharing have a very considerable impact on the certificates market. A critical examination of the national and European measures already implemented and those in the pipeline presents a very mixed picture.

Many initiatives achieve their intended purpose, but many do not, and regulation frequently hovers between successful implementation and costly bureaucracy that delivers no additional benefit. Regulation that directly or indirectly affects the certificate sector comes in all shapes and sizes, a point that is well illustrated by a quick perusal of product information sheets, the EU Directive on Packaged Retail Investment Products (PRIPs) and the planned financial transactions tax.

Better information for investors

Product information sheets (German acronym: 'PIB'), which were introduced in 2011 under the German Investor Protection and Capital Markets Improvement Act, are a milestone on the way to greater product transparency and investor protection.

Whenever they provide investment advice, banks are now under an obligation to make product information sheets available to their customers for every product they actively offer for sale. These product information sheets cover three pages and contain a brief and comprehensible description of the product's main features, including the product type, the specific risks to be considered by investors, the potential return and the cost. This makes it very simple for consumers to compare different financial products against each other.

Promoting transparency rather than patronising investors

The introduction of product information sheets reflects the view of Germany's coalition government that it is better to promote transparency than patronise investors. It is rightly based on the principle that citizens should be responsible for their own choices and that in order to make those choices they need all the key information. What they do not need is a series of rules dictating which financial products they may buy and which they may not buy. It is partly for this reason that DDV has fully supported product information sheets for financial products right from the beginning and was the first association to draw up concrete specifications in the form of its own model product information sheets for all certificate types.

Quite good but could be better

In terms of comprehensible wording and terminology, however, many of the product information sheets currently in

use still leave much to be desired. That is why Germany's Consumer Protection Ministry set up the Working Group on Improvements to the Comprehensibility of Product Information Sheets (of which DDV is a member).

The title sounds complex, but the idea behind it is simple enough. Product descriptions should be even clearer and more succinct, and they should be comprehensible even to less knowledgeable investors. Equally, there is no reason why Germany's experience in this area should not be incorporated into consumer protection laws at European level.

Europe ready to prescribe product information sheets

Initiatives aimed at strengthening the protection available to small investors have now been proposed by the European Commission. For the certificate sector, the most important of these is the initiative on Packaged Retail Investment Products (PRIPs). The draft regulation put forward by the Commission envisages the Europe-wide introduction of product information sheets for all investment products. To date, information sheets of this kind only exist for investment funds (the Key Investor Information Document or KIID).

A dog's dinner in the making?

Unlike the German product information sheet, the European product information sheet would contain a single product risk indicator – a practice that is already mandatory, incidentally, in the case of investment funds. The scale would range from 'conservative' to 'speculative'. However, the rating would need to be meaningful, and this cannot be said of the risk indicators currently applied to investment funds. If the KIID definition is used, simple equity funds would be lumped together in the same risk category as speculative warrants. That would be like putting a pekinese on a par with a dobermann. For investors, the result could be a complete dog's dinner.

The devil is in the detail

Specific cases such as this illustrate the old adage that 'the devil is in the detail'. Of course, every investor must be able to judge the level of risk inherent in a product before making a commitment, and an incorrect assessment made at this juncture can be fatal. However, this danger must not be exacerbated by the wrong choice of indicator for PRIPs. There is a fine line between well-intentioned and well-thought out regulation, although the hotly debated financial transaction tax, which will allegedly ensure that those who caused the crisis contribute to the clean-up operation, errs without doubt on the wrong side of that line.

Private investors scapegoated

At the end of the day, it is private investors who will pay the additional costs of the financial transaction tax planned for eleven EU member states – and not only when buying or selling securities. It is likely that many securities issuers will attempt to mitigate the substantial burden imposed as a result of the tax by charging higher prices to private investors or by scaling back or even cancelling some of their products. This will particularly affect financial products with an option component such as combined government-subsidised building loan and savings schemes, investment certificates and leverage products.

This will inevitably have a negative impact on the investment opportunities offered to private investors, even though they were certainly not responsible for the financial crisis and as taxpayers are already shouldering the greatest burden of the clean-up. What's more, they already pay tax on their income from financial investments.

For an unpalatable foretaste of how the financial transaction tax will play out, we need to look no further than France, which chose to go it alone and to introduce a national tax on certain financial transactions. The tax places an additional burden on private investors, while institutional investors have adopted avoidance strategies. The overall result has been to damage Paris as a financial centre.

Less is sometimes more

To sum up, regulation is not about 'whether' but 'how'. Rules are crucial to the financial markets, but they must not be so tight that they choke off economic activity. Accordingly, the German Derivatives Association is in favour not of more information but of better information; of targeted and properly considered measures to protect investors. What we need is not more regulation but better regulation.

INFORUM: the key issues in 2012

DDV regularly issues a political newsletter entitled INFORUM. In it we discuss current issues of interest to the certificates sector and make our position clear. The information service is chiefly aimed at political decision-makers in Berlin and Brussels.

→ Financial testing → Prospectus law → Product transparency → Why certificates?

With its quarterly newsletter (in German), the association also participates in political discussions and in shaping opinions. Here DDV publishes important data and facts on the certificates sector and interviews with experts. Each issue, however, focuses on a different political topic.

The focus in 2012 was on subjects such as certificate tests, new rules in prospectus law, product transparency and the simple question 'What is the purpose of certificates?' The newsletter also contains the latest news from the association as well as succinct and easily understandable information on individual product categories. The Pro und Contra section is particularly popular. Here, members of the German Bundestag explain their party's stance on various questions such as 'Should we ban high-frequency trading?' and 'Should Germany raise its top rate of tax?'

INFORUM has now emerged as an important vehicle of political communication. Thanks to this information service, complex issues can be brought straight to the attention of political decision-makers in a clear and concise form.

‘The danger of voter appeasement’

Professor Dr Christian Koziol is the Head of the Department of Finance at Eberhard Karls University of Tübingen, Germany, and a member of the Academic Advisory Board of the German Derivatives Association (DDV). In a study commissioned by DDV, he looks at the potential impact of a financial transaction tax on the options markets.

Professor Koziol, can you outline the main findings of your study?
Koziol: For some options, the financial transaction tax proposed by the European Commission would lead to a tax burden of more than 15 percent of the option value, despite the fact that the Commission envisages a tax rate of just 0.01 percent for equities and debt instrument transactions for both the buyer and the seller. The reason is that in many cases you have to conduct large transactions every day to hedge the option contracts, and that makes them much more expensive.

Why is the tax burden so much higher?
The situation is different from equities. In order to generate options, the relevant market participants have to restructure their hedging portfolios every day. That quickly builds up a large volume of trades, with all the additional costs that entails. In light of this high tax burden on options, which are important as a hedge against certain risks, I believe the financial transaction tax may have a side-effect on our financial system that has not been fully appreciated in the public debate so far. If options become more expensive, then it is fair to assume that there will be less hedging of risks. The financial transaction tax would therefore increase the level of risk to the economy as a whole, and that cannot be the intention of policymakers.

Can you explain the link you make between additional costs and increased risks to the wider economy?
The enormous additional costs imposed by the tax would have a direct impact on the forward markets for institutional investors such as banks, insurers, pension funds and industrial firms. They use standardised option contracts to reduce or avoid business risks such as currency fluctuations. Looking ahead, a massive increase in those transaction costs could lead to a situation where industrial firms no longer hedge risks of this type or at least not to the same extent. This means that, if the financial transaction is implemented, banks and companies would be exposed to additional risks that would not arise without the tax.

In an interview with DDV, Professor Dr Christian Koziol explains the practical implications of a higher than intended tax burden.

‘I believe the financial transaction tax may have a side-effect on our financial system that has not been fully appreciated in the public debate so far.’

Professor Christian Koziol

Would private investors also be hit by a financial transaction tax?
The outcome for private investors would be less variety in the range of products containing an option component, for example government-subsidised building loan and savings schemes, investment certificates and leverage products. We can expect that many securities issuers will charge higher prices, scale back their portfolio or even cancel some of their products. That would mean private investors losing out, too. To date, policymakers have failed to identify either a clear financial objective behind the financial transaction tax or a single positive impact. For me, the financial transaction tax is simply a dangerous tool being used to appease voters.

The complete study, entitled ‘Welche Auswirkungen hat eine Finanztransaktionssteuer auf Optionsmärkte?’ (‘What impact will a financial transaction tax have on the option markets?’) is available on the German-language version of the DDV website at www.derivateverband.de/ENG/Publications/Studies-AndReports

Policy initiatives: **an active role in shaping investor protection**

According to experts, plans to introduce, as part of the PRIPs initiative, product information sheets for all investment products on a European level are not likely to be implemented before 2016. Until then, Germany will hang on to the use of product information sheets on a national level. While these have proven successful, the aim is to make them even clearer for investors. DDV is actively involved in this task.

The main criticisms directed at Germany's product information sheets (widely referred to by the German acronym 'PIB') are the use of complex terminology and ponderous wording. In response, the country's Consumer Protection Ministry has set up a new working group to make the language used in PIBs more accessible and thus improve comparability. Together with the German Ministry of Finance, the government's financial services watchdog, the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin), investor protection groups, other bank associations and DDV, the working group is busy drawing up a list of more succinct and comprehensible terms and wordings. To ensure that the standardised terms in the new product information sheet glossary reflect everyday language as far as possible and avoid the tunnel vision that can afflict institutions, the working group has engaged the help of an independent testing body, exameo, which specialises in checking information on investment

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Börsen-Zeitung

'We need a meaningful risk indicator'

DDV wants to contribute its experience to the legislative process

12 July 2012

Mr Vollmuth, the European Commission recently presented three legislative proposals to increase the protection available to small investors. What do the new rules have in mind for certificates?

Vollmuth: Only one of these legislative proposals is relevant in the case of certificates: Packaged Retail Investment Products (PRIPs). The Commission's draft regulation would extend the use of product information sheets to structured products. The information sheets we have at present, which are known as Key Investor Information Documents (KIIDs for short), only apply to investment funds.

So PRIPs will have a direct impact on certificates. Is the sector resisting the new regulation?

Certainly not. Quite the opposite, in fact. The sector has welcomed it. On the one hand, this just means that the rules that have governed our sector in Germany for over a year will be binding across Europe as a whole. On the other hand, we support the objective of PRIPs, that of increasing product transparency for investors.

In Germany, we have had summary information sheets for financial products for a long time. Has the German approach not been successful?

Again, the opposite is true. The model provided by German legislators, by which I mean product information sheets, or 'PIBs' as they are known, has been a good one. It's important to build on experience, so it makes sense to incorporate the lessons learned in Germany into the European legislative process, while recognising the potential for improvement.

What could be improved?

With regard to implementation, many of the specific details of the Commission's draft proposal have not yet been fixed. So far, it merely contains a framework for the structure, contents and presentation of the product information and authorisations for additional legislation. At least there is now agreement on a single name for the final document within Europe, so we have made some progress. There's no doubt that, for many investors, all the different names used in Germany for product information sheets – PIBs, VIBs and KIDs – are a source of confusion.

‘Good regulation always presupposes proper implementation, especially if you have two regulatory measures affecting the same area.’

Christian Vollmuth

products and financial services for clarity, transparency and comprehensibility.

In addition, the Federal Financial Supervisory Authority will shortly issue a circular in order to clarify the legal requirements governing product information sheets. At present, these requirements are highly abstract and in need of interpretation. By way of example, the Federal Financial Supervisory Authority will explain what exactly is meant by ‘providing a PIB in good time’. For investors and issuers, it is encouraging to see that both the working group and the Federal Financial Supervisory Authority intend to improve product information sheets, although the changes are likely to impose substantial additional costs. It is important to coordinate the results of this review, especially with regard to the implementation schedule, so that the industry only has to revise its product information sheets once.

How will the European version differ from the German product information sheet?
To give you an idea, the intention for the European product information sheet is to condense the product’s risk profile into a single indicator. At the moment in Germany that only applies to investment funds.

Does that make sense?
Absolutely. Every retail investor should obtain a clear picture of a product’s level of exposure to risk before investing, although the risk indicator needs to be meaningful. Unfortunately, that isn’t really the case with the present risk indicator for investment funds, so this system shouldn’t be adopted for certificates.

Why are you not happy with the classification of risk currently applied to investment funds?
It doesn’t give a full picture of the actual risk and yield profile. There is too much differentiation between low risk classes, whereas high-risk product classes with hugely varying risk profiles are all lumped together in the same pot. As a result, you have broadly diversified equity indices and equity funds being assigned to the same risk class as highly speculative options. That is neither appropriate nor helpful to investors.

Certificates are often criticised for being too complex and lacking transparency. Branch products in particular have come in for a lot of criticism. Is it really possible to offer all the most important information about a product on just three pages?
Of course. After all, it’s not a case of explaining complex mathematical formulae, for example. If you want to drive a car, you don’t need to know every detail of how the engine and the transmission work to be able to change gear at the right time. What investors need to know is what the product’s underlying asset is and what conditions are attached to the yield. They also should be aware of the risks and costs before they make a decision. As far as product transparency is concerned, certificates even come out a lot better than many other established financial products. Equally, the belief that greater complexity entails greater risk is mistaken. The hedging strategies built into some products may be very complex, but at the same time they minimise risk to the absolute benefit of investors.

Could Germany theoretically deviate from the proposed EU regulation and introduce a stricter system of risk classification and more detailed PRIPs?
I expect that European legislators will specify the contents of the product information sheets very precisely to ensure maximum harmonisation. That will make it practically impossible to deviate from the new specifications. That’s why it is so important for us to contribute our experience with ‘PIBs’ in Germany into the European legislative process.

Could the way the new regulation is framed end up turning certificates into a niche market?
Definitely not. On the contrary, our view is that a uniform standard for product information sheets will highlight the benefits of certificates compared to other products. Certificates have nothing at all to hide with regard to the transparency of financial products. By contrast, some other forms of investment will need to take a much closer look at themselves.

A strong force in Europe: **EUSIPA, the European umbrella association**

EUSIPA, the European certificate sector's umbrella association, has represented the interests of its members since 2009. Its main focus is on structured securities such as certificates and warrants for private investors. EUSIPA works to bring about an attractive and fair regulatory framework for these financial products and maintains close links with policymakers and the European securities regulator on every aspect of certificates.

EUROPEAN STRUCTURED INVESTMENT PRODUCTS ASSOCIATION

→ Together with its constituent associations, EUSIPA advocates Europe-wide sector standards. These range from a clear system of product classification through to uniform terminology and a wide-ranging voluntary agreement in the form of a sector code. Last year, EUSIPA expanded its role at EU level, partly through the appointment of Thomas Wulf, as its new Secretary General. The association's work centred not only on policy and regulatory matters but also on key issues such as the need to make products more comprehensible and transparent, as well as to improve the protection available to investors.

Regulation and yet more regulation

The sector's umbrella association was kept busy in 2012 by a stream of regulatory initiatives, directives and regulations from the European Union. Some of these have a significant impact on the entire European certificate sector. Take the European Commission's draft regulation on Packaged Retail Investment Products (PRIPs), for example, which envisages the introduction of product information sheets for all investment products throughout Europe. EUSIPA was kept equally busy by the proposals for MiFID II, which will revise the current Markets in Financial Instruments Directive, and by another element of the regulatory tidal wave, the new Markets in Financial Instruments Regulation (MiFIR), which sets out the binding conditions under which national supervisory authorities will be entitled to take action (e. g. in the form of product bans). Other issues addressed by EUSIPA included index regulation and the European financial transaction tax.

Making our voice heard

In addition to its activities in the field of direct regulation at the political level, EUSIPA was involved in a number of projects designed to improve perceptions of the certificates sector across Europe.

Issuers in Belgium had to join together and make their voice heard after restrictions on the sale of certain structured products to private investors were introduced in that country. EUSIPA was very active in helping to set up a new certificates association in Belgium. More details can be found on the website of the Belgian Structured Investment Products Association (BELSIPA) at www.belsipa.be. The establishment of this new association sends out an important message in the direction of Europe.

Looking ahead at 2013, there are plans to forge closer ties with the UK sector association. The application submitted by the United Kingdom Structured Products Association (UK SPA) for associate membership was approved unanimously by EUSIPA's General Assembly.

Developing and maintaining links

The year 2012 was dominated by efforts to develop permanent links with the national and European authorities that play a key role in the legislative and supervisory process, the most important of these being the European Securities and Markets Authority (ESMA) in Paris and the European Banking Authority (EBA) in London.

EUSIPA also expanded its contacts and activities in the area of public relations. The main focus here was on English-language print and online media all over Europe. The media releases issued by EUSIPA were widely reported by journalists. In addition, the association organised numerous background talks, interviews and presentations, published media articles and held international conferences to heighten the profile of the certificates sector as a whole.

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Zertifikate Forum Austria

Projects in 2012: **facts not preconceptions, knowledge not vague ideas**

Half-truths, popular misconceptions and 'assumed knowledge' are simply not a good basis for policy initiatives or for sensible investment decisions. That is why DDV consistently strives to present facts and arguments.

NEW PUBLICATIONS AND PROJECTS IN 2012:

→ **Issues:** data, facts, arguments

→ **Safety:** DDV's Risk Monitor service

→ **Facts:** the certificates sector in figures

→ **Comparability:** certificate indices and index reports

→ **People:** interviews with DDV

→ **Understanding:** DDV website now also in English

Issues: data, facts, arguments

The general public perception of derivatives and certificates is plagued by a whole range of misconceptions. In order to promote greater objectivity in this over-heated debate, DDV has launched a series of publications that address each of the most common criticisms in turn over just a few pages and respond to them with data, facts and arguments.

One example of the most common preconceptions is the idea that certificates are extremely risky and only appropriate for speculators. This is a misleading conclusion, as the figures show. In fact, the opposite is true. Over two-thirds of all the certificate products sold in Germany offer 100 percent capital protection. These products are less risky than equities and most investment funds and are therefore the right choice for risk-averse investors.

2012 publications (available in German) in the series Data, Facts, Arguments:

- 'Wozu braucht man eigentlich Zertifikate?' (What is the point of certificates?)
- 'Sind Zertifikate zu risikoreich?' (Are investment certificates too risky?)
- 'Sind Zertifikate intransparent?' (Do investment certificates lack transparency?)
- 'Gibt es zu viele Zertifikate?' (Are there too many investment certificates?)

→ All publications are available at: www.derivateverband.de/ENG/KnowingTheFacts/FactsAndFigures

Safety: DDV's Risk Monitor service

It could not be simpler. Private investors can sign up to receive an automatic message from DDV on their mobile phone as soon as there is any change in the risk category of one of their certificates. DDV's Risk Monitor, as the service was appropriately named at its launch in June 2012, monitors over 800,000 investment certificates and leverage products. The service is based on an independent analysis by the European Derivatives Group (EDG), which assigns each product to one of five risk categories ranging from conservative to speculative. EDG's ratings are calculated using the widely accepted value at risk (VaR) method.

To ensure that investors are able to keep an eye on the risk level of their portfolio at all times, DDV's Risk Monitor has been specifically designed for use with mobile terminals, primarily smartphones. The new service is a simple tool that helps investors to monitor the risk profile of their certificates. Of course, it is still important to examine each product's certificate test results before buying.

→ For details of the DDV Risk Monitor (in German), please see www.derivateverband.de / DEU / Transparenz / Risikomonitor

Facts: the certificate sector in figures

To make up your own mind, you need reliable information. To this end, in 2012 DDV completely updated its 'Buch der Fakten' (factbook) and added a large amount of additional information. The new edition has a greater focus on Europe and contains a separate chapter on European market data.

The underlying principle is unchanged. The factbook is compact and clearly laid out, so that you can quickly find the data you want. There are answers to questions such as:

- What is the turnover for certificates on stock exchanges in European countries outside Germany?
- Who are the biggest certificate issuers?
- How have different certificate types performed compared to the most popular equities index?
- What proportion of the overall market is attributable to Uncapped Capital Protection Certificates?

Just as the certificates sector offers suitable products for each investor, our factbook contains the corresponding store of data.

→ You can download the factbook (in German) from: www.derivateverband.de / DEU / Publikationen / Buch_der_Fakten

Comparability: certificate indices and index reports

Since February 2012, DDV's website has included the four certificate indices published by Scoach and the European Derivatives Group AG (EDG). These indices track price movements in the most popular forms of investment: Uncapped Capital Protection Certificates, Discount Certificates, Bonus Certificates and Reverse Convertibles. They compare weekly, monthly and annual index performance in the different categories against the EURO STOXX 50 equities index. Price movements are explained and discussed in DDV's monthly index reports.

The new certificate indices and monthly index reports give private investors a set of transparent benchmarks for the most important certificate types. Thanks to the average price figures, it is possible to make a direct comparison with other financial products.

→ The certificate indices and index reports are available (in German) at: www.derivateverband.de / DEU / Transparenz / Indizes and www.derivateverband.de / DEU / Transparenz / IndexReports

People: interviews with DDV

Now the prize-winning question: What do a football trainer, a philosopher and a former prime minister of one of Germany's federal states have in common? The answer: They have all taken part in a new series of interviews published on DDV's website since 2012. Whether Felix Magath, Roland Koch or one of our other guests, they are all proven experts in their own field, even if that field has little or nothing to do with the certificates sector. The insights they offer can be very illuminating and even unexpected. Take philosopher Norbert Bolz, for example, who observes that 'Playing safe all the time is a very risky undertaking.' Each interview is presented in compact form over one or two pages. The list of previous interviewees includes Fredi Bobic, Bernhard Jünemann, Sascha Lobo and Thomas Zwirner.

→ All the interviews to date are available (in German) at www.derivateverband.de / DEU / Publikationen / DDVimGespraech

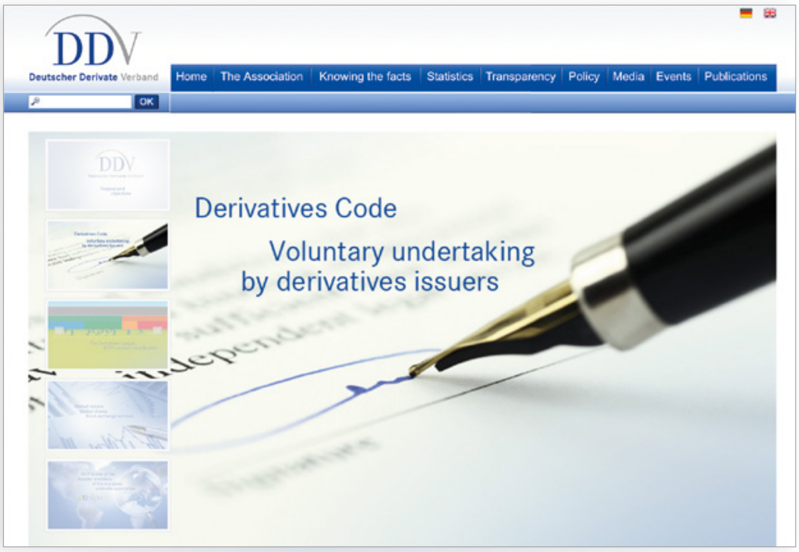
Understanding: DDV website now in English

The financial industry has always been at the forefront of internationalisation. As such, the work of our own organisation increasingly extends beyond the borders of the Federal Republic, even though we still call ourselves the German Derivatives Association. It was only a question of time before DDV went online with an English version of its information portal specifically designed for European institutions and our partner associations. Since March 2012, the site now offers non-German speakers an opportunity to find out about the aims and initiatives of our association and to access data and facts (e. g. market volume, market share and stock exchange turnover) about the German certificates sector.

The English-language portal contains important material of particular relevance to the area of political communications, for example with regard to DDV's transparency initiative, which encompasses uniform terminology, product classification, product information sheets, certificate ratings, credit spreads and a checklist for certificate buyers. We believe this focus will generate additional momentum for our policy initiatives at European level. It also makes it much easier to share information and views with our European partner associations and all our contacts at the European Parliament, the European Commission and the European Securities and Markets Authority (ESMA).

To summarise, our English-language website makes the association's entire body of information accessible to many new users. It widens the scope of DDV's policy activities while reflecting the sector's commitment to cross-border collaboration.

→ DDV's English-language website can be found at www.derivateverband.de / ENG / Home



New members – **welcome aboard!**

DDV's work is now supported by three new members in the form of German banks BayernLB, Helaba and LBB.

→ Thanks to our new members, the association now represents nearly the entire German Savings Banks Finance Group. Helaba's Dirk Mewesen explained why his bank decided to join DDV: 'As one of the biggest issuers on the German certificates market, we want to make our voice heard on regulatory issues and support the association's initiatives on greater product transparency and better protection for investors.' In a similar vein, Stefan Caspari from Landesbank Berlin observed: 'We joined DDV so that we could play an active role, for example, in establishing industry standards that benefit our customers.' Finally, representing BayernLB, Ingmar Alde offered the following rationale: 'We are keen to bring our own experience to bear on regulatory matters by forging closer links within the association. We feel we can also benefit from DDV's expertise on the committee side. Of course, we also want to represent the interests of the Sparkasse savings banks and their customers.'

None of these three banks is a stranger to DDV. In one way or another, they have all been involved for some time in the association's work. Dr Hartmut Knüppel, CEO and Member of the Board of Directors at DDV, is looking forward to collaborating with the association's new members: 'The decision of these three regional banks to join us means that Germany's public sector is now much better represented within DDV. We shouldn't underestimate how important that is to our political communications work.' The three newcomers brought an overall increase in the number of members. Unfortunately, at the same time, J.P. Morgan and the Australian bank Macquarie took the decision to leave us. While Macquarie has closed its European certificates business altogether, the move by J.P. Morgan reflected its intention to focus on institutional customers.

As DDV members, certificate issuers commit themselves to observing a series of industry standards. One of the most important is the Derivatives Code, which provides guidelines on issuing and structuring derivative securities and on their sale and marketing. Adherence to this voluntary code offers additional security for private investors and thus generates greater trust in certificates. As issuers, DDV's seventeen members represent around 95 percent of the German certificates market.

New appointment to Board of Directors

Scheduled elections to DDV's Board of Directors were held in March 2012. Rupertus Rothenhäuser (Macquarie), who had decided not to seek re-election, was succeeded by Grégoire Toublanc (BNP Paribas). The mandates of all other existing members were extended. These were Stefan Armbruster (Deutsche Bank), Klaus Oppermann (Commerzbank) and Jan Krüger (LBBW). As CEO, Dr Hartmut Knüppel is a member of the association's Board of Directors by virtue of his office.

The Board of Directors (from left): Klaus Oppermann, Dr Hartmut Knüppel, Jan Krüger, Grégoire Toublanc and Stefan Armbruster

DDV presents straightforward guide to **prospectus law at members-only event**

One of the key tasks of any association is to keep its members well-informed. While emails are an indispensable tool, they are no substitute for personal contact.

While our members express a great deal of interest in Germany's new prospectus law, for those without a legal background it can be a very complex subject. To meet this information gap, DDV held a members-only event on 29 May 2012 at the offices of Société Générale entitled 'The impact of Germany's new prospectus law on certificate issuers – a ninety-minute overview'. The presentation was designed to give members an insight into new legislation on financial prospectuses in Germany and to provide a clear and understandable explanation of the key provisions.

Dr Gregor Evenkamp (Clifford Chance), Wolf von Kopp-Colomb (Federal Financial Supervisory Authority, BaFin) and Dr Klaus Künzel (Commerzbank AG) discussed the main points of the new law with DDV's Managing Director Christian Vollmuth. The focus was particularly on the law's practical implications for the certificates sector, including from the perspective of the supervisory authority.




Impressions of the event: With the implementation of Germany's new prospectus law imposing substantial costs on issuers, there was plenty of material for a lively discussion.

German Derivatives Day: the industry's traditional autumn get-together

Politicians, journalists, investor protection groups, experts and decision-makers from the certificates sector come together once a year in Frankfurt for the German Derivatives Day. Top of the agenda in 2012 were Europe and the euro.

→ As in the past years, a very prominent figure held the opening address. Hans-Dietrich Genscher, one of the biggest names in German foreign policy, kindly accepted DDV's invitation to address the conference. The former German Foreign Minister explained why he believes that 'Europe stands at a crossroads', with the different paths ahead leading either to its eventual demise or further integration: 'My own position on this is clear. We must continue the work of building Europe. The foundations are already in place in the form of economic, financial and social union. What we still lack is the roof, by which I mean political union. If we had allowed the doubters to have their way, the path to German unification would have been a different one. That is why I would like to see our leaders demonstrate a bolder approach to Europe – right now.'

Dr Hartmut Knüppel, CEO and Member of the Board of Directors at DDV also emphasised the European dimension in his opening speech, noting that certificates actually originated in Germany and have long since evolved to become a thriving export product across Europe. It is a success story that would probably not have been possible without the single European currency. 'If the euro were to disappear, all that success would be under tremendous threat. Europe is now an everyday part of the activities of our member banks, whether they are based inside or outside Germany.'

Dr Hartmut Knüppel also talked about investor protection and how the sector can help to deliver even greater transparency. The subject was then taken up in the afternoon by the two remaining speakers: Professor Dr Lutz Johanning from the WHU – Otto Beisheim School of Management with a lecture entitled 'Effective protection for investors: testing financial products' and Dr Günter Birnbaum from the Federal Financial Services Supervisory Authority (BaFin), who posed the question 'Investor protection in the dock – the same rules for all investors?'

Amid the stylish surroundings of Frankfurt's Kennedy Villa, the German Derivatives Day was again attended by over 250 invited guests. As well as offering a series of stimulating talks on current political issues and developments, the conference is of course an excellent opportunity to forge new contacts and maintain existing business relationships.

Woche. The panel included Günter Birnbaum (Federal Financial Services Supervisory Authority, BaFin), Alexander Schäfer (German Federal Ministry of Food, Agriculture and Consumer Protection / BMELV) and Marc Tüngler (Deutsche Schutzvereinigung für Wertpapierbesitz / DSW, Germany's oldest and largest association for private investors).

Investor protection? Of course, but how?

The event concluded with a podium discussion on the issue of investor protection chaired by Henning Krumrey, who runs the Berlin office of Germany's business newspaper Wirtschafts-

Top: Hans-Dietrich Genscher, former German Foreign Minister (left); Dr Hartmut Knüppel, CEO and Member of the Board of Directors at DDV (right) // Centre: DDV Managing Directors Lars Brandau and Christian Vollmuth in conversation

The panel discussion on investor protection revealed a good deal of common ground. From left to right: Günter Birnbaum (BaFin), Alexander Schäfer (BMELV), Marc Tüngler (DSW) and the panel chair Henning Krumrey (WirtschaftsWoche).

Breakfast: investor protection at 8.00 a.m.

Sometimes you have to make an early start if you want to bring together politicians and business leaders around the same table. DDV's Certificates Breakfast is no exception.

The teams working for members of the German Bundestag, the political experts who advise parliamentary groups and the policy specialists employed by government ministries all play an important role in political life in Berlin. So when DDV holds its Certificates Breakfast, now an established event, these are precisely the groups it wants to bring together. The third such event was held on 30 October 2012 at DDV's Berlin offices. Once again, it provided an opportunity for representatives of the certificates sector to meet the people who work for the country's political decision-makers and to talk about a current issue related to the financial markets before everyone headed to the office. Under the title 'Effective protection for investors: financial product testing', Professor Dr Lutz Johanning launched into a wide-ranging presentation that covered MiFID, UCITS, PRIPs and PIBs. Coffee was of course available to help cope with these complex issues at such an early hour. There is certainly plenty to digest at DDV's Certificates Breakfast – not only from the buffet but also in terms of the subject matter! Naturally, too, there is always a chance to stay and chat about different topics with sector representatives after the presentation.

Incidentally, as an expert in empirical capital market research, Lutz Johanning reached an interesting conclusion about comparisons between the most important financial products, i. e. that regulatory policy needs to focus not on a subjective view of each product's complexity but on an objective measure of transparency. Every investor will make a different judgment of product complexity and will benefit directly from improvements in transparency. If the guests at our third Certificates Breakfast took away just this one insight, then the event will have been a complete success.

Certificates-Brunch:
Topics, theories and contexts

In December 2012, DDV held its first Certificates Brunch for business and financial journalists at the Frankfurt financial centre. This new event is intended to provide well-researched background information on topical issues and to encourage an informal exchange of ideas in a relaxed atmosphere.

Back in the ‘good old days’, it was an unwritten law that media conferences and other events aimed at the journalistic fraternity should never be held before eleven o’clock. Those days are now well behind us. Nevertheless, this was the time that DDV chose when inviting Frankfurt’s business and financial journalists to its first Certificates Brunch at its Frankfurt office on 6 December 2012.

Dr Hartmut Knüppel, CEO and Member of the Board of Directors at DDV, kicked off the event with a review of political lobbying in Berlin and Brussels, in which he highlighted the growing importance of European decision-making bodies.

This was followed by another issue that is increasingly occupying the sector: ‘Regulation of the certificates market in Germany and Europe. How things stand and how they may develop.’ Reflecting the dual nature of this issue, it was addressed by two expert speakers, DDV Managing Director Christian Vollmuth and EUSIPA Secretary-General Thomas Wulf.

After the presentations, there was an opportunity for guests to explore the issues, many of which are highly complex, in further detail. Of course, we would like to think that the event also threw up the odd idea for a news item on the world of certificates.

The growing complexity of regulation generated a consistent flow of questions among journalists.

DDV-Journalism Award: in praise of simplicity

One of the marks of a good journalist is an ability to explain highly complex issues in terms that are simple and generally understandable. In 2012, DDV again presented awards to five journalists in recognition of their talent for presenting financial topics in an interesting, jargon-free manner.

Top: Fredi Bobic (Sports Director at VfB Stuttgart) in conversation with DDV Managing Director Lars Brandau

Below (from left to right): 2012 prize winners Matthias von Arnim, Dr Bernhard Jünemann, Petra Maier, Jochen Dietrich and Dr Martin Ahlers

Dr Bernhard Jünemann named 'Journalist of the Year'

The '2012 Journalist of the Year' award and EUR 5,000 prize money went to Dr Bernhard Jünemann, whose post-doctoral career has established him as a financial expert and one of Germany's foremost stock market journalists. He has been summarising events on the financial markets for many years and can look back on a distinguished career in journalism with the WirtschaftsWoche (business newspaper), Telebörse (financial news TV programme) and the investor magazine Börse Online. He joined DAF Deutsches Anleger Fernsehen (a private German TV station focusing on stock market news) in 2009 and has also written several books on financial subjects.

Explaining the jury's unanimous decision, DDV Managing Director Lars Brandau noted that 'Bernhard Jünemann is a proven expert in the fields of investment strategy and stock market psychology. His record of high-quality journalism stretches back many years, and his reports shed light not only on the latest events but also on long-term economic developments.'

The 2012 prizewinners in the four other categories (each worth EUR 1,000) were:

- → Daily newspaper category (print media): Dr Martin Ahlers, 'Komplizierter Handel mit der Garantie' ('The complex nature of trading with capital protection') in €uro am Sonntag
- → Magazine category (print media): Petra Maier, 'Lukrative Anleihen' ('Lucrative alternatives') in €uro
- → Online media category: Matthias von Arnim, 'Trendwende bei Zinsen' ('Interest rates reverse trend') in ZertifikateNews
- → Audio / Video category: Jochen Dietrich, n-tv Zertifikate

Every year DDV, Boerse Stuttgart and Scoach present their business journalism award on the eve of the leading trade fair and congress for finance and investment, Invest. The competition aims to recognise well-researched, succinct and clearly understandable articles on the certificates market as well as reports that promote the fundamental principles of market economics in the financial industry.

Researching the history of banking: four centuries of derivatives

Most people think that certificates and the like are merely products of our recent financial history. While that is not wrong, their predecessors date back four hundred years. The 34th Symposium of Germany's Institute for Research into Banking History looked at the story of derivatives and what we can learn from it.

'Derivatives and financial stability – four hundred years of experience' was the motto of a symposium organised by DDV in May 2012. The event, held at the Allianz Forum in Berlin, attracted German and international academics as well as representatives from the world of politics, the supervisory authorities and the banking industry. The expert presentations ranged from derivatives trading in 17th century Amsterdam through to the current debate on regulatory initiatives at the political level.

First up was Lodewijk Petram with a research paper headed 'Risk management on the first modern securities market'. Next came Alexander Engel with a series of deliberations on the 'Regulation of exchange forward trading during the German Empire'. Skipping over the 20th century, the next contributor, Professor Günter Franke, took us right up to the present day with the 'Establishment of DTB Deutsche Terminbörse (the former German derivatives exchange) and the conflict between foreign models and national caution'. The final talk was given by Professor Lutz Johanning, who analysed the 'Importance of derivatives for the proper functioning of financial markets'. To round off the event, the panel addressed the question: 'Derivatives – a curse or a blessing?'

A surprise discovery: derivatives have been around for 400 years, certificates just for the last 22.

Of course, it is not difficult to identify DDV's own position on this matter. At any rate, compared to the centuries-old history of derivatives, our association is incredibly young – a mere five years old, in fact!

Public relations at DDV: **communicating viewpoints, shaping the debate, building trust**

‘Stick to facts, facts, facts, and never lose sight of your readers.’ With just a few small adjustments, this memorable advice, featured in an advertising spot for a German news magazine, can also be applied to DDV’s media and public relations work. In line with our fundamental principles, our aim is to encourage positive attitudes towards the issues affecting our association by presenting solid data, facts and arguments. In our case, though, the message is not only aimed at readers but also at a wider audience.

→ DDV’s public relations work centres on political decision-makers, journalists, consumer protection bodies, academics and of course investors themselves. We aim to explain the value of certificates, as a financial instrument, to these target groups by providing well-researched information, adopting a clear stance and helping to shape opinions in so far as they relate to the activities of our sector. We make use of both traditional and modern communication tools to disseminate information and promote dialogue, always with a view to establishing and maintaining lasting relationships based on mutual trust.

Reliable information is the best starting point

Communication can only generate trust if it is credible and honest, especially when it relates to complex financial issues. Reliable information tailored to the needs of specific target groups is the best starting point if we want to ensure that politicians, journalists, academics and investor protection groups are able to develop an informed opinion of the certificates sector. To provide this information, we harness rapid developments in the media that offer us a wealth of professional communication tools.

Our multimedia website is clearly structured and contains a wide range of statistical data on the certificates market (market volume, stock market turnover and market share) and numerous brochures, podcasts and videos that cover every aspect of certificates. Adopting the slogan ‘Fighting preconceptions with facts’, our website addresses the most common criticisms directed against certificates and counters them with data, facts and arguments. In addition, the portal contains our INFORUM newsletter, online articles, a large number of topical investor and issuer surveys, as well as details of forthcoming events. Those who prefer their information on

certificates in the form of brochures or books can request everything they need free of charge from our order centre.

Knowing and understanding the media

Although we are now firmly in the Internet age, we still attach great importance to traditional media relations. The media act as communication multipliers that help us to reach our target groups. We provide detailed information about market developments and sector policy in the form of media releases, guest articles and interviews in the printed media. At the same time, we explain our own position on the latest political issues.

Journalists expect us to furnish them above all with honest and helpful information written in simple and understandable language and of genuine value to their readers. To ensure that editorial teams perceive us as reliable and credible partners, we place great emphasis on personal contact and dialogue. Of course, communication tools that promote dialogue are indispensable for all PR work and not just in media relations.

Shaping the dialogue

It is impossible to build a vibrant relationship without genuine interaction with our contacts. DDV organises various events that are specifically designed to foster an exchange of ideas and views.

The German Derivatives Day, DDV's journalism awards, the Certificates Breakfast in Berlin and the regular scheduled meetings (Jour Fixe) of our members in Frankfurt / Main all give us a chance to talk to people face to face about the facts of the certificates industry, present our arguments and promote mutual understanding. Members of DDV's Management take an active part in panel discussions and debates, and they outline the position of the certificates sector in numerous presentations.

There is no doubt that in PR work the main challenge is to compete for the scarce attention of different audiences. Success in this area requires stamina. We will continue to deploy facts as our best weapon against preconceptions. There is a place for certificates in every successful portfolio. That is and will remain our core message.

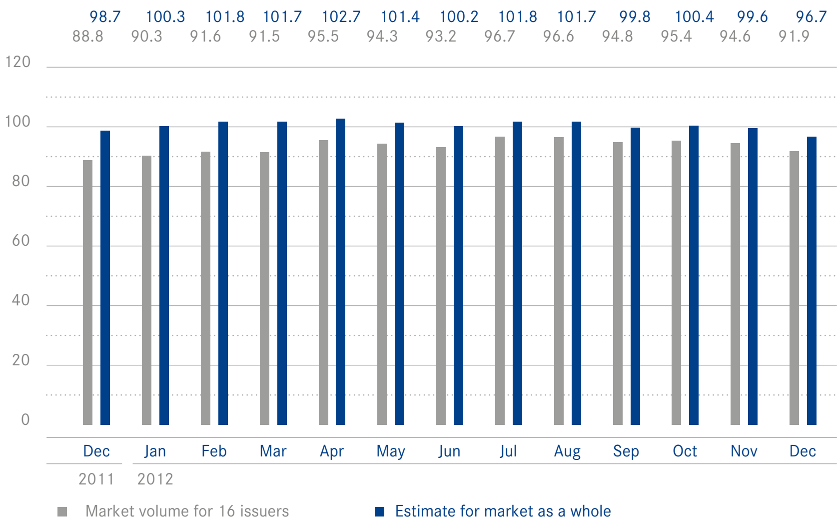
Information and dialogue are at the heart of DDV's public relations work.

The certificates market in 2012: **facts and figures**

With a deteriorating sovereign debt crisis and a consistent flow of negative headlines, 2012 was marked by uncertainty among private investors, including many with an interest in certificates. Reflecting this current mood, many opted for certificates with one key feature – safety.

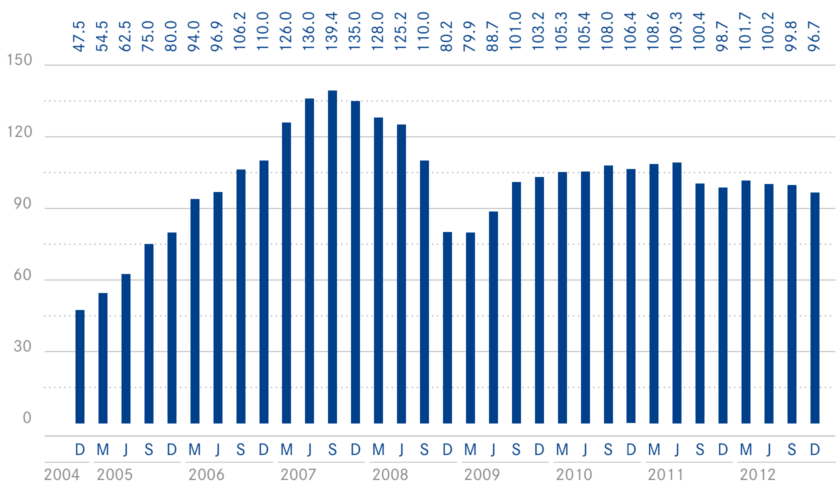
Market volume

Development of the certificate volume in Germany since December 2011 (in EUR billion)



2012 was a year of consolidation in the certificates sector with investors piling around EUR 100 billion into investment and leverage products.

Development of the certificate volume in Germany since December 2004 (in EUR billion)



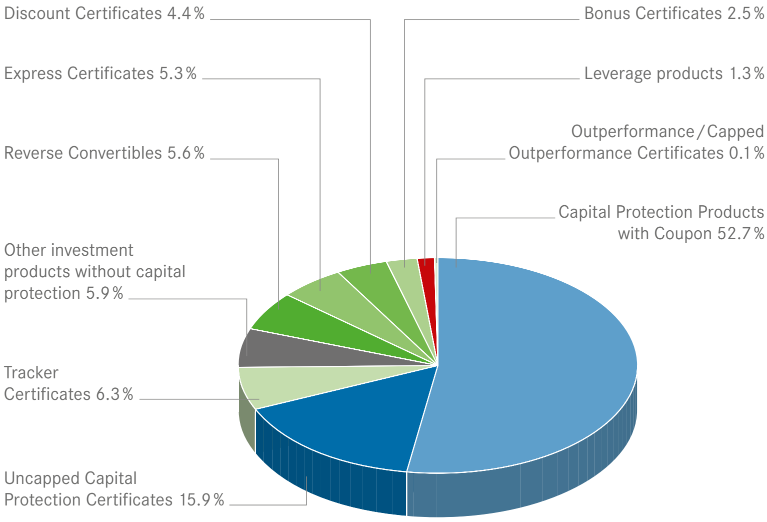
Although market volume decreased to below EUR 80 billion in spring 2009 in the wake of the financial market crisis, certificates and warrants subsequently returned to favour among private investors. At present, the total market volume has stabilised at around EUR 100 billion.

Market volume by product category

Category	Market volume December 2012 € '000	Market volume December 2012 in percent	Market volume adjusted for price changes € '000	Market volume adjusted for price changes in percent	Number of products #	Number of products in percent
Investment products						
Uncapped Capital Protection Certificates	14,594,981	16.1	14,543,982	16.1	3,434	1.1
Capital Protection Products with Coupon	48,456,110	53.5	48,431,964	53.6	2,356	0.7
Reverse Convertibles	5,109,785	5.6	5,090,286	5.6	40,223	12.4
Discount Certificates	4,051,757	4.5	4,026,604	4.5	140,294	43.2
Express Certificates	4,837,943	5.3	4,787,566	5.3	2,635	0.8
Bonus Certificates	2,284,435	2.5	2,286,585	2.5	131,265	40.4
Tracker Certificates	5,773,363	6.4	5,755,774	6.4	2,759	0.8
Outperformance / Capped Outperfomance Certificates	69,738	0.1	68,717	0.1	594	0.2
Other investment products without capital protection	5,452,748	6.0	5,429,723	6.0	1,255	0.4
	90,630,861	**98.7**	**90,421,201**	**98.6**	**324,815**	**45.1**
Leverage products						
Warrants	511,536	41.3	541,886	40.9	256,371	64.9
Knock-Out Products	726,298	58.7	781,697	59.1	138,591	35.1
	1,237,834	**1.3**	**1,323,584**	**1.4**	**394,962**	**54.9**
Total	**91,868,695**	**100.0**	**91,744,785**	**100.0**	**719,777**	**100.0**

There was little change during the reporting period in the relative proportions of investment certificates and leverage products. In December, investment products accounted for almost 99 percent of total market volume, with leverage products making up just over 1 percent.

The prevailing mood among private investors in 2012 was one of caution. As a result, certificates offering full capital protection attracted over two-thirds of total market volume.



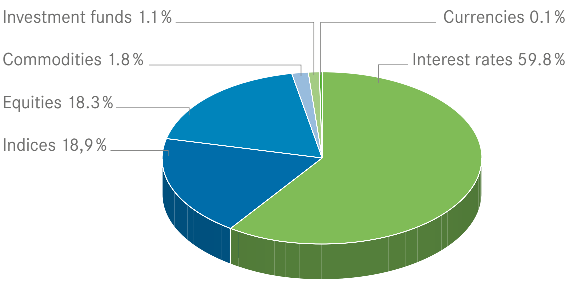
Market volume by underlying

Category	Market volume December 2012 € '000	Market volume December 2012 in percent	Market volume adjusted for price changes € '000	Market volume adjusted for price changes in percent	Number of products #	Number of products in percent
Investment products						
Indices	17,090,048	18.9	16,993,817	18.8	94,936	29.2
Equities	16,607,892	18.3	16,492,331	18.2	223,645	68.9
Commodities	1,633,890	1.8	1,688,195	1.9	2,409	0.7
Currencies	109,588	0.1	109,681	0.1	47	0.0
Interest rates	54,191,588	59.8	54,143,464	59.9	3,211	1.0
Investment funds	997,855	1.1	993,714	1.1	567	0.2
	90,630,861	**98.7**	**90,421,201**	**98.6**	**324,815**	**45.1**
Leverage products						
Indices	476,808	38.5	493,262	37.3	93,530	23.7
Equities	460,916	37.2	468,697	35.4	242,214	61.3
Commodities	232,506	18.8	291,763	22.0	26,216	6.6
Currencies	44,423	3.6	42,277	3.2	30,881	7.8
Interest rates	23,000	1.9	27,411	2.1	2,065	0.5
Investment funds	182	0.0	173	0.0	56	0.0
	1,237,834	**1.3**	**1,323,584**	**1.4**	**394,962**	**54.9**
Total	**91,868,695**	**100.0**	**91,744,785**	**100.0**	**719,777**	**100.0**

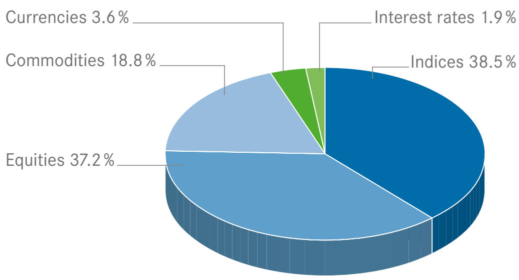
Certificates based on interest rate underlyings proved the most popular form of investment product in 2012 (around 60 percent of all turnover from certificates) as a result of the considerable market volume of capital protection products with coupons.

There was a significant difference between the number of products traded and actual market volume in terms of underlyings. Looking at the number of products, equities were the dominant underlying. They accounted for 69 percent of all investment products and 61 percent of all leverage products.

Investment products by underlying



Leverage products by underlying

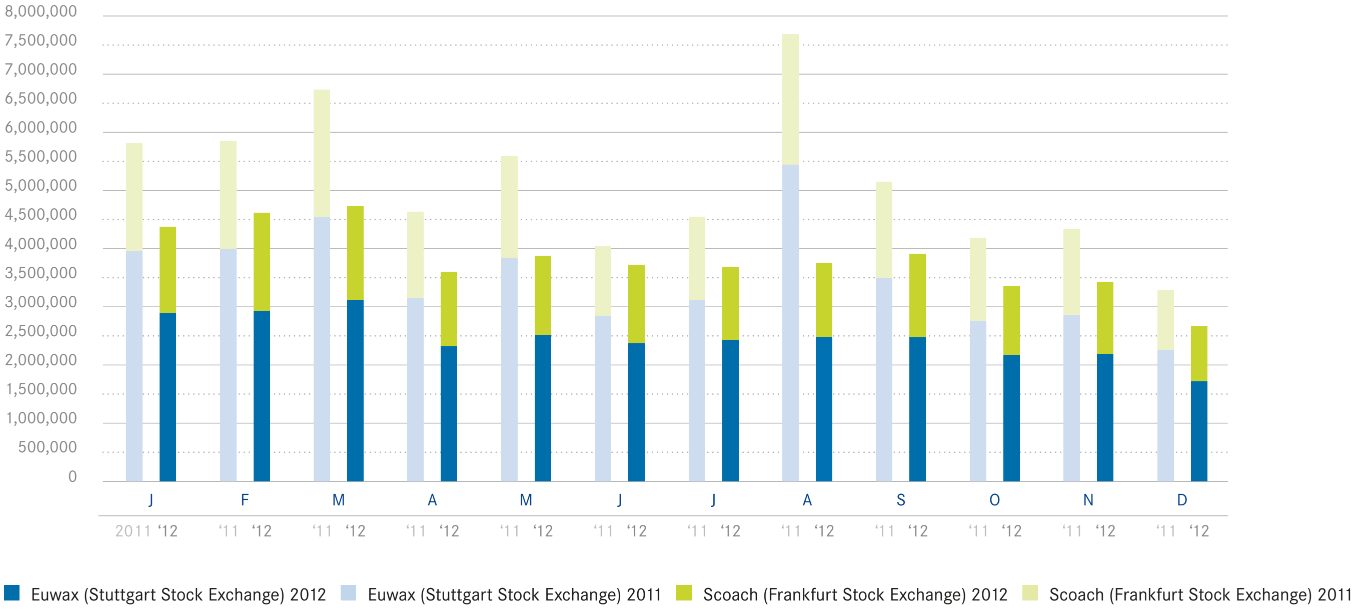


The attention of private investors was mainly directed at products with interest rate underlyings, which accounted for almost 60 percent of the total volume of investment products. Indices made up around 19 percent, closely followed by equities that occupied the third place with approx. 18 percent.

Turning to leverage products, certificates with index underlyings were the most popular choice at nearly 39 percent of the total. Equity underlyings contributed 37 percent.

Stock exchange turnover

Stock exchange turnover during the course of the year

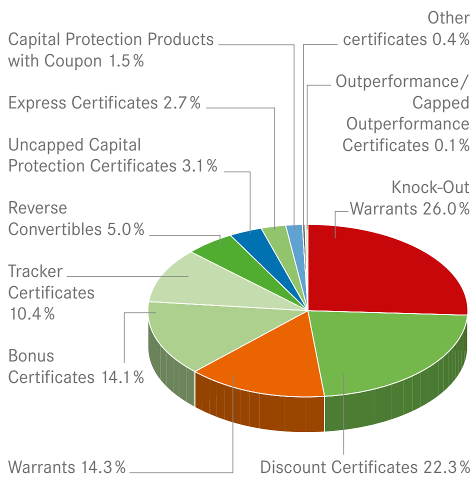


Trading volumes on stock exchanges in Germany and other European countries declined sharply in 2012. This trend also affected the certificates exchanges in Frankfurt and Stuttgart, where private investors showed a marked reluctance to buy. Despite increases in the DAX© and MDAX©, many private investors were very unsettled and particularly cautious about when to start reinvesting more heavily in securities.

Stock exchange turnover by product category, January to December 2012

Product categories	Total stock exchange turnover		Stuttgart (Euwax)		Frankfurt (Scoach)	
	€ '000	Market share in percent	€ '000	Distribution in percent	€ '000	Distribution in percent
Investment products						
Uncapped Capital Protection Products Certificates	14,002,038	3.1	5,943,751	42.4	8,058,287	57.6
Capital Protection Products with Coupon	7,021,100	1.5	2,588,922	36.9	4,432,177	63.1
Reverse Convertibles	22,799,289	5.0	16,214,521	71.1	6,584,768	28.9
Discount Certificates	101,968,645	22.3	68,356,892	67.0	33,611,753	33.0
Express Certificates	12,422,491	2.7	7,709,345	62.1	4,713,146	37.9
Bonus Certificates	64,617,585	14.1	45,033,114	69.7	19,584,471	30.3
Tracker Certificates	47,536,415	10.4	31,062,050	65.3	16,474,365	34.7
Outpeformance / Capped Outperformance Certificates	671,075	0.1	429,550	64.0	241,525	36.0
Other investment products without capital protection	1,918,737	0.4	615,212	32.1	1,303,525	67.9
	272,957,375	**59.7**	**177,953,357**	**65.2**	**95,004,017**	**34.8**
Leverage products						
Warrants	65,435,299	14.3	39,673,282	60.6	25,762,017	39.4
Knock-Out Products	118,822,340	26.0	78,420,482	66.0	40,401,858	34.0
	184,257,639	**40.3**	**118,093,764**	**64.1**	**66,163,875**	**35.9**
Total	**457,215,014**	**100.0**	**296,047,121**	**64.8**	**161,167,893**	**54.4**

Although leverage products made up only just over 1 percent of market volume, they generated 40 percent of stock exchange turnover.

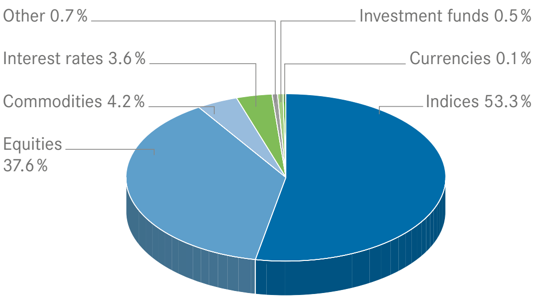


Stock exchange turnover by underlying, January to December 2012

Product categories	Total stock exchange turnover		Stuttgart (Euwax)		Frankfurt (Scoach)	
	€ '000	Marketshare in percent	€ '000	Distribution in percent	€ '000	Distribution in percent
Investment products						
Indices	14,547,042	31.8	9,634,594	66.2	4,912,447	33.8
Equities	10,256,805	22.4	7,142,044	69.6	3,114,760	30.4
Commodities	1,148,525	2.5	625,479	54.5	523,046	45.5
Currencies	30,688	0.1	11,540	37.6	19,149	62.4
Interest rates	989,727	2.2	280,758	28.4	708,969	71.6
Investment funds	139,894	0.3	59,452	42.5	80,442	57.5
Other	183,056	0.4	41,468	22.7	141,588	77.3
	27,295,737	**59.7**	**17,795,336**	**65.2**	**9,500,402**	**34.8**
Leverage products						
Indices	11,314,961	24.7	7,582,459	67.0	3,732,502	33.0
Equities	4,316,839	9.4	2,448,679	56.7	1,868,160	43.3
Commodities	1,761,298	3.9	1,153,116	65.5	608,181	34.5
Currencies	645,100	1.4	375,522	58.2	269,578	41.8
Interest rates	387,071	0.8	249,337	64.4	137,734	35.6
Investment funds	426	0.0	261	61.3	165	38.7
Other	70	0.0	2	3.3	68	96.7
	18,425,764	**40.3**	**11,809,376**	**64.1**	**6,616,388**	**35.9**
Total	**45,721,501**	**100.0**	**29,604,712**	**64.8**	**16,116,789**	**35.2**

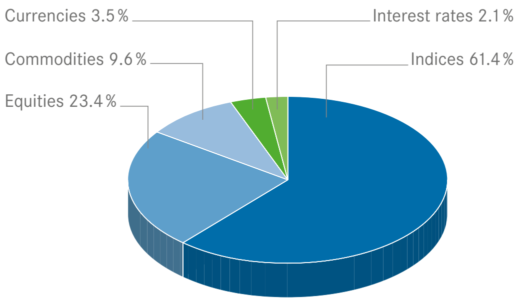
The distribution of underlyings was roughly similar for both investment and leverage products in stock exchange trading. Indices were the most popular, followed by equities. Commodities took third place in both categories.

Investment products by underlying



Index underlyings accounted for over half of all investment certificate turnover in 2012. Equity underlyings made up almost 38 percent, while commodities stood at 4 percent.

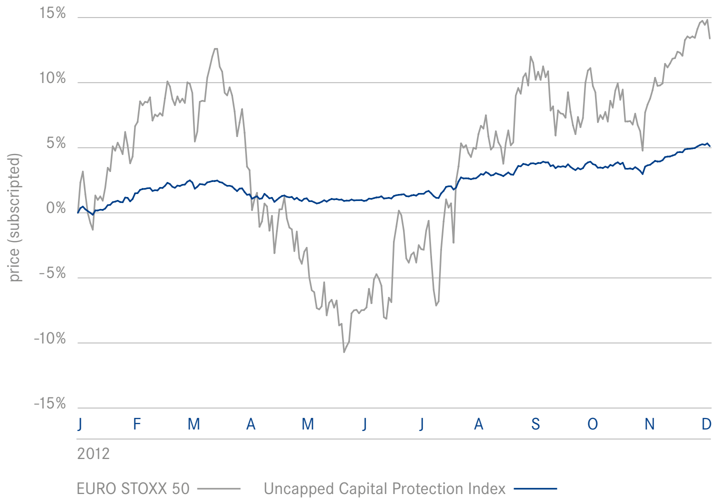
Leverage products by underlying



With regard to warrants and knock-out warrants index underlyings took the biggest share on 61 percent, followed by equities on 23 percent and commodities in third place on just below 10 percent.

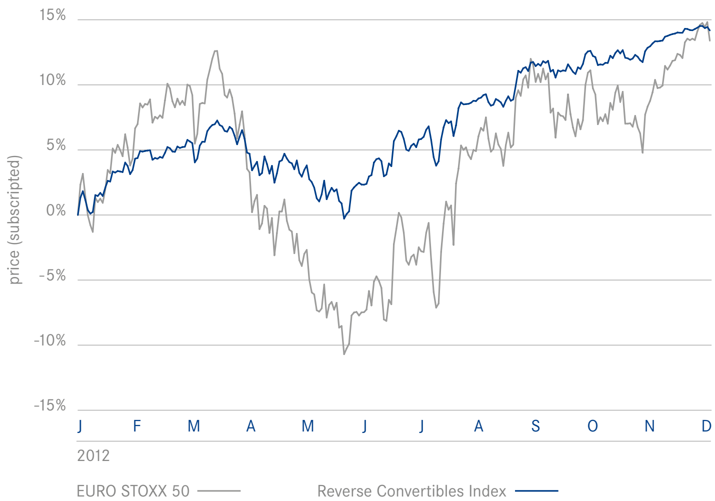
Certificate indices: comparing certificate performance

DDV supports the initiative of Scoach, the Frankfurt Stock Exchange's trading platform for structured products, and of the European Derivatives Group (EDG) to publish indices for various categories of certificate. These show the average performance of certificates and allow a direct comparison to be made between this and the performance of other financial products.



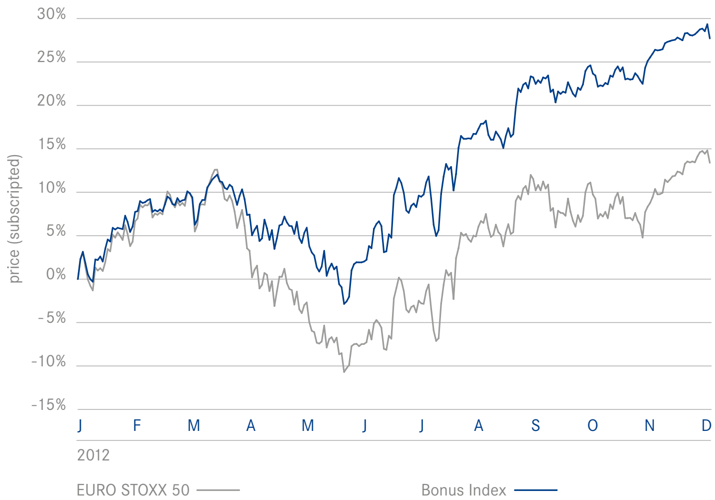
Uncapped Capital Protection Index

Uncapped Capital Protection Certificates are designed to protect investors against losses. During the second quarter of 2012, when the lead European index (EURO STOXX 50) declined sharply, the Uncapped Capital Protection Index remained largely stable. Although yields fell during market upswings in the first and fourth quarters, the index nevertheless generated a consistent albeit modest monthly return with an overall increase of 5.1 percent on the year.



Reverse Convertibles Index

At the start of the year, the Scoach Reverse Convertibles Index was unable to keep pace with the rapid increase in the EURO STOXX 50, although Reverse Convertibles showed off their true value in the second quarter. Unlike the EURO STOXX 50, the Reverse Convertibles Index only experienced a moderate decline. Over the year as a whole, the index climbed 14.2 percent compared to a 13.4 percent rise in the EURO STOXX 50.



Bonus Index

Bonus Certificates certainly proved their worth in 2012. In the first quarter, they almost mirrored the upswing in the EURO STOXX 50, while in the second quarter they suffered a much less pronounced decline. The Bonus Index maintained a more or less constant lead on the EURO STOXX 50 up to early September and then stretched out that lead in the fourth quarter thanks to a reduction in volatility on European markets. Over the year as a whole, the Bonus Index produced an impressive return of 27.7 percent.

DDV at work: **organisation, committees and executives**

The association‘s boards and committees, including the Board of Directors, all deal with specific issues. Nearly every week the responsible parties meet in various groups. A look at the schedule for 2012 shows as many as eight meetings of the Board of Directors, eighteen meetings of the three committees and numerous task force and project group meetings. In addition, there are general meetings, meetings of the Academic Advisory Board and meetings of the European umbrella association, EUSIPA.

→ General meetings

Tenth General Meeting on 6 March 2012
Eleventh General Meeting on 24 September 2012

→ Meetings of the Board of Directors

10 February 2012
6 March 2012
26 April 2012
23 May 2012
22 June 2012
16 August 2012
12 October 2012
29 November 2012

→ Academic Advisory Board

Fifth meeting on 2 July 2012
Sixth meeting on 7 December 2012

→ Jour fixe

Sixth Jour fixe on 28 February 2012
Seventh Jour fixe on 18 June 2012
Eighth Jour fixe on 28 November 2012

→ EUSIPA Board Meeting

Eighth meeting on 12 March 2012, Brussels
Ninth meeting on 18 September 2012, Brussels

→ Committee meetings

Regulation and Investor Protection Committee

Special meeting on 10 January 2012
Eighteenth meeting on 7 February 2012
Nineteenth meeting on 18 April 2012
Twentieth meeting on 13 June 2012
Twenty-first meeting on 19 September 2012
Special meeting on 11 October 2012
Special meeting on 7 November 2012
Twenty-second meeting on 28 November 2012
Special meeting on 5 December 2012

Prospectus Law Committee

Nineteenth meeting on 7 February 2012
Special meeting on 7 March 2012
Special meeting on 3 April 2012
Twentieth meeting on 18 April 2012
Twenty-first meeting on 13 June 2012
Twenty-second meeting on 19 September 2012
Twenty-third meeting on 28 November 2012

Tax Committee

Fifteenth meeting on 6 June 2012
Sixteenth meeting on 6 December 2012

→ Board of Directors

Stefan Armbruster
Managing Director at Deutsche Bank AG, responsible for the distribution and marketing of certificates and warrants.

Jan Krüger
Head of Equity Derivatives Sales in the Retail Clients division at LBBW and responsible for product management and the distribution and marketing of structured products and debt instruments to private customers.

Klaus Oppermann
Head of Public Distribution in the central Corporates & Markets business division at Commerzbank AG and responsible for the public distribution of securitised derivatives in Germany and the other European countries.

Grégoire Toublanc
Head of Exchange Traded Solutions at BNP Paribas, responsible for the distribution and marketing of structured products.

Dr Hartmut Knüppel
CEO and Member of the Board of Directors at Deutscher Derivate Verband (DDV). He has previously served in various roles in politics and industry.

As of February 2013

→ Strategic Board

Frank Burkhardt
Société Générale S. A.
Managing Director

Michael Reuther
Commerzbank AG
Member of the Board of
Managing Directors

Serge Demolière
Landesbank Berlin AG
Member of the Board of
Managing Directors

Carola Gräfin von Schmettow
HSBC Trinkaus & Burkhardt AG
Member of the Management Board

Lars Hille
DZ BANK AG
Member of the Board of
Managing Directors

Dirk Schmitz
Deutsche Bank AG
Managing Director
Head of Coverage Germany & Austria

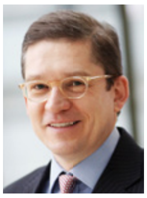
Philip Holzer
Goldman Sachs International
Partner

Patrick Sollinger
UniCredit Bank AG
Managing Director

Rainer Krick
Helaba – Landesbank Hessen-Thüringen
Member of the Board of
Managing Directors

Hans-Joachim Strüder
Landesbank Baden-Württemberg AG
Member of the Board of
Managing Directors

Torsten Murke
BNP Paribas S. A.
Head of Corporate and Investmentbanking



Roger Studer
Bank Vontobel AG
Head of Investment Banking

Nils Niermann
Bayerische Landesbank
Member of the Board of
Managing Directors

Stefan Winter
UBS Deutschland AG
Member of the Executive Board

As of February 2013

→ Academic Advisory Board

Professor Dr Sigrid Müller (Chairperson)
Humboldt-Universität zu Berlin, Germany

Professor Dr Lutz Johanning
WHU – Otto Beisheim School of Management, Germany

Professor Dr Christian Koziol
Universität Hohenheim, Germany

Professor Dr Bernd Rudolph
Ludwig-Maximilians-Universität, Munich, Germany

Professor Dr Dirk Schiereck
Technische Universität Darmstadt, Germany

As of February 2013

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→ Tax Committee


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