

## AMF Position

### Marketing of complex financial instruments – DOC-2010-05

**References: Articles L.533-11 to L.533-13, L.533-22-2-1 and L.541-8-1 of the Monetary and Financial Code; Articles 212-28 I, 314-6, 325-12, 411-126 and 421-25 of the AMF General Regulation**

## Background

The AMF is tasked with protecting retail investments in financial instruments offered to the public or admitted to trading on a regulated market and in all other investments offered to the public<sup>1</sup>. Faced with the asymmetry of information that exists between retail investors and producers and distributors of structured UCITS or AIFs and complex debt securities (including in particular complex EMTNs), the difficulties experienced by retail clients in understanding such products, and the risk that entities who market them may fail to comply with requirements, the Authority has decided to publish a Position on the direct marketing of such products.

The ACPR<sup>2</sup>, which is tasked with protecting customers of insurance institutions, reviews such instruments as vehicles for life insurance contracts. Consequently, the ACPR has decided to issue a recommendation on the use of such structured financial instruments, which are at risk of being mis-sold, as unit-linked products, so as to spell out the conditions under which insurance institutions and intermediaries might fulfil their legislative and regulatory obligations with regard to disclosures and advice.

The AMF's position:

- reiterates the responsibility placed upon investment services providers (including when they act through a tied agent), financial investment advisers and direct marketers of banking and financial services to properly inform retail clients about structured UCITS and AIFs and complex debt securities (including in particular complex EMTNs);
- calls the attention of investment services providers (including when they act through a tied agent), financial investment advisers and direct marketers of banking and financial services to objective criteria for determining the risk of such complex financial instruments being mis-sold.

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<sup>1</sup> Article L. 621-1 of the Monetary and Financial Code.

<sup>2</sup> ACPR recommendation on the marketing of unit-linked life insurance contracts consisting of complex financial instruments, issued in accordance with point 3 of the second paragraph of Article L.612-1 of the Monetary and Financial Code.

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## 1. Scope of the AMF Position

### 1.1. Affected financial instruments

The AMF Position applies to the following financial instruments:

- French structured UCITS referred to in Article R.214-28 of the Monetary and Financial Code;
- French structured AIFs referred to in Article R.214-32-39 of the Monetary and Financial Code;
- equivalent foreign structured UCITS<sup>3</sup> and AIFs;
- other complex debt instruments<sup>4</sup> and equivalent financial securities issued under foreign law, not including plain warrants, which are defined as structured products in the form of option warrants (continuously) quoted on a regulated market or multilateral trading facility, that give the right (but not the obligation) to buy or sell a selected asset at a price determined upon issue and during a predetermined period.

This Position does not apply to other financial instruments.

### 1.2. Situations concerned

The AMF Position concerns the act of marketing, defined as the presentation of a financial instrument through various means (advertising, direct marketing, advice, etc.) by an investment services provider<sup>5</sup>, a financial investment adviser or a direct marketer of banking and financial services<sup>6</sup> with the aim of encouraging a customer to subscribe for or purchase that instrument.

This Position does not cover subscription or purchase of financial instruments:

- that is in response to a customer request, is not the result of solicitation, and relates to a specific designated financial instrument, where allowed for by legislation and regulations in force;
- entered into under a third party portfolio management agreement, in which case the service is provided to the investment services provider, provided that such financial instruments are authorised for retail portfolio management purposes.

### 1.3. Persons concerned

The AMF Position applies to the marketing of affected financial instruments on French territory. As such, it applies to direct marketers of banking and financial services (provided that the financial instruments in question are instruments that can be direct marketed), financial investment advisers and all investment services providers<sup>7</sup>, including those operating under the freedom to provide services or the freedom of establishment, whenever they market affected financial instruments on French territory.

The AMF Position does not apply to the marketing of affected financial instruments outside France, including where French investment services providers act under the freedom to provide services outside France.

<sup>3</sup> Structured UCITS are referred to in Article 36 of Commission Regulation (EU) No. 583/2010 of 1 July 2010 implementing Directive 2009/65/EC.

<sup>4</sup> The term "complex" should not be understood as defined in Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014.

<sup>5</sup> Or, as the case may be, through a tied agent. The tied agent must be acting in accordance with legislative and regulatory provisions applicable to the investment services provider that appointed it (Article L.545-4 of the Monetary and Financial Code).

<sup>6</sup> For those products that can be direct marketed.

<sup>7</sup> Or via their tied agent(s).

As regards direct marketers of banking and financial services in particular, they are required to comply with conduct of business rules with regard to disclosures, and the persons who appoint them (referred to in Article L.341-3 of the Monetary and Financial Code) are “civilly liable for the actions of direct marketers acting in that capacity”<sup>8</sup>. In the event of a breach, those persons may also be subject to sanctions handed down by the AMF’s Enforcement Committee<sup>9</sup>.

As regards investors, the Position applies to retail clients<sup>10</sup>. It does not apply to marketing to professional clients and/or eligible counterparties.

## **2. Obligations of the producer and the distributor with regard to the marketing of affected financial instruments**

### **2.1. Summary of legislation and regulations**

Regulations cover a number of points, including in particular the following: the primacy of clients’ interests, product governance, client disclosures, assessing the suitability and appropriateness of the investment service, and submission of marketing materials to the AMF.

Unless otherwise specified, the provisions set out below, where they apply to investment services providers, also apply to asset management companies authorised to provide investment services or that market units or shares of UCITS or AIFS in France under the conditions laid down in Articles 411-129 and 421-26 of the AMF General Regulation, in accordance with the seventh paragraph of Article L.532-9 of the Monetary and Financial Code<sup>11</sup> and the fourth paragraph of Article 316-2 and the third paragraph of Article 321-1 of the AMF General Regulation.

This summary of legislation and regulations does not cover all applicable provisions on the marketing of financial instruments. The market participants concerned should refer to the relevant provisions to familiarise themselves with and apply the relevant rules.

#### Primacy of clients’ interests

Investment services providers<sup>12</sup> and financial investment advisers<sup>13</sup> are required to act “in an honest, trustworthy and professional manner” “in the best interests” of their clients.

#### Product governance<sup>14</sup>

Investment services providers other than portfolio management companies that design financial instruments to be sold to clients:

“1. Shall maintain, apply and revise a process for approving each financial instrument and any notable adjustments to existing financial instruments before they are marketed or distributed to clients. *This approval process shall determine a defined target market of end clients in the category of clients concerned for each instrument and shall ensure that all risks relevant to that defined target market are assessed.*

<sup>8</sup> Third paragraph, Article L.341-4 of the Monetary and Financial Code.

<sup>9</sup> Second paragraph, Article L.621-15 of the Monetary and Financial Code.

<sup>10</sup> Article L. 533-16 of the Monetary and Financial Code.

<sup>11</sup> See also Article 6(3) of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 and Article 6(6) of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011.

<sup>12</sup> Articles L.533-1, L.533-11 and L.533-22-2-1 of the Monetary and Financial Code and Articles 314-3, 319-3 and 321-100 of the AMF General Regulation. See Article 24(1) of Directive 2014/65/EC of the European Parliament and of the Council of 15 May 2014.

<sup>13</sup> Article 541-8-1 of the Monetary and Financial Code.

<sup>14</sup> These requirements are clarified, in particular, in the “Guidelines on MiFID II product governance requirements” (ESMA 35-43-620) published by the European Securities and Markets Authority, which the AMF applies, in accordance with AMF Position DOC 2018-04 (MiFID II product governance requirements).

2. Shall ensure that financial instruments are designed in accordance with the approval process referred to in point (1) and that the strategy for distributing those instruments is compatible with the defined target market.

3. Shall provide any distributor with all necessary information on financial instruments and their approval process, including the defined target market.

4. Shall take reasonable steps to ensure that financial instruments are distributed to the defined target market<sup>15</sup>.

Meanwhile, investment services providers that offer, recommend or market financial instruments:

“1. Shall ensure that they understand the characteristics of those financial instruments and assess their compatibility with the needs of the clients to whom they provide investment services, particularly with reference to the defined target market.

2. Shall ensure that financial instruments are only offered or recommended in the client's interest.

3. Shall regularly review such financial instruments, taking into account any event that might materially influence the potential risk to the defined target market, so as to assess, at the very least, whether the instruments in question continue to correspond to the needs of the defined target market and whether the planned distribution strategy remains appropriate.

4. Where they do not design the financial instruments in question, shall have in place appropriate mechanisms for obtaining the information referred to in the third paragraph of Article L.533-24 and understanding the characteristics of and identifying the defined target market for each financial instrument<sup>16</sup>.

Financial investment advisers “shall have in place [...] appropriate mechanisms for obtaining the necessary information referred to in the third paragraph of Article L.533-24 and understanding the characteristics of and identifying the defined target market for each financial instrument”<sup>17</sup>, and shall ensure that they “understand the financial instruments they offer or recommend, assess their compatibility with the needs of the clients to whom they provide the advice referred to in the first paragraph of Article L.541-1, in particular based on the identified target market, and ensure that the financial instruments are offered or recommended only when this is in the interest of the client”<sup>18</sup>.

Investment services providers<sup>19</sup> and financial investment advisers must also ensure “that the persons concerned [for financial investment advisers, natural persons employed to provide an advisory service] have the skills needed to understand the characteristics and risks of the financial instrument they intend to distribute and the service they are providing, as well as the needs, characteristics and objectives of the defined target market”<sup>20</sup>.

#### Client disclosures

Investment services providers and financial investment advisers are required to provide information sufficient for, and presented in a way that is likely to be understood by, “the average member of the group

<sup>15</sup> Article L.533-24 of the Monetary and Financial Code. See also Articles 313-3 and seq. of the AMF General Regulation, articles 16(3) and 24(2) of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 and article 9 of Commission Delegated Directive (EU) 2017/593 of 7 April 2016.

<sup>16</sup> Article L533-24-1 of the Monetary and Financial Code. See also Articles 313-18 and seq. of the AMF General Regulation, articles 16(3) and 24(2) of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 and article 10 of Commission Delegated Directive (EU) 2017/593 of 7 April 2016.

<sup>17</sup> Second paragraph of Article L.541-8 of the Monetary and Financial Code.

<sup>18</sup> Sixth paragraph of Article L.541-8-1 of the Monetary and Financial Code.

<sup>19</sup> In their capacity as distributors. Article 313-7 of the AMF General Regulation (see also Article 9(5) of Commission Delegated Directive (EU) 2017/593 of 7 April 2016) stipulates that “The producer shall ensure that any concerned person who takes part in producing the financial instrument has the expertise needed to understand its characteristics and risks”.

<sup>20</sup> Article 313-24 of the AMF General Regulation, for financial advisors pursuant to article 325-31. See also Article 10(7) of the Commission Delegated Directive (EU) 2017/593 of 7 April 2016.

to whom it is directed, or by whom it is likely to be received [and that] it does not disguise, diminish or obscure important items, statements or warnings”<sup>21</sup>.

Information on proposed financial instruments and investment strategies must also be explained by investment services providers in an understandable form; this includes “appropriate guidelines and warnings on the risks inherent to an investment in such instruments or to certain investment strategies as well as information about whether the financial instrument is intended for retail or professional clients, in light of the target market defined in accordance with Article L.533-24”<sup>22</sup>. Provisions in this area also apply to financial investment advisers<sup>23</sup>.

**For financial instruments consisting of two or more instruments, the investment services provider “shall provide a suitable description of the legal nature of the financial instrument, its components, and the impact of interaction between its components on the risks of investing”<sup>24</sup>.**

Assessing the suitability and appropriateness of the investment service

Investment services providers must also, with regard to their retail clients<sup>25</sup>:

- for order reception and transmission on behalf of third parties and order execution on behalf of third parties, test the appropriateness of the investment service or financial instrument being offered or requested. As such, they must ask clients for information about their investment knowledge and experience;
- for investment advice, test the suitability of the proposed investment. As such, they must ask their clients about their investment knowledge and experience, as well as their financial position, including their capacity to sustain losses, and their investment objectives, including their risk tolerance.

The same applies to financial investment advisers, who are required, when formulating investment advice, to obtain from their clients or potential clients the necessary information about their investment knowledge and experience, as well as their financial position and investment objectives, so as to be able to recommend transactions, instruments and services suited to their circumstances. They must also obtain from their clients or potential clients the necessary information about their capacity to sustain losses and their risk tolerance so as to be able to recommend appropriate financial instruments and investment services<sup>26</sup>.

Lastly, when providing investment advice, investment services providers must have “adequate policies and procedures in place to ensure that they understand the nature, features, including costs and risks of investment services and financial instruments selected for their clients [...]”<sup>27</sup>. Financial investment advisers must also have in place “procedures to ensure that they understand the nature, features, including costs and risks of investment services and financial instruments selected for [their] clients from within [their] overall offering”<sup>28</sup>.

<sup>21</sup> Article 44(2)(d) and (e) of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 for investment services providers and the second paragraph of Article 325-12 of the AMF General Regulation for financial investment advisers.

<sup>22</sup> Second paragraph of Article D533-15 of the Monetary and Financial Code

<sup>23</sup> Sixth paragraph of Article 325-6 of the AMF General Regulation.

<sup>24</sup> Article 48(4) of Delegated Regulation (EU) 2017/565 of 25 April 2016.

<sup>25</sup> Article L.533-13 of the Monetary and Financial Code and Articles 54 to 58 of Delegated Regulation (EU) 2017/565 of 25 April 2016. See Article 25 of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014.

<sup>26</sup> Article L. 541-8-1 of the Monetary and Financial Code.

<sup>27</sup> Article 54(9) of Delegated Regulation (EU) 2017/565 of 25 April 2016.

<sup>28</sup> Eighth paragraph of Article 325-8 of the AMF General Regulation.

### Submission of marketing materials to the AMF

Marketing materials relating to a public offering or admission to trading on a regulated market must be submitted to the AMF before they are disseminated<sup>29</sup>, including where the prospectus has already been passported. The AMF may also require investment services providers to submit to it, prior to their publication, distribution, provision or dissemination, marketing materials relating to the financial instruments, including UCITS and AIFs, offered by them, and to amend their presentation or content to ensure that the information is accurate, clear and not misleading<sup>30</sup>. The AMF may exercise these prerogatives in relation to any person or entity distributing UCITS or AIFs<sup>31</sup>.

### **2.2. Consequences for distributors**

The following consequences arise from the provisions set out above:

Distributors, whether investment services providers or financial investment advisers, when they market affected financial instruments:

- must put in place mechanisms to ensure that the persons who market the product under their authority or on their behalf have the product themselves so that they are in a position to provide suitable advice and appropriate service to clients;
- when providing investment advice, must assess the cost structure of the financial instrument being proposed. This assumes that they take into account their assessment of the margins charged by the various participants, particularly when the product has been structured in such a way that the various counterparties have not competed with one another in accordance with best execution rules, as the case may be;
- in light of their analysis of the product's features, must target those customers to whom they intend to offer the product as part of their obligation to determine the target market, in accordance with product governance requirements.

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<sup>29</sup> Article 212-28-I of the AMF General Regulation.

<sup>30</sup> Article 314-6 of the AMF General Regulation.

<sup>31</sup> Articles 411-126 and 421-25 of the AMF General Regulation.

**Position:**

**Distributors, whether investment services providers or financial investment advisers, when they market affected financial instruments:**

- shall take into consideration, when analysing a product's characteristics, the legal framework within which the product was structured and, in particular, any rules designed to protect investors over and above disclosure rules (existence of a depositary, risk dispersion rules, counterparty risk rules, etc.);
- shall in particular verify that the product is not intended solely to allow the indirect marketing of an underlying product that could not be offered directly to retail investors.

Furthermore, marketing materials and materials pertaining to the financial instruments concerned and relating to a public offering or admission to trading on a regulated market, including where the prospectus has already been passported, as well as marketing materials pertaining to harmonised French and European structured UCITS/AIFs, must comply with the instructions set out in Annex 1, as the case may be.

### **3. Determination of objective criteria for assessing the risk of mis-selling**

In accordance with the ACPR recommendation on the marketing of unit-linked life insurance contracts consisting of complex financial instruments, the AMF uses four criteria to assess whether the financial instruments concerned present the risk of retail customers misperceiving the risks and misunderstanding the financial instrument.

The criteria used take into account two types of risk:

- (a) the risk of clients misperceiving the risks
- (b) the risk of the proposed product being misunderstood

#### **3.1. Risk of clients misperceiving the risks**

This risk is usually linked to:

- poor written or oral presentation of the product's risks and/or payout profile (Criterion 1);
- the target retail client's lack of familiarity with the asset(s) underlying the product (Criterion 2); the product's payout profile being dependent on a number of conditions across various asset classes being satisfied at the same time (Criterion 3).

#### **Criterion 1: Poor presentation of the product's risks and payout profile:**

The risk of poor presentation is potentially high for affected financial instruments whose performance is sensitive to extreme scenarios (sudden market downturns, changes in the economic environment, etc.), even if their probability of occurrence is very low<sup>32</sup>. This is notably the case where products are presented

<sup>32</sup> It should be noted that this type of product can be presented appropriately, thus escaping the "enhanced due diligence" approach (cf. following position).



as combining capital protection with maturity and performance. The possibility of positive returns is indicated as being virtually guaranteed, and the scenarios given in documentation sometimes reflect only the most favourable assumptions.

Retail clients are liable to misperceive a risk due to the way a financial instrument whose performance is sensitive to extreme unfavourable scenarios is presented.

**Example 1**

A financial instrument with a payout profile along the lines of “fixed 10% gain irrespective of the benchmark level if it has risen from its initial level, and capital loss equivalent to the fall in the benchmark if the latter has fallen by more than 40%” and poorly presented

Criterion 2: Retail clients' lack of familiarity with the financial instrument due to the underlying(s) used

Some financial instruments use underlyings that are hard for retail clients to understand and that cannot generally be observed individually on markets, such as, in particular, an asset's volatility, or correlation between a number of assets.

As such, the products in question built on these underlyings risk being misunderstood by retail clients; moreover, for underlyings with limited public availability, retail clients are not able to monitor their performance either.

**Example 2**

A financial instrument whose performance is linked to the observed correlation over a period between the shares of an oil company and the price of a commodities index

→ Here, the investor must anticipate what will happen to correlation between the share and the underlying index, which generally requires a high level of expertise.

**Example 2b**

A financial instrument indexed to the VSTOXX® index that exposes the investor at maturity to a loss equating to 50% of capital invested if the index loses 50%

→ The financial instrument's underlying, the Euro STOXX 50® volatility index, is hard for retail clients to understand.

**Example 2c**

A financial instrument indexed to a non-systematic index<sup>33</sup> selecting the 30 stocks with the lowest historical volatility over the past six months from a defined investment universe where the components and/or their weightings are rebalanced more than once a year.

→ The fact that the assets underlying the financial instrument are rebalanced more than once a year, combined with the existence of at least one element of complexity (in this case, selection of the 30 shares with the lowest volatility), means there is a danger that retail clients might misperceive the risks such that it will be difficult for the distributor to fulfil its legislative and regulatory obligations in relation to marketing.

#### Example 2d

A financial instrument indexed to an index (whether systematic or non-systematic) where the selection and/or weighting and/or rebalancing of its components is based on (i) the 50 most liquid stocks in the investment universe, then (ii) of those 50 stocks, the 30 that offer the highest dividends, then (iii) of those 30 stocks, the ten that offer a beta of less than X. The ten stocks finally selected are equally weighted and the index's composition is reviewed annually.

→ The use of multiple filters of different types (a liquidity filter, a dividend filter and a market response filter, for example), and/or that are difficult for retail investors to observe, for selecting and rebalancing the assets underlying the financial instrument means there is a danger that retail clients will misperceive the risks such that it will be difficult for the distributor to fulfil its legislative and regulatory obligations in relation to marketing.

#### Criterion 3: A payout profile that depends on a number of conditions across at least two asset classes being satisfied at the same time

The returns on some financial instruments are dependent on a number of conditions across different asset classes (equities, fixed income products, real estate, etc.) being satisfied at the same time, making it difficult for investors to reconstruct the market scenario they should be anticipating. This is particularly the case where the fulfilment of one condition applies solely to the principal amount while the fulfilment of a second condition applies solely to any coupon.

#### Example 3

A financial instrument offering, at maturity, the average return generated by the CAC 40® over a five-year period plus or minus an annual coupon that depends on the performance of the bond market:

<sup>33</sup> A "systematic index" is any index (or dynamically changing list of assets) whose performance is calculated purely by applying a mathematical formula, without any third party involvement in any form whatsoever (e.g. by a bank's research team). Conversely, a "non-systematic" index is an index (or dynamically changing list of assets) whose performance is not calculated purely by applying a formula, and which requires (or makes possible) the involvement of a third party. Within the above definition, involvement by a third party does not include exceptional adjustments to an index in response to technical constraints.

- i) Each year, if the 10-year CMS<sup>®</sup> rate exceeds the 2-year CMS<sup>®</sup> rate by more than 55 bps and the CAC 40<sup>®</sup> has risen, a 4% coupon is paid at maturity.
- ii) Each year, if the 10-year CMS<sup>®</sup> rate exceeds the 2-year CMS<sup>®</sup> rate by less than 20 bps and the CAC 40<sup>®</sup> has fallen, the final return is reduced by 1%.

→ The performance of this financial instrument is ultimately dependent on two asset classes: equities and interest rates. It is difficult, if not impossible, for retail clients to reconstruct the macroeconomic market scenarios they should be anticipating.

#### Example 3b

A financial instrument where the amount of the coupon depends on the performance of the Euro STOXX index while repayment of the principal depends on the occurrence of a credit event in a basket of ten bonds:

- i) Investors receive an annual coupon of 5%.
- ii) At maturity:
  - investors receive a coupon of 6% if the Euro STOXX index has remained stable or risen relative to its initial level;
  - investors receive the full amount of their initial capital provided that none of the ten bonds in the basket has experienced a credit event;
  - where one or more credit events have occurred, investors incur a capital loss equal to 10% of the par value of each bond that has experienced a credit event.

→ The performance of this financial instrument is ultimately dependent on two different conditions relating to different asset classes: repayment of the principal is determined by the basket of bonds, while payment of the coupon is determined by the performance of the Euro STOXX index. It is difficult, if not impossible, for retail clients to reconstruct the macroeconomic market scenarios they should be anticipating.

### 3.2. Risk of the proposed financial instrument being misunderstood

#### Criterion 4: number of mechanisms included in the formula for calculating the financial instrument's gain or loss

Understanding the risk incurred requires a firm grasp of the product's calculation process and the mechanisms resulting in the formula or determining the nature of the underlying asset class. Where the product's total return is determined by more than three different calculation mechanisms, either directly or

via an underlying structured index, it is difficult if not impossible for investors to reconstruct the “bet” they are placing – i.e. to understand the mechanisms that result in a loss or gain depending on a given market scenario.

#### Example 4

A product offering the following payout profile at maturity:

- i) **The average quarterly return over five years on a strategy index** that overweights the 20 stocks in the CAC 40® that have delivered the best performance over the past month and underweights the 20 that have delivered the poorest performance.
- ii) If, at a quarterly measurement date, the index has risen more than 10% relative to the previous quarter, **a 6% coupon or bonus** will be paid at maturity.
- iii) If, at a quarterly measurement date, the index **has fallen more than 30%** relative to its initial level, the product is dissolved (or terminated early) and holders are repaid early. Their initial capital is reduced by the full amount of the fall in the index and increased by the amount of any bonuses earned in previous quarters.

→ High risk of misunderstanding. Performance is ultimately calculated on the basis of four different mechanisms: an average effect, a strategy intrinsic to the underlying index, a bonus if an upward threshold is exceeded and a loss if a downward threshold is crossed.

#### Example 4b

A financial instrument indexed to an equally weighted index (whether systematic or non-systematic) that includes several criteria for selecting and/or rebalancing its components, one of which is based on selecting the 60 least volatile shares over the past six months. The index is “with dividends reinvested” but a fixed annual amount or percentage is deducted.

→ The complexity of the index used as the financial instrument’s underlying should also be able to be understood via the number of mechanisms.

- i) Indices commonly accepted as representing a financial marketplace, geographical region or specific sector (e.g. CAC 40, Euro STOXX 50, MSCI World, etc.) are not counted as an additional mechanism.
- ii) However, indices that include one additional element of complexity (e.g. an index where dividends are reinvested but a fixed amount or percentage is deducted) should be counted as an additional mechanisms.
- iii) Indices that cannot be described as falling into categories (i) or (ii) should be counted as a second

additional mechanism.

The index given in the example would be counted as a total of two mechanisms, to which would be added the number of mechanisms counted in relation to the structure of the financial instrument.

However, ESG-themed filters used in indices do not count as an additional complexity mechanism when:

- (i) the index is constructed within a universe representative of one (or more) ESG theme(s); and
- (ii) the ESG assessment used for the ESG-themed filter in question is established by a recognised independent entity; and
- (iii) the ESG-themed filters correspond to simple mechanisms for selecting, excluding or weighting components of the index, or any combination of such mechanisms that is not excessive.

Non-exhaustive indicative list of strategies that may be counted as a formula mechanism:

- a calculation algorithm underlying a proprietary strategy index
- averaged performance
- a floor or cap effect
- a protection that is deactivated when a downward threshold is crossed
- A “memory” effect
- crystallisation of a gain

To enable relevant persons referred to in section 1.3 of this Position to properly take into account Criterion 4 from the stage at which the financial instrument’s formula is being designed, the AMF sets out in Annex 3 how the most common structures should be counted. However, this list is not exhaustive.

#### 4. Position

##### **Position**

**Financial instruments covered by this Position may, by their nature, carry a risk that retail investors may misperceive the potential losses to which they may be exposed, or may even misunderstand the instruments altogether.**

**Structured UCITS and AIFs and complex debt securities (including in particular complex EMTNs):**

- offering capital protection at maturity of less than 90% of the capital invested<sup>34</sup> and
- meeting at least one of the criteria defined above

**carry a risk of inappropriate marketing such that it will be particularly difficult for them to comply with applicable legislative and regulatory requirements relating to marketing.**

**The situation is, however, different for affected financial instruments whose performance is sensitive to extreme scenarios (Criterion 1) where they are presented appropriately (i.e. as an alternative to a corresponding investment in the underlying, accompanied by a description of situations in which the maximum risk would arise).**

<sup>34</sup> For financial instruments offering partial capital protection at maturity, marketing materials must clearly highlight the risk of capital loss, stating that such losses “may be up to X%”.

Apart from in this latter situation:

(a) As regards marketing materials, it will be particularly difficult to comply with the provision under which “all information, including promotional information, [...] shall be presented in a way that is accurate, clear and not misleading”<sup>35</sup>, given the characteristics of these structured financial instruments.

Consequently, marketing materials relating to a public offering or admission to trading on a regulated market, including where the prospectus has already been passported, as well as marketing materials pertaining to harmonised French and foreign structured UCITS and AIFs, must comply with the instructions given in Annex 1 to this Position. However, this information need not be included for private placements.

(b) Furthermore, as regards the marketing of affected structured financial instruments (i) with a par value or initial investment of less than €100,000 (or foreign currency equivalent) or (ii) with a par value or initial investment of at least €100,000 (or foreign currency equivalent) where such marketing is not undertaken for portfolio diversification purposes, it will be particularly difficult to comply with the following requirements:

- the requirement applicable to investment services providers to issue information that enables investors to have “a reasonable understanding of the nature [...] of the specific type of financial instrument being offered and the risks pertaining thereto, so that clients can make informed investment decisions”<sup>36</sup> and to provide information that is “sufficient for, and presented in a way that is likely to be understood by, the average member of the group to whom it is directed, or by whom it is likely to be received. ” Furthermore, the information must not disguise, diminish or obscure any important items, statements or warnings”<sup>37</sup>;
- the requirement applicable to investment services providers and financial investment advisers to formalise the advice in a suitability statement<sup>38</sup>;
- the requirement applicable to direct marketers of banking and financial services to disclose, “in a clear and comprehensible manner, the information [...] needed” by the person solicited to reach a decision<sup>39</sup>;
- the requirement applicable to investment services providers and financial investment advisers to<sup>40</sup>:
  1. “recommend suitable financial instruments” in respect of investment advice services provided by investment services providers and financial investment advisers;
  2. check that “the products or services offered to clients” are appropriate in respect of third party order execution services and third party order reception and transmission services provided by investment services providers.

<sup>35</sup> Article L.533-12 of the Monetary and Financial Code, Article 44(1) of Delegated Regulation (EU) 2017/565 of 25 April 2016 and Article 325-5 of the AMF General Regulation.  
Article L.533-12 and D.533-15 of the Monetary and Financial Code and Article 48(1) of Delegated Regulation (EU) 2017/565 of 25 April 2016.

<sup>37</sup> Article 44(2) of Delegated Regulation (EU) 2017/565 of 25 April 2016.  
Articles L.533-15 II and L.541-8-1 9° of the Monetary and Financial Code.

<sup>39</sup> Article L. 341-11 of the Monetary and Financial Code.

<sup>40</sup> Article L.533-13 of the Monetary and Financial Code, Articles 54 to 58 of Delegated Regulation (EU) 2017/565 of 25 April 2016 and Article L.541-4 of the Monetary and Financial Code.

**(c) Finally, investment services providers, financial investment advisers and direct marketers of banking and financial services do not fall into categories (a) or (b) above when they market the structured financial instruments set out in section 3 and:**

- the par value or initial investment is less than €100,000 (or foreign currency equivalent) and
- such marketing is for the purposes of diversifying the portfolios of retail clients. This diversification requirement must be assessed in relation to the total amount invested in financial instruments. As such, the marketing of these instruments must not result in a client's financial assets being too heavily concentrated in the instruments concerned.

**In such cases, however, investment services providers, financial investment advisers and direct marketers of banking and financial services must ensure that they fulfil their obligations as set out in section 2.**

### Annex 1 – Information that must be included in advertising and marketing materials

Type of financial instrument	Highly complex structured financial instruments that carry a high risk of inappropriate marketing (instruments referred to in section 3)  "Enhanced due diligence" approach	Complex structured financial instruments that may carry a risk of inappropriate marketing (instruments referred to in section 1)  "Due diligence" approach	Financial instruments that use simple management techniques and which, on the face of it, do not carry a high risk of inappropriate marketing (all other financial instruments) "Standard" approach
<b>Submission to the AMF of advertising and marketing materials</b>	<p>As regards debt securities, Article 212-28 of the AMF General Regulation stipulates that marketing materials relating to a public offering or admission to trading on a regulated market must, regardless of their form and dissemination method, be submitted to the AMF prior to being disseminated.</p> <p>Pursuant to Article 314-6 of its General Regulation, the AMF may also require investment services providers to submit to it, prior to their publication, distribution, provision or dissemination, marketing materials relating to the financial instruments, including UCITS and AIFs, offered by them, and to amend their presentation or content to ensure that the information is accurate, clear and not misleading. Pursuant to Articles 411-126 and 421-25 of its General Regulation, the AMF may exercise these prerogatives in relation to any person or entity distributing UCITS or AIFs.</p>		
<b>Information to be included in advertising and marketing materials</b>	<p><b>In a prominent manner:</b></p> <p>"The offering prospectus for the proposed complex debt security has been approved by [name of regulator]. <b>However, the AMF considers this product too complex to be marketed to retail investors, it has not reviewed the marketing materials.</b></p> <p>These materials are produced by [name of responsible entity or entities]."</p> <p><i>"The proposed UCITS/AIF has been authorised by [name of regulator]. However, the AMF considers this product too complex to be marketed to retail investors, it has not reviewed the marketing materials.</i></p> <p>These materials are produced by [name of responsible entity or entities]."</p>	<p>Where the advertising or marketing materials state that they have been submitted to the AMF, the following wording must be included:</p> <p>"The offering prospectus for the proposed complex debt security has been approved by [name of regulator]. These materials are produced by [name of responsible entity or entities]."</p> <p><i>"The proposed UCITS/AIF has been authorised by [name of regulator]. These materials are produced by [name of responsible entity or entities]."</i></p> <p>Where the advertising or marketing materials do not state that they have been submitted to the AMF, this Position does not require any specific wording to be included.</p>	No specific working is required by this Position <sup>41</sup> .

<sup>41</sup> Generally speaking, it is best to refer to the AMF's various best practice guides for writing marketing materials.



## Annex 2 – Decision tree

### If

An affected financial instrument referred to in section 1

- offers capital protection at maturity of less than 90%

### And

- meets at least one of the four criteria laid down in section 3 (note: Criterion 1 on the sensitivity of performance to extreme scenarios is not met when (i) the product is presented as an alternative to a corresponding investment in the underlying and (ii) the situations in which the maximum risk arises are presented)

### Then

- It will be particularly difficult to comply with applicable legislative and regulatory requirements relating to marketing;
- In the event of a public offering or admission to trading on a regulated market, marketing materials must include the wording set out in Annex 1 (“enhanced due diligence”).
- **Exception:** *if the par value or initial investment is over €100,000 and the investment is sufficiently diversified:*
  - *investment services providers, financial investment advisers and direct marketers of banking and financial services must ensure that they fulfil their obligations as set out in section 2;*
  - *if such investments are made in the context of a public offering or admission to trading on a regulated market, advertising and marketing materials must include the wording set out in Annex 1 (“due diligence”).*

### Otherwise:

*In other words, if an affected financial instrument referred to in section 1*

- *offers at least 90% protection*

### Or

- *does not meet any of the criteria set out in section 3;*
- then investment services providers, financial investment advisers and direct marketers of banking and financial services must ensure that they fulfil their obligations as set out in section 2;
- in the event of a public offering or admission to trading on a regulated market, marketing materials must include the wording set out in Annex 1 (“due diligence”).

**Annex 3 – Technical annex: generally accepted counts of the number of mechanisms included in the formula for calculating gains or losses on financial instruments (non-exhaustive list)**

To enable relevant persons referred to in section 1.3 of this Position (“Relevant Persons”) to properly take into account Criterion 4 from the stage at which the financial instrument’s formula is being designed, the AMF sets out in below how the most common structures should be counted.

The AMF points out, however, that this list is not exhaustive and that Relevant Persons are free to design structures not set out below, provided that they comply with applicable regulations and this Position.

Furthermore, a Relevant Person may only rely on the count of the number of mechanisms indicated for each common structure set out below if the following conditions are met:

- The product’s formula is presented in a similar manner in the marketing material. As regards marketing materials, this condition is without prejudice to (i) presentation of the product in an intelligible manner and (ii) presentation of performance scenarios in the following order: adverse scenario, median scenario, best case scenario;
- The product’s formula is strictly identical to one of the structures set out below taken as a whole (i.e. under both the lifetime scenario and the scenario at maturity). In this regard, counts of numbers of mechanisms set out in this technical annex may not be relied upon where the formula used by the product in question corresponds to a combination of more than one item presented in separate structures listed below. It is up to the Relevant Person to check that this is not the case;
- The underlying used in the structure is compatible with the provisions set out in Criteria 2 and 4 of this Position.

Counts of numbers of mechanisms set out below are only valid for the financial instruments referred to in section 1.1 and the situations concerned referred to in section 1.2 of this Position. Consequently, this annex is without prejudice to life insurance marketing rules falling within the remit of the ACPR.

The following definitions are used throughout the remainder of this document:

- Autocall: a mechanism whereby a financial instrument is automatically redeemed early if the underlying meets the stipulated condition at the measurement date
- Conditional coupon: a coupon that is only paid if the underlying meets the stipulated condition at the measurement date
- Guaranteed coupon: a coupon paid during the life of a product, regardless of the level of the underlying
- Category 1 index: index referred to in example 4b (i) of this Position
- Category 2 index: index referred to in example 4b (ii) of this Position
- Category 3 index: index referred to in example 4b (iii) of this Position
- Equally weighted basket: a basket consisting of (N) underlyings, each of which carries the same weighting (1/N) when calculating the performance of the basket
- Scenario at maturity: multiple possibilities for redemption at maturity depending on the level of the underlying at the measurement date(s)
- Lifetime scenario: multiple possibilities for continuation/early redemption during the product’s lifetime depending on the level of the underlying at the measurement date(s)
- Underlying: the indexing basis for the financial instrument (an index, security, basket of securities, etc.)

The following nomenclature is used throughout the remainder of this document:

- A%: underlying performance barrier on which payment of gains at maturity is dependent ( $A\% \leq X\%$ )
- B%: underlying performance barrier on which payment of the coupon is dependent
- n: number of periods elapsed since the product was launched
- S%: underlying performance barrier on which payment of the conditional gain at maturity is dependent ( $S\% < A\%$ )
- u%: coupon rate (positive and fixed)
- X%: underlying performance barrier on which automatic early redemption during the product’s lifetime is dependent
- y%: coupon rate (positive and fixed)



- Z%: underlying performance barrier on which repayment of capital at maturity is dependent (barrier triggering a capital loss at maturity) ( $Z\% < X\%$ )
- P%: fixed capital floor rate
- x: multiplication sign

Wherever they are not specified in the remainder of the document, coupon rates  $u\%$  and  $y\%$  are expressed as a percentage of the initial capital invested.

## STRUCTURE 1

During the product's lifetime:

- If, at one of the measurement dates, the underlying closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, no coupon is paid to the investor and the product continues to run.

At maturity:

- If, at the final measurement date, the underlying closes at or above A% of its initial level, the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- If, at the final measurement date, the underlying closes at between A% and Z% of its initial level inclusive, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the underlying, which equates to a capital loss.

### **This formula counts as two mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted at maturity: *Base mechanism at maturity*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *A coupon rate of y% only (rather than "y% x n") does not mean an additional complexity mechanism needs to be counted, provided that this change is made to the structure in its entirety.*
- *A payment at maturity (A%) barrier different from the automatic early redemption (X%) barrier does not mean an additional complexity mechanism needs to be counted.*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	<b>Two mechanisms</b>
One equally weighted basket, one category 2 index	One additional mechanism	<b>Three mechanisms</b>

### **Example**

- *Underlying index: CAC 40 (a category 1 index)*
- *Measurement frequency: quarterly*
- *Automatic redemption (X%) barrier: 100%*
- *Payment at maturity (A%) barrier: 100%*
- *Capital (Z%) barrier: 75%*
- *Quarterly coupon rate (y%): 1%*
- *Date of first measurement: three years after product launched*
- *Maturity: seven years*

*During the product's lifetime:*

- *If, at one of the quarterly measurement dates, with effect from the first quarter of the third year, the CAC 40 closes at or above 100% of its initial level, the product is terminated early and the investor receives his/her initial capital plus a gain of 1% per quarter elapsed.*
- *Otherwise, the product continues to run.*

*At maturity:*

- *If, in the final quarter of the seventh year (final measurement date), the CAC 40 closes at or above 100% of its initial level, the investor receives his/her initial capital plus a gain of  $1\% \times 4 \times 7 = 28\%$ .*
- *If, at that same date, the CAC 40 closes strictly below 100% but at or above 75% of its initial level, the investor receives his/her initial capital.*
- *Otherwise, the investor receives the initial capital less the final performance of the index, which equates to a capital loss.*

## STRUCTURE 2

During the product's lifetime:

- If, at one of the measurement dates, the underlying closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, the product continues to run.

At maturity:

- If, at the final measurement date, the underlying closes at or above A% of its initial level, the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- If, at the final measurement date, the underlying closes at between A% and Z% of its initial level inclusive, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives *i* times (leverage) the final level of the underlying, which equates to a capital loss.

### **This formula counts as three mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted at maturity: *Base mechanism at maturity*
3. Mechanism counted at maturity: Leverage ("*i* times") under the adverse branch of the scenario at maturity

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *A coupon rate of y% only (rather than "y% x n") does not mean an additional complexity mechanism needs to be counted, provided that this change is made to the structure in its entirety.*
- *A payment at maturity (A%) barrier different from the automatic early redemption (X%) barrier does not mean an additional complexity mechanism needs to be counted.*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	Three mechanisms

### **Example**

- *Underlying index: CAC 40 (a category 1 index)*
- *Measurement frequency: quarterly*
- *Automatic redemption (X%) barrier: 100%*
- *Payment at maturity (A%) barrier: 100%*
- *Quarterly coupon rate (y%): 1%*
- *Capital (Z%) barrier: 40%*
- *Date of first measurement: three years after product launched*
- *Maturity: seven years*
- *Leverage (i): twice*

*During the product's lifetime:*

- *If, at one of the quarterly measurement dates, with effect from the first quarter of the third year, the CAC 40 closes at or above 100% of its initial level, the product is terminated early and the investor receives his/her initial capital plus a gain of 1% per quarter elapsed.*
- *Otherwise, the product continues to run.*

*At maturity:*

- *If, in the final quarter of the seventh year (final measurement date), the CAC 40 closes at or above 100% of its initial level, the investor receives his/her initial capital plus a gain of  $1\% \times 4 \times 7 = 28\%$ .*
- *If, at that same date, the CAC 40 closes strictly below 100% but at or above 40% of its initial level, the investor receives his/her initial capital.*
- *Otherwise, the investor receives twice the final return generated by the index, which equates to a capital loss. For example, if the CAC 40 closes at 35% of its initial level, the investor receives 70% of his/her initial capital invested ( $= 2 \times 35\%$ ).*

### STRUCTURE 3

During the product's lifetime:

- If, at one of the measurement dates, the underlying closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, the product continues to run.

At maturity:

- If, at the final measurement date, the underlying closes at or above A% of its initial level, the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the underlying, which equates to a capital loss.

**This formula counts as two mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted at maturity: *Base mechanism at maturity*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *A coupon rate of y% only (rather than "y% x n") does not mean an additional complexity mechanism needs to be counted, provided that this change is made to the structure in its entirety.*
- *A payment at maturity (A%) barrier different from the automatic early redemption (X%) barrier does not mean an additional complexity mechanism needs to be counted.*

**Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	<b>Two mechanisms</b>
One equally weighted basket, one category 2 index	One additional mechanism	<b>Three mechanisms</b>

**Example**

- *Underlying: Euro STOXX 50 (a category 1 index)*
- *Measurement frequency: daily*
- *Automatic redemption (X%) barrier: 105%*
- *Daily coupon rate (y%): 0.00658% (equating to 2.40% per annum assuming a 365-day year)*
- *Payment at maturity (A%) barrier: 85%*
- *Maturity: six years*
- *Date of first measurement: one years after product launched*

*During the product's lifetime:*

- *If, at one of the daily measurement dates, the Euro STOXX 50 closes at or above 105% of its initial level, the product is terminated early and the investor receives his/her initial capital plus a gain of 0.00658% per day elapsed (equating to 2.40% per year elapsed).*
- *Otherwise, the product continues to run.*

*At maturity:*

- *If, at the final measurement date, the Euro STOXX 50 closes at or above 85% of its initial level, the investor receives his/her initial capital plus a gain of  $2.40\% \times 6 = 14.4\%$  of his/her initial capital invested.*
- *Otherwise, the investor receives the initial capital less the final performance of the index, which equates to a capital loss.*

## STRUCTURE 4

During the product's lifetime:

- If, at one of the measurement dates, the underlying closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, the product continues to run.

At maturity:

- If, at the final measurement date, the underlying closes at or above A% of its initial level, the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- If, at the final measurement date, the underlying closes at between A% and S% of its initial level inclusive, the investor receives repayment of  $(100\% + u\% \times n)$  of the initial capital invested (where  $Z < S < A$  and  $0 < u < y$ ).
- If, at the final measurement date, the underlying closes at between S% and Z% of its initial level inclusive, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the index, which equates to a capital loss.

### **This formula counts as three mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted at maturity: *Base mechanism at maturity*
3. Mechanism counted at maturity: Conditional gain (u%)

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *A coupon rate of y% only and u% only respectively (rather than "y% x n" and "u% x n" respectively) does not mean an additional complexity mechanism needs to be counted, provided that this change is made to the structure in its entirety.*
- *A payment at maturity (A%) barrier different from the automatic early redemption (X%) barrier does not mean an additional complexity mechanism needs to be counted.*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	<b>Three mechanisms</b>

### **Example**

- Underlying: CAC 40 (a category 1 index)
- Measurement frequency: annual
- Automatic redemption (X%) barrier: 100%
- Coupon rate (y%): 3%
- Capital (Z%) barrier: 70%
- Payment at maturity (A%) barrier: 100%
- Conditional coupon payment (A%) barrier: 80%
- Conditional coupon rate (u%): 2%
- Date of first measurement: one years after product launched
- Maturity: five years

During the product's lifetime:

- If, at one of the annual measurement dates, the index closes at or above 100% of its initial level, the product is terminated early and the investor receives his/her initial capital plus a gain of 3% per year elapsed.
- Otherwise, the product continues to run.

At maturity:

- If, at the fifth measurement (final measurement date), the index closes at or above 100% of its initial level, the investor receives his/her initial capital plus a gain of  $3\% \times 5 = 15\%$ .
- If, at that same date, the index closes strictly below 100% but at or above 80% of its initial level, the investor receives his/her initial capital plus a gain of  $2\% \times 5 = 10\%$ .
- If, at that same date, the index closes strictly below 80% but at or above 70% of its initial level, the investor receives his/her initial capital.
- Otherwise, the investor receives the initial capital less the final performance of the index, which equates to a capital loss.

## STRUCTURE 5

During the product's lifetime:

- If, at one of the measurement dates, the underlying closes at or above the level of the automatic early redemption barrier, the product is automatically terminated early and the investor receives  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, the product continues to run.

Where the level of the automatic early redemption barrier gradually decreases on a straight-line basis at each measurement date, such that: Level of the automatic early redemption barrier =  $(X - w \times (c-1))\%$

Where X = initial automatic redemption barrier, w = rate of decrease of redemption barrier and c = number of measurements.

At maturity:

- If, at the final measurement date, the underlying closes at or above  $(X - w \times (c-1))\%$  of its initial level, the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the underlying, which equates to a capital loss.

### **This formula counts as three mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted during the product's lifetime: *Straight-line reducing barrier*
3. Mechanism counted at maturity: *Base mechanism at maturity*

*Additional clarifications:*

- The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.
- The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.
- The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).
- A coupon rate of y% only (rather than "y% x n") does not mean an additional complexity mechanism needs to be counted, provided that this change is made to the structure in its entirety.
- In the same way, the barrier may also increase on a straight-line basis (*mutatis mutandis*). In such cases, the second mechanism counted would be a "straight-line increasing barrier".
- However, a non-linear reducing barrier (or non-linear increasing barrier) should be counted as an additional mechanism (giving a total of two mechanisms for the barrier: (i) decreasing and (ii) non-linear).

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	Three mechanisms

#### **Example**

- Underlying: CAC 40 (a category 1 index)
- Measurement frequency: annual
- Initial automatic redemption (X%) barrier: 100%
- Coupon rate (y%): 2%
- Maturity: ten years
- Level of decrease in the redemption barrier: 3% per measurement
- Date of first measurement: two years after product launched

During the product's lifetime:

- With effect from the second year, if, at one of the annual measurement dates, the CAC 40 closes at or above the level of the automatic early redemption barrier, the product is terminated early and the investor receives his/her initial capital plus a gain of 2% per year elapsed.

Where the level of the automatic early redemption barrier is as follows:

Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
100%	97%	94%	91%	88%	85%	82%	79%

At maturity:

- If, when the final measurement is taken, the CAC 40 closes at or above 76% of its initial level, the investor receives his/her initial capital plus a gain of  $2\% \times 10 = 20\%$ .
- Otherwise, the investor receives the initial capital less the final performance of the index, which equates to a capital loss.



## STRUCTURE 6

During the product's lifetime:

- If, at one of the measurement dates, the underlying closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of 100% of his/her initial capital invested plus the positive performance of the underlying applying a minimum coupon of p% x n.
- Otherwise, the product continues to run.

At maturity:

- If, at the final measurement date, the underlying closes at or above A% of its initial level, the investor receives repayment of 100% of his/her initial capital invested plus the positive performance of the underlying subject to a minimum coupon of p% x n.
- If, at the final measurement date, the underlying closes at between A% and Z% of its initial level inclusive, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the underlying, which equates to a capital loss.

### **This formula counts as three mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted during the product's lifetime and at maturity: Max (positive performance; p% x n)
3. Mechanism counted at maturity: *Base scenario at maturity*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *A payment at maturity (A%) barrier different from the automatic early redemption (X%) barrier does not mean an additional complexity mechanism needs to be counted.*
- *If the gain paid out is "p%" (rather than "p% x n"), no additional mechanism is counted.*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	Three mechanisms

### **Example**

- *Underlying index: Euro STOXX 50 (a category 1 index)*
- *Measurement frequency: annual*
- *Initial automatic redemption (X%) barrier: 100%*
- *Payment at maturity (A%) barrier: 90%*
- *Capital (Z%) barrier: 50%*
- *Minimum coupon rate (p%): 3%*
- *Date of first measurement: one years after product launched*
- *Maturity: five years*

*During the product's lifetime:*

- *If, at one of the annual measurement dates (years 1 to 4), the index closes at or above 100% of its initial level, the product is terminated early and the investor receives his/her initial capital plus the performance of the index, applying a minimum of 3% per year elapsed.*

*At maturity:*

- *If, at the fifth measurement (final measurement date), the index closes at or above 90% of its initial level, the investor receives his/her initial capital plus the performance of the index, applying a minimum of 3% x 5 = 15%.*
- *If, at that same date, the index closes strictly below 100% but at or above 50% of its initial level, the investor receives his/her initial capital.*
- *Otherwise, the investor receives the initial capital less the final performance of the index, which equates to a capital loss.*

**STRUCTURE 7**

During the product's lifetime:

- If, at each measurement date, the underlying closes at or above B% of its initial level, the investor receives a coupon of (u%) of the initial capital invested.
- Furthermore, if the underlying closes at or above X% (where B% < X%) of its initial level, the product is automatically terminated early and the investor receives repayment of 100% of the initial capital invested (plus the coupon payable under the first branch).
- Otherwise, the product continues to run.

At maturity:

- If, at the final measurement date, the underlying closes at or above B% of its initial level, the investor receives (100% + u%) of the initial capital invested.
- If, at the final measurement date, the underlying closes at between B% and Z% of its initial level inclusive, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the underlying, which equates to a capital loss.

**This formula counts as three mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Conditional coupon (u%)*
2. Mechanism counted during the product's lifetime: *Autocall*
3. Mechanism counted at maturity: *Base scenario at maturity*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *During the product's lifetime, the fact that the measurement dates for the conditional coupon and the autocall are different has no impact on the number of mechanisms counted.*
- *In the event of automatic early redemption during the product's lifetime, the fact that the investor receives, in addition to the u% coupon for the year, a coupon of y% per year elapsed has no impact on the number of mechanisms counted.*

*Possible variant of the mechanism at maturity with no impact on the number of mechanisms counted:*

- *If, at the final measurement date, the underlying closes at or above B% of its initial level, the investor receives (100% + u%) of the initial capital invested.*
- *If the underlying closes below B% of its initial level, the investor receives the final performance of the underlying, which equates to a capital loss.*

**Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	Three mechanisms

**Example**

- *Underlying: Total share*
- *Measurement frequency: annual*
- *Automatic redemption (X%) barrier: 105%*
- *Capital (Z%) barrier: 80%*
- *Conditional coupon (u%): 3%*
- *Conditional coupon (B%) barrier: 90%*
- *Date of first measurement: two years after product launched*
- *Maturity: ten years*

During the product's lifetime:

- *If, at one of the annual measurement dates, the Total share price closes at or above 90% of its initial level, the investor receives a coupon of 3% of his/her initial capital invested.*
- *Furthermore, if, at one of the annual measurement dates, the Total share price closes at or above 105% of its initial level, the product is terminated early and the investor receives his/her initial capital (plus the 3% coupon payable under the first branch).*
- *Otherwise, the product continues to run.*

At maturity:

- *If, when the final measurement is taken, the Total share price closes at or above 90% of its initial level, the investor receives his/her initial capital plus the 3% coupon.*
- *If, at that same date, the Total share price closes at between 80% (inclusive) and 90% of its initial level, the investor receives his/her initial capital.*
- *Otherwise, the investor receives the initial capital less the final performance of the index, which equates to a capital loss.*

## STRUCTURE 8

During the product's lifetime:

- If, at each measurement date, the underlying closes at or above B% of its initial level, the investor receives a coupon of y% of the initial capital invested and the product continues to run.
- Otherwise, no coupon is paid for the measurement period in question and the product continues to run.

At maturity:

- If, at the final measurement date, the underlying closes at or above B% of its initial level, the investor receives (100% + y%) of the initial capital invested.
- If, at the final measurement date, the underlying closes at between B% and Z% of its initial level inclusive, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the underlying, which equates to a capital loss.

### **This formula counts as two mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Conditional coupon*
2. Mechanism counted at maturity: *Base scenario at maturity*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	<b>Two mechanisms</b>
One equally weighted basket, one category 2 index	One additional mechanism	<b>Three mechanisms</b>

### **Example**

- *Underlying: Total share*
- *Measurement frequency: annual*
- *Capital (Z%) barrier: 80%*
- *Coupon barrier (B%): 90%*
- *Coupon rate (y%): 2%*
- *Date of first measurement: two years after product launched*
- *Maturity: ten years*

*During the product's lifetime:*

- *If, at each annual measurement date, the Total share price closes at or above 90% of its initial level, the investor receives the 2% coupon and the product continues to run.*

*At maturity:*

- *If, when the final measurement is taken, the Total share price closes at or above 90% of its initial level, the investor receives his/her initial capital plus the final 2% coupon.*
- *If, at that same date, the Total share price closes at between 90% and 80% (inclusive) of its initial level, the investor receives 100% of the initial capital invested.*
- *Otherwise, the investor receives the initial capital less the final performance of the index, which equates to a capital loss.*

## STRUCTURE 9

During the product's lifetime:

- If, at each measurement date, the underlying closes at or above B% of its initial level, the investor receives a coupon of y% of the initial capital invested plus the sum of y% coupons for each previous measurement period in respect of which no coupon has been paid (memory effect).
- Otherwise, no coupon is paid for the measurement period in question and the product continues to run.

At maturity:

- If, at the final measurement date, the underlying closes at or above B% of its initial level, the investor receives (100% + y%) of the initial capital invested plus the sum of y% coupons for each previous measurement period in respect of which no coupon has been paid.
- If, at the final measurement date, the underlying closes at between B% and Z% of its initial level inclusive, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the underlying, which equates to a capital loss.

### **This formula counts as three mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Conditional coupon*
2. Mechanism counted during the life of the product and at maturity: *Catch-up effect on coupons not previously paid*
3. Mechanism counted at maturity: *Base scenario at maturity*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	Three mechanisms

### **Example**

- *Underlying: Total share*
- *Measurement frequency: annual*
- *Capital (Z%) barrier: 80%*
- *Conditional coupon (B%) barrier: 90%*
- *Coupon rate (y%): 2%*
- *Date of first measurement: two years after product launched*
- *Maturity: ten years*

*During the product's lifetime:*

- *In year 2, the Total share price closes below 90% of its initial level; the investor does not receive any coupon.*
- *In year 3, the Total share price closes below 90% of its initial level; the investor does not receive any coupon.*
- *In year 4, the Total share price closes above 90% of its initial level; the investor receives a 2% coupon in respect of year 4 and the sum of coupons not paid in respect of years 2 and 3 (i.e. an additional coupon of 4%).*
- *From year 4 to year 9, at each annual measurement date, the Total share price closes above 90% of its initial level; the investor receives a 2% coupon each year.*

*At maturity:*

- *If, at the final measurement date, the Total share price closes at or above 90% of its initial level, the investor receives his/her initial capital plus the final 2% coupon.*
- *If, at that same date, the Total share price closes at between 90% and 80% (inclusive) of its initial level, the investor receives his/her initial capital.*
- *Otherwise, the investor receives the initial capital less the final performance of the Total share, which equates to a capital loss.*



## STRUCTURE 10

During the product's lifetime:

- At each measurement date, the credit linked note (CLN) allows the investor to receive a coupon of  $y\%$  of the initial capital invested unless the Reference Entity experiences a credit event.
- Otherwise, the investor does not receive any coupon.

At maturity:

- If, at the final measurement date, the Reference Entity has experienced no credit events since the product was launched, the CLN allows the investor to receive 100% of the initial capital invested (to which is added the coupon of  $y\%$  of the initial capital invested).
- If the Reference Entity has experienced a credit event since the product was launched, the CLN allows the investor to receive, at maturity, the Reference Entity's recovery rate (as published by ISDA), which may equate to a capital loss.

### **This formula counts as two mechanisms**

1. Mechanism counted during the product's lifetime: *Conditional coupon affected by the occurrence of a credit event*
2. Mechanism counted at maturity: *Conditional redemption affected by the occurrence of a credit event*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i)  $n$  corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *This structure only applies to the credit linked note.*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
N/A	N/A	Two mechanisms

### **Example**

- *Reference Entity: AXA* - *First annual measurement date: one year after launch*
- *Measurement frequency: annual*
- *Coupon rate ( $y\%$ ): 4.70%*
- *Maturity: 4 years*

*During the life of the product: if, at each annual measurement date, AXA has not experienced a credit event, the investor receives the 4.70% coupon and the product continues to run.*

*At maturity:*

- *If, at the final measurement date, AXA has not experienced any credit events since the product was launched, the investor receives his/her initial capital plus the 4.70% coupon.*
- *Otherwise, if AXA has experienced a credit event since the product was launched, the investor receives the AXA recovery rate (as published by ISDA).*

## STRUCTURE 11

At each measurement date, including at maturity, the credit linked note (CLN) allows the investor to receive a coupon of  $(y\% \times (N-D)/N)$  of the initial capital invested, where:

- N = number of Reference Entities in the basket
- D = number of Reference Entities experiencing a credit event since the product was launched

At maturity:

- If, at the final measurement date, none of the Reference Entities making up the basket has experienced a credit event since the product was launched, the CLN allows the investor to receive 100% of the initial capital invested.
- If one or more of the Reference Entities making up the basket has experienced a credit event since the product was launched, the CLN allows the investor to receive  $(100\% \times (N-D)/N)$  of the initial capital invested, which equates to a capital loss.

### **This formula counts as two mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the life of the product: *One Nth reduction in the coupon per credit event*
2. Mechanism counted at maturity: *One Nth reduction in the capital per credit event*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *This structure only applies to the credit linked note.*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
N/A	N/A	Two mechanisms

### **Example**

- *Equally weighted basket of five Reference Entities - First annual measurement date: one year after launch*
- *Measurement frequency: annual*
- *Coupon rate (y%): 4.70%*
- *Maturity: 4 years*

*At each annual measurement date, including at maturity, the investor receives an annual coupon of  $4.70\% \times (5-D)/5$  of the initial amount invested (where D = number of Reference Entities in the basket experiencing a credit event since the product was launched).*

*At maturity:*

- *If, at the final measurement date, none of the Reference Entities has experienced a credit event since the product was launched, the investor receives his/her initial capital.*
- *If one or more of the Reference Entities has experienced a credit event since the product was launched, the investor receives  $(100\% \times (5-D)/5)$  of the initial capital invested.*

## STRUCTURE 12

During the product's lifetime:

- If, at one of the measurement dates, the underlying closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of 100% plus a progressive coupon per year elapsed.
- Otherwise, the product continues to run.

Where the progressive coupon increases on a straight-line basis at each measurement date such that:

Linear coupon =  $(y + w \times (c-1))\%$  of the initial capital invested

Where y = initial coupon rate, w = rate of increase in coupon and c = number of measurements

At maturity:

- If, at the final measurement date, the underlying closes at or above A% of its initial level, the investor receives repayment of  $100\% + (y + w \times (c-1))\%$  of the initial capital invested.
- If, at the final measurement date, the underlying closes at between Z% (inclusive) and A% of its initial level, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the underlying, which equates to a capital loss.

### **This formula counts as three mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted during the life of the product and at maturity: Straight-line progressive coupon
3. Mechanism counted at maturity: *Base scenario at maturity*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *A payment at maturity (A%) barrier different from the automatic early redemption (X%) barrier does not mean an additional complexity mechanism needs to be counted.*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	<b>Three mechanisms</b>

### **Example**

- *Underlying index: CAC 40 (a category 1 index)*
- *Measurement frequency: annual*
- *Automatic redemption (X%) barrier: 100%*
- *Payment at maturity (A%) barrier: 100%*
- *Capital (Z%) barrier: 75%*
- *Date of first measurement: one years after product launched*
- *Maturity: six years*

*During the product's lifetime:*

- With effect from the first year, if, at one of the annual measurement dates, the CAC 40 closes at or above 100% of its initial level, the product is terminated early and the investor receives the initial coupon plus a progressive coupon per year elapsed.

Where the progressive coupon is as follows:

Year 2	Year 3	Year 4	Year 5
2%	2.5%	3%	3.5%

*At maturity:*

- *If, at the final measurement date, the CAC 40 closes at or above 75% of its initial level, the investor receives his/her initial capital plus a gain of 4%.*
- *Otherwise, the investor receives the initial capital less the final performance of the index, which equates to a capital loss.*

### STRUCTURE 13

This structure is based on a basket of several underlyings whose performance is compared individually.

During the product's lifetime:

- If, at one of the measurement dates, the worst-performing underlying closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, the product continues to run.

At maturity:

- If, at the final measurement date, the worst-performing underlying closes at or above A% of its initial level, the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- If, at the final measurement date, the worst-performing underlying closes at between A% and Z% of its initial level inclusive, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the worst-performing underlying, which equates to a capital loss.

**This formula counts as three mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted at maturity: *Base scenario at maturity*
3. Mechanism counted during the life of the product and at maturity: Worst-performing underlying ("worst of")

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *A coupon rate of y% only (rather than "y% x n") does not mean an additional complexity mechanism needs to be counted, provided that this change is made to the structure in its entirety.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *A payment at maturity (A%) barrier different from the automatic early redemption (X%) barrier does not mean an additional complexity mechanism needs to be counted.*
- *The basket must consist of a number of underlyings of the same type.*

**Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One basket of shares, one basket of category 1 indices	No additional mechanisms	Three mechanisms

**Example**

- *Underlying basket: LVMH, Danone and Adidas shares*
- *Measurement frequency: annual*
- *Automatic redemption (X%) barrier: 100%*
- *Payment at maturity (A%) barrier: 100%*
- *Capital (Z%) barrier: 75%*
- *Annual coupon rate (y%): 4%*
- *Date of first measurement: one years after product launched*
- *Maturity: five years*

*During the product's lifetime:*

- *With effect from the first year, if, at one of the annual measurement dates, the worst-performing share (out of LVMH, Danone and Adidas) closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of  $(100\% + 4\% \times 7)$  of the initial capital invested.*
- *Otherwise, the product continues to run.*

*At maturity:*

- *If, at the final measurement date, the worst-performing share (out of LVMH, Danone and Adidas) closes at or above 100% of its initial level, the investor receives his/her initial capital plus a gain of  $4\% \times 7 = 28\%$  of the initial capital invested.*
- *If, at that same date, the worst-performing share (out of LVMH, Danone and Adidas) closes strictly below 100% but at or above 75% of its initial level, the investor receives his/her initial capital.*
- *Otherwise, the investor receives the initial capital less the final performance of the worst-performing share, which equates to a capital loss.*



## STRUCTURE 14

This structure is based on a basket of several underlyings whose performance is compared individually.

During the product's lifetime:

- If, at one of the measurement dates, the worst-performing underlying closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, the product continues to run.

At maturity:

- If, at the final measurement date, the worst-performing underlying closes at or above Z% of its initial level, the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the worst-performing underlying, which equates to a capital loss.

### **This formula counts as three mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted at maturity: *Base scenario at maturity*
3. Mechanism counted during the life of the product and at maturity: *Worst-performing underlying ("worst of")*

*Additional clarifications:*

- The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.
- The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.
- A coupon rate of y% only (rather than "y% x n") does not mean an additional complexity mechanism needs to be counted, provided that this change is made to the structure in its entirety.
- The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).

*A payment at maturity (A%) barrier different from the automatic early redemption (X%) barrier does not mean an additional complexity mechanism needs to be counted.*

### **Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One basket of shares, one basket of category 1 indices	No additional mechanisms	Three mechanisms

### **Example**

- Underlying basket: CAC 40 and Euro STOXX 50
- Measurement frequency: daily
- Automatic redemption (X%) barrier: 105%
- Daily coupon rate (y%): 0.00658% (equating to 2.40% per annum assuming a 365-day year)
- Payment at maturity (A%) barrier: 85%
- Date of first measurement: one year after product launched
- Maturity: six years

*During the product's lifetime:*

- If, at one of the daily measurement dates, the worst-performing index (out of the CAC 40 and the Euro STOXX 50) closes at or above 105% of its initial level, the product is terminated early and the investor receives his/her initial capital plus a gain of 0.00658% per day elapsed (equating to 2.40% per year elapsed).
- Otherwise, the product continues to run.

*At maturity:*

- If, at the final measurement date, the worst-performing index (out of the CAC 40 and the Euro STOXX 50) closes at or above 85% of its initial level, the investor receives his/her initial capital plus a gain of  $2.40\% \times 6 = 14.4\%$ .
- Otherwise, the investor receives the initial capital less the final performance of the worst-performing index, which equates to a capital loss.

### STRUCTURE 15

During the product's lifetime:

- If, at one of the measurement dates, the underlying closes at or above X% of its initial level, the product is automatically terminated early and the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- Otherwise, no coupon is paid to the investor and the product continues to run.

At maturity:

- If, at the final measurement date, the underlying closes at or above A% of its initial level, the investor receives repayment of  $(100\% + y\% \times n)$  of the initial capital invested.
- If, at the final measurement date, the underlying closes at between A% and Z% of its initial level inclusive, the investor receives repayment of 100% of the initial capital invested.
- Otherwise, the investor receives the initial capital less the final performance of the underlying, subject to a minimum level of P%, which equates to a maximum capital loss of  $(1-P\%)$  (where P% is a fixed floor).

**This formula counts as two mechanisms (without taking into account the underlying used)**

1. Mechanism counted during the product's lifetime: *Autocall*
2. Mechanism counted at maturity: *Base scenario at maturity*

*Additional clarifications:*

- *The measurement frequency (daily, monthly, quarterly, half-yearly, annual, etc.) has no impact on the count if (i) n corresponds to a number of elapsed periods based on the same frequency and (ii) the coupon is expressed on the basis of that same frequency.*
- *The first measurement date has no impact on the number of mechanisms counted, provided that, from that point forward, the following measurements are taken at the defined frequency.*
- *The addition of a guaranteed coupon has no impact on the number of mechanisms counted (including where it is paid over a period shorter than the product's lifespan).*
- *A coupon rate of y% only (rather than "y% x n") does not mean an additional complexity mechanism needs to be counted, provided that this change is made to the structure in its entirety.*
- *A payment at maturity (A%) barrier different from the automatic early redemption (X%) barrier does not mean an additional complexity mechanism needs to be counted.*

**Count of this proposed structure (taking into account the underlying)**

Possible underlying for this structure	Additional mechanism(s)	Final number of mechanisms for the proposed structure (taking into account the underlying)
One share, one category 1 index	No additional mechanisms	<b>Two mechanisms</b>
One equally weighted basket, one category 2 index	One additional mechanism	<b>Three mechanisms</b>

**Example**

- *Underlying index: CAC 40 (a category 1 index)*
- *Measurement frequency: quarterly*
- *Automatic redemption (X%) barrier: 100%*
- *Payment at maturity (A%) barrier: 100%*
- *Capital floor (P%): 60% of the initial level*
- *Capital (Z%) barrier: 75%*
- *Quarterly coupon rate (y%): 1%*
- *Date of first measurement: three years after product launched*
- *Maturity: seven years*

*During the product's lifetime:*

- *If, at one of the quarterly measurement dates, with effect from the first quarter of the third year, the CAC 40 closes at or above 100% of its initial level, the product is terminated early and the investor receives his/her initial capital plus a gain of 1% per quarter elapsed.*
- *Otherwise, the product continues to run.*

*At maturity:*

- *If, at the final measurement date, the CAC 40 closes at or above 100% of its initial level, the investor receives his/her initial capital plus a gain of  $1\% \times 7 \times 4 = 28\%$ .*
- *If, at that same date, the CAC 40 closes strictly below 100% but at or above 75% of its initial level, the investor receives his/her initial capital.*
- *Otherwise, the investor receives the initial capital less the final performance of the index, subject to a minimum level of 60%, which equates to a maximum capital loss of 40%.*