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Principles for the issuance of inline warrants and comparable securities for distribution to retail clients in Germany

Inline warrants allow investors to profit from a sideways movement in the price of an underlying. For example, an inline warrant could pay a fixed amount at maturity if the price of the underlying during the observation period neither reaches/exceeds an upper barrier, nor reaches/goes under a lower barrier. However, if the barrier is breached, the warrant immediately expires worthless, and the investor suffers a total loss. The maximum return is defined by the difference between the repayment amount and the purchase price, and thus already known at the time of investment.

Stay high and stay low warrants are products with a similar structure, but with only one respective barrier. Stay high warrants pay out at maturity if the price of the underlying during the observation period does not reach or does not go below a defined barrier. Stay low warrants are much the same, but in this case the product pays out at maturity if the price of the underlying does not reach or does not exceed a defined barrier.

For retail business in Germany, the following five principles summarise the practice developed in the investor's interest with respect to the issuance of inline warrants, stay high / stay low warrants, and comparable securities (hereinafter "inline products"). The members of the DDV that issue or intend to issue inline products for the above-mentioned purpose undertake to comply with and observe these principles:

1. Issuers are to prepare a securities prospectus for inline products in accordance with Directive 2003/71/EC (the Prospectus Directive) and arrange for this prospectus to be approved by BaFin or an alternative prospectus approval authority in the EU.

2. In accordance with the prospectus, issuers are to apply for admission to trading on a trading venue within the meaning of Article 4(1)(24) of Directive 2014/65/EU (MiFID II).

3. Inline products are to be issued with a minimum product lifetime of at least 90 calendar days.

4. When issuing inline products, issuers are to conduct one or more related hedging transactions. In this regard, the respective issuer is not to trade directly against the investor, but is to behave in a (risk) neutral manner. Hedging transactions that relate to a particular portfolio of assets ("macro-hedges" or customary sensitivity based trading book hedging) are permitted.

5. When identifying a target market, issuers are to rank inline products in the third category of the "Knowledge and / or Experience" criterion of the German target market concept. This requires investors to have comprehensive knowledge and / or experience with financial products in order to purchase an inline product. Furthermore, issuers are to define a negative target market for the first category of the "Knowledge and / or Experience" criterion. This indicates that inline products are not intended for investors with only basic knowledge and / or experience with financial products.