# Use case: Automating the issuance of structured notes

A structured note is a type of structured product which can be used to create a bespoke investment. The issuer sells a client what is effectively a zero-coupon bond and uses the yield to purchase a derivative which provides exposure to an underlying asset of the client's choice, such as an equity, commodity or currency. The client earns a return based on the performance of the underlying asset.

Structured notes are securitized, a process where assets are pooled to create a single security. That means a bank can distribute these products internally or externally, and they can be bought and sold on a secondary market.

In contrast, a structured deposit is issued in a deposit wrapper. The issuer accepts a deposit from a client and uses the funding rate to buy the derivative. Structured deposits aren't securitized, so they can only be distributed internally.

## Benefits of issuing structured notes

When issuing bespoke investments, there are several reasons a mid-size commercial bank should consider structured notes:

+ As structured notes are transferable, they create a new commission-based revenue stream.
+ Structured notes provide an additional source of funding as a bank issues debt in the form of a bond.
+ Structured notes diversify a bank's debt and help it remain on the right side of financial regulators.
+ A mid-sized bank can offer a better return than a tier one rival when issuing structured notes in its local currency because it pays a higher funding rate.
+ Structured notes allow a mid-sized bank to compete with tier one rivals and retain more of the value they generate. Under the existing model, tier one banks earn most of that value as they have the infrastructure to manufacture and distribute the products, while distributors only receive a fee.
+ A mid-sized bank tends to receive a lower rating than tier one rivals, which also increases its funding rate. This extra funding improves the return earned by clients on structured notes.

# How Futora overcomes the challenges of issuing structured notes

Banks face several challenges when issuing structured notes, mostly caused by the cumbersome manual processes involved. However, Futora's platform streamlines the process through automation. Other providers might excel at different stages of the product journey, but none offer an end-to-end solution like Futora.

## Managing subscription periods

Issuers of structured notes open a subscription period of between two weeks and a month to give clients an opportunity to buy the product. During this window, the price of the derivative offering exposure to the underlying asset can vary, increasing risk. Meanwhile, the investment team must track potentially hundreds of orders generated by relationship managers.

**Futora's platform guarantees the minimum price of the derivative during the subscription period using a FlexVol option**. The platform also stores orders on a dashboard- much easier to manage than an email inbox- and provides real-time updates about new subscriptions and the total volume of subscriptions.

## Creating and distributing documentation

Banks must provide clients with a range of documentation so they can make well-informed investment decisions. This obligation is particularly important for structured products which regulators classify as complex. Creating and distributing these documents is resource intensive and adds costs to the issuance process.

**Futora's platform automatically creates and distributes the necessary documentation**, including a breakdown of how much the investment costs, as required by the Markets in Financial Instruments Directive (MiFID), and Key Information Documents required by the Packaged Retail and Insurance-based Investment Products (PRIIPs) regulation.

## Risk management

One of the biggest challenges when issuing structured notes is managing the risk associated with the equity component. Tier one banks typically have the capital markets infrastructure to manage risk internally. Conversely, mid-sized banks hedge against it (they outsource the risk) by purchasing a derivative such as a total return swap, which effectively acts as an insurance policy, from a tier one bank. Manually managing this process is time-consuming: the investment team must send out Requests for Quotes (RFQs), track the responses and execute the trade.

**Futora's platform makes price discovery much easier. It allows a bank to price as many variations of a derivative as needed with multiple providers** to find the right product for each client. It then stores the quotes on the dashboard. The platform is web-based, so it doesn't have to be integrated into existing systems, and as Futora is strictly a technology firm, it avoids the bias which may occur when platforms are operated directly by tier one banks.

## Distribution

Tier one banks tend to dominate the market for structured notes because their infrastructure allows them to issue quotes quickly. Manual processes make it harder for mid-sized banks to compete, even if they potentially offer a better return.

**Futora's platform automates the process of pricing and issuing structured notes**, so mid-sized banks can provide live quotes in less than a minute. This functionality can work in favour of domestic banks as they often have stronger brand awareness and loyalty among local clients. Futora also offers a 'white label' version of its platform, giving global branches or external asset managers access to the same product range as the head office.

## Lifecycle management

Once a bank issues a structured note, it must manage the lifecycle of the product, for example monitoring events like the breach of a barrier (which provides downside protection) or a maturity date. Knowing when a note is about to mature is important so relationship managers can suggest recycling the investment into another product. It must also track the performance of the investment so the bank can deliver accurate updates to its clients. When conducted manually using spreadsheets, lifecycle management is inefficient.

**Futora's platform provides a calendar view of all outstanding structured notes and sends warnings about upcoming events** via email push notifications. The platform also allows a bank to track the performance of a structured note and produce client reports at the touch of a button.

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**Arrange a demo today!**