

Media release

Fairness Code for the effective protection of investors The structured products industry is setting new standards in cost transparency

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The members of Deutscher Derivate Verband (DDV), the German Derivatives Association, finally adopted the new Fairness Code at their Extraordinary Meeting on 21 October 2013. This Code is a voluntary undertaking by the members of the DDV, who represent 95 percent of the structured products market in Germany. The new Fairness Code contains significantly stricter guidelines for structured products than the previous Derivatives Code.

“The term *Fairness Code* places an even greater emphasis on the spirit of our voluntary undertaking, i.e. fairness in dealing with customers. The concept of transparency is particularly important in this context. Therefore cost transparency, in addition to product transparency, now also plays a crucial role in the Fairness Code. Structured products are now unequivocally one step ahead as regards cost transparency. No other industry is so open with its customers”, said Hartmut Knüppel, CEO and Member of the DDV Board of Directors.

As of spring 2014 the issuer estimated value (IEV) is to be shown in the product information sheets of the structured products. The issuer estimated value is essentially determined by the model price of the product components, the finance income and the necessary hedging costs. The issuer estimated value therefore reflects the market price of the product among professional market participants. A similar approach is adopted by the internationally recognised financial reporting standard IFRS 13.

The structured products industry has also agreed that in future, where investment products with full capital protection are concerned which have a minimum and a maximum interest yield, the respective probabilities of occurrence must be indicated as at the date when the product conditions are determined in the relevant product information sheet. “The crucial factor is and remains the market expectation of the investor, however the indication of the probability of occurrence is an important piece of additional information which helps the investor make a better assessment of the potential returns of the investment product. It would be ideal, of course, if in future other providers of capital protected financial products with whom we are in competition were also to provide this information for private investors”, said Christian Vollmuth, Managing Director at the DDV.

The Code contains many other voluntary undertakings further to this, however. In the new Fairness Code the DDV members expressly commit to design their structured products fairly. They must ensure that there is no imbalance between potential returns and risk where the market expectation associated with the pay-off profile of the structured instrument is concerned. Also, they must not promote any product features which only occur under unlikely circumstances, and they must use

clear, unambiguous terms when designating the products. Furthermore, in future, the members will not issue any structured products which do not satisfy certain minimum conditions or relate to specific underlying instruments.

The Fairness Code comes into effect on 1 November 2013 and applies to new structured products offered publicly from that date onwards. The issuer estimated value and the probabilities for the minimum and maximum interest yield for investment products with full capital protection will be published at the latest as from 1 May 2014 in the product information sheets of new products offered publicly from that date onwards.

Deutscher Derivate Verband (DDV), the German Derivatives Association, is the industry representative body for the 17 leading issuers of structured products in Germany, who represent approximately 95 percent of the German structured products market: Barclays, BayernLB, BNP Paribas, Citigroup, Commerzbank, Deutsche Bank, DZ BANK, Goldman Sachs, Helaba, HSBC Trinkaus, HypoVereinsbank, LBB, LBBW, Royal Bank of Scotland, Société Générale, UBS and Vontobel. The Association's work is supported by ten sponsoring members, which include the Stuttgart and Frankfurt Exchanges, finance portals and other service providers.

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