

STRUCTURED
NOTES WATCH

THIRD-QUARTER REVIEW. We continue our look at quarterly trends inside: banks try to boost the appeal of inflation-tied notes (page 2), securities linked to the ruble surge (page 3), and our charts show what happened with rate-tied sales, U.S. market share (page 6).

BELGIUM'S RULE DELAY LEADS TO SALES DECLINE. Note issuance has dropped about 30 percent, as banks await new regulations. Page 3.

U.S. CURRENCY-TIED SALES CLIMB. There has been a resurgence in securities linked to the Brazilian real. Page 4.

INTERVIEW. Mathias Strasser of Wall Street Docs on automating legal documentation for notes. Page 8.

VOLUMES

U.S. STRUCTURED NOTES VOLUMES*	AS OF OCT. 5	1 YEAR AGO	
Last Week (Oct. 1-5)	\$398.4 million	\$486 million	↓
First Quarter	\$11.3 billion	\$14.8 billion	↓
Second Quarter	\$9.8 billion	\$10.6 billion	↓
Third Quarter	\$9.4 billion	\$12 billion	↓
Year To Date	\$30.9 billion	\$37.6 billion	↓
YTD Equity	\$19.6 billion	\$18.4 billion	↑
YTD Rates	\$4.7 billion	\$7.12 billion	↓
YTD Commodities	\$2.06 billion	\$3.53 billion	↓

GLOBAL RATE LINKED NOTES**	AS OF OCT. 10	1 YEAR AGO	
Last Week (Oct. 4-10)	\$472 million	\$1.62 billion	↓
First Quarter	\$24.9 billion	\$29.6 billion	↓
Second Quarter	\$18.3 billion	\$34.5 billion	↓
Third Quarter	\$18.4 billion	\$25.5 billion	↓
Year To Date	\$64 billion	\$91.4 billion	↓
YTD Interest Rate Linked	\$27.2 billion	\$43.4 billion	↓
YTD Credit Linked	\$32.9 billion	\$33.3 billion	↓
YTD Inflation Linked	\$1.33 billion	\$7.22 billion	↓

* According to data compiled by Bloomberg from SEC filings.

** Based on data submitted to Bloomberg by banks. Excludes variable-principal redemption, reverse and synthetic convertibles. Global includes Euromarket issues from all nations and domestic European notes. Excludes SEC registered issues.

U.S. Note Sales Slow in Quarter as Volatility Falls

BY KEVIN DUGAN

Third-quarter sales of structured notes in the U.S. fell to the lowest this year as a new round of quantitative easing and the lead-up to the November presidential election damped market volatility.

Investors bought \$9.37 billion of the securities, down 4.3 percent from the previous quarter,

according to data compiled by Bloomberg. It was the second-lowest three-month period for issuance since at least the beginning of 2010, exceeding only the \$8.6 billion sold in the fourth quarter of last year.

The Federal Reserve's announcement of an open-ended bond buying program and investors adopting a wait-and-see attitude before the presidential election contributed to lower volatility, said **Scott Miller Jr.**, a managing partner at **Blue Bell Private Wealth Management LLC**. When assets are less volatile, the options embedded in certain types of structured notes are cheaper, hurting the ability of issuers to offer enticing features.

The value of the securities is "not as attractive as it was and that's a little bit of a hard pill to swallow," Miller said. Current terms, such as the level of protection against losses, aren't as good as they have been in the past two or three years, he said.

The Chicago Board Options Exchange Volatility Index, known as the VIX, fell to 13.45 on Aug. 17, the lowest since June of 2007. During the quarter, the benchmark didn't close above 20.47, which is close to its average historical value of about 20.35 since March 30, 1990.

Sales of notes outside the U.S. were \$19.5 billion last quarter, a 6.7 percent gain from the previous three months, Bloomberg data show. The increase came as banks sold 887 securities, or 15 percent fewer, than in the second quarter.

Issuance between July and September was buoyed by the biggest note since the third quarter of 2011 – **ABN Amro Bank NV**'s \$1.5 billion of 10-year callable securities, sold Sept. 6 – and \$1.02 billion of volume from the U.S. agency Federal Home Loan Banks. The government-sponsored enterprise issued eight notes outside the U.S. in the quarter, all of which feature step-up coupons.

Sales of credit-linked notes, which are 51.5 percent of notes sold outside the U.S. this year, dropped 5.3 percent in the third quarter to \$9.6 billion, Bloomberg data show.

In the U.S., sales were also hurt by interest rates close to historical lows and lower bank funding levels, said **John Tassar**, senior vice president at **JVB Financial Group LLC** in Boca Raton, Florida.

"You can't really attract investors with better-than-before yield," he said in a telephone interview.

The yield on benchmark Treasury notes averaged 1.62 percent for the quarter and touched a record low of 1.3875 percent on July 24. The average of five-year credit-default

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