Bloomberg **BRIEF**

Structured Notes

10.15.10

VOLUMES

U.S. STRUCTURED NOTES VOLUMES*	
Sold Last Week	$805 million
Quarter-to-date	$890 million
Third Quarter	$14.96 billion
Second Quarter	$11.61 billion
First Quarter	$10.65 billion
Year-to-Date (Jan. 1- Oct. 8)	$38.14 billion
GLOBAL INTEREST-LINKED NOTES VOLUMES**	
Sold Last Week	$1.36 billion
Quarter-to-date	$1.57 billion
Third Quarter	$23.35 billion
Second Quarter	$22.28 billion
First Quarter	$30.95 billion
Year-to-Date (Jan. 1- Oct. 8)	$79.23 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.*

NOTES SOLD

U.S.-REGISTERED

■ **Morgan Stanley**, the leading issuer of structured notes in the U.S. this year, sold A$160 million ($157 million) of 10-year callable step-up notes. It is the second Australian dollar-denominated note to be sold in the U.S. retail market this year, according to data compiled by Bloomberg. The first, sold in January, was also issued by Morgan Stanley. The securities sold on Oct. 7 pay an initial interest rate of 7.5 percent, according to a prospectus filed Oct. 12 with the SEC. After three years, the rate rises to 8.5 percent and the New York-based bank has periodic options to redeem, or call, the notes for face value.
ID BBG00175YDQ4

■ **Barclays Plc** sold $58.2 million of callable five-year structured notes tied to the **SPDR S&P 500 ETF Trust**, an exchange-traded fund tracking the benchmark measure of U.S. stocks. The securities return 9 percent annualized if called, according to a prospectus filed Oct. 13 with the SEC. The

continued on next page

U.S. Note Sales Surpass $38 Bln, Setting Record

BY ZEKE FAUX

Banks have sold $38.4 billion of structured notes in the U.S. this year, an annual record, as investors pull money from stocks and turn to fixed-income instruments.

Morgan Stanley issued $9.44 billion of the securities, the most of any bank, data compiled by Bloomberg shows. That's more than three times as much as the $2.43 billion it sold all of last year, according to StructuredRetailProducts.com, a database. **Bank of America Corp.** followed with $7.39 billion, 78 percent more than the $4.15 billion it sold last year, the data show. Those figures don't include private placements or market-linked certificates of deposit.

Structured notes generally offer the potential for higher yields than corporate debt. Individuals are wary of equities and looking for ways to earn more interest than they can on money-market funds, said **Tom Livingston**, who helps manage about $4 billion as **Halliday Financial Group**'s director of structured products.

"Some people that left the stock market are not coming back," said Livingston, based in Albany, New York. "Structured products offer them an opportunity to pick up yield."

Structured notes issuance dropped 10 percent last year to $33.9 billion, down from $37.6 billion in the previous record year of 2008, after **Lehman Brothers Holdings Inc.** went bankrupt in September 2008 and defaulted on its structured notes. Investors aren't as worried about counterparty risk now, said **John Farrall**, who helps oversee $104 billion as director of derivatives strategies at **PNC Wealth Management** in Cleveland.

Russian Notes Triple on Demand for Ruble

BY SARFRAZ THIND

Sales of structured notes denominated in rubles have more than tripled this year and may quadruple in 2011 as investors snap up the securities to profit from the economic rebound in the world's biggest energy-exporting nation.

Issuance of credit-linked notes, whose returns are based on the performance of underlying debt, will surge three or fourfold within 12 months, according to **Metropol IFC**, an independent investment bank in Moscow.

While banks disclosed 7.3 billion rubles ($243 million) of structured debt sales this year, and 2.3 billion rubles in 2009, the actual amount is "much larger," said **Tim McCarthy**, who helps oversee $1 billion of emerging-market assets as a fund manager at Geneva-based **Valartis Group Asset Management**. Disclosed deals may reach $1 billion by the

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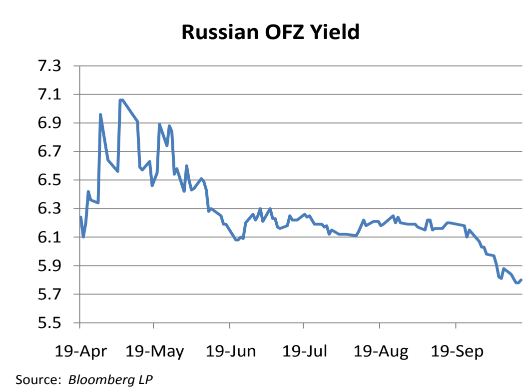
Russian Yields Fall as Ruble Outlook Improves



Yields on benchmark Russian five-year governmnet debt have declined in recent months. Investors are buying the notes through credit-linked structures with the expectation that the ruble-denominated securities will appreciate further.

NOTES SOLD

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offering is the largest of callable equity-linked notes since Sept. 24, when **Morgan Stanley** sold $270 million of 12-year notes tied to the **Standard & Poor's 500 Index**, according to data compiled by Bloomberg. The securities are redeemed, or called, if the ETF has risen from its initial level of $116.56 in a year, or at the end of every three-month period after that. Investors lose money if the notes aren't called and the fund declines more than 50 percent from that level. **UBS AG** distributed the notes for a 2.5 percent commission.
ID BBG00171FY24

■ **Eksportfinans ASA** sold $45.3 million of callable one-year structured notes linked to the **Standard & Poor's 500 Index**. The notes, which if called return 10 percent annualized, were issued Oct. 7 by the export-credit agency partly owned by the Norwegian government, according to a prospectus filed Oct. 12 with the SEC. The securities are redeemed, or called, if the benchmark has risen from its initial level of 1,158.06 in six months, nine months or at maturity. Investors lose money if the notes aren't called and the S&P 500 declines more than 10 percent from that

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Ruble Spurs Boom...

end of next year, he said.

Barclays Capital, **Deutsche Bank AG** and **JPMorgan Chase & Co.** are reviving the market for structured debt as investors seek ways to sidestep requirements that include registering with a local broker, a process that can take as long as a year.

Russia's recovery from its worst recession on record is luring foreign investors expecting ruble bonds to catch up after underperforming Brazil and China this year.

"Russian structured notes are poised for significant growth in the next eight to 12 months, driven by investors' appetite for riskier assets," **Mark Rubinstein**, head of research at Metropol IFC, said in a phone interview.

Russian ruble debt returned 4.4 percent this year compared with 12.6 percent for Brazil and an average of 7.2 percent for the countries included in **JPMorgan Chase & Co.'s Emerging Local Markets Plus Index**.

Barclays sold 2.5 billion rubles of 11.2 percent coupon structured notes due in December 2014 at a price of 118.683 to yield about 6.1 percent, according to data compiled by Bloomberg. The notes package the Russian government's 11.2 percent coupon OFZs due in December 2014. Since the Barclays notes were first issued on May 21, the OFZs have gained 1.6 percent, lowering the yield to 6.6 percent.

Banks sold a total of 12 ruble-denominated structured notes, also known as credit-linked notes or CLNs, led by Barclays with four deals totaling 3.8 billion rubles, the data for this year show. Deutsche Bank has sold three, totaling 1.5 billion rubles, JPMorgan, raised 1 billion rubles from three deals and ING sold two notes at 590 million rubles. Banks last year sold seven of the notes.

Issuance is picking up as investor confidence improves after Russia's record 7.9 percent economic contraction last year. The economy will grow by 3.9 to 4.5 percent each of the next three years, **Deputy Economy Minister Andrei Klepach** said on Oct. 6.

The recovery is being spurred by an increase in the price of oil, Russia's main export.

The ruble will strengthen 6.9 percent against the central bank's target currency basket of dollars and euros by the end of next year, according to the median of five forecasts on Bloomberg.

Bank Julius Baer & Co. is keeping out of ruble-denominated structured debt.

"We wouldn't touch Russia here," **Thomas Maurer**, a trader of fixed-income structured products at Bank Julius Baer said in a phone interview. "Maybe the only reason you would buy these CLNs is if you can't find enough bonds to buy."

Buyers of the debt don't receive the registration documents that allow holders of regular bonds to exercise legal rights in the case of default, according to Maurer. Buyers can typically only trade the notes with the issuing bank, creating the risk they won't be able to sell when they want to, Maurer said.

On The Move

■ **Jerome Kemp** will join **Citigroup Inc.** as global head of exchange-traded derivatives sales and clearing.

Kemp will run Citigroup's global futures business, the same position he held at **JPMorgan Chase & Co.**, which he joined 17 years ago, according to an internal memo circulated to Citigroup employees and confirmed by Alexander Samuelson, a spokesman for the New York-based bank.

"This new role was created to ensure that Citi remains a leader for clients as more products move to centralized clearing," **Jim O'Donnell** and **Nick Roe**, Citigroup's head of global investor sales and global prime finance, respectively, said in the memo.

Kemp will join Citigroup later this year and be based in Citigroup's London office, according to the memo, and live in Paris, Samuelson said.

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SOLD THIS WEEK

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level, according to the prospectus. **Bank of America Corp.** has sold $657.2 million of Eksportfinans' structured notes this year, the most of any distributor, according to data compiled by Bloomberg. The Oslo-based export-financing agency is rated AA by Standard & Poor's, three steps higher than Bank of America's A rating.
ID BBG00171ZFK3

■ **Citigroup Funding Inc.** sold $43.7 million in one-year notes linked to the **Dow Jones-UBS ExEnergy 3 Month Forward Total Return Sub-Index**, according to an Oct. 12 filing with the SEC. The notes will pay at maturity the performance of the index, less an embedded free of 0.45 percent. The index is a commodity-futures index which excludes crude oil, heating oil, natural gas and unleaded gasoline. The notes will be called by Citigroup if the level of the index falls to 50 percent or below, causing a loss in principal of 50 percent or more. Investors are able to initiate early redemption of their notes, and will suffer a loss if the index has declined in value by the early redemption date. The notes also pay interest of one-month U.S. dollar Libor minus 0.20 percent, with a minimum rate of zero.
ID BBG0017C15Q2

■ **Morgan Stanley** sold $20.7 million in notes that offer twice the gains of a basket of international stock indexes, according to an Oct. 13 filing with the SEC. The one-year notes are linked to a basket with a 52 percent weighting in the **Euro STOXX 50 Index**, and 24 percent weightings in each of the **FTSE 100 Index** and the **TOPIX Index**. Returns are capped at 18.35 for the Euro STOXX Index, 13.38 percent for the FTSE 100 and 9.4 percent for the TOPIX. Investors can be subject to a loss of principal if any of the indexes decline more than 10 percent, with losses calculated at 1.1 times any additional index decline. **JPMorgan Securities** placed the notes for a 1 percent fee.
CUSIP 617482NX8

■ **Royal Bank of Canada** sold $17.7 million in two-year notes linked to **iShares MSCI Emerging Markets Index Fund**, ac-

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RBS Issues First Indonesian Linked Notes in Europe

BY SARFRAZ THIND

Royal Bank of Scotland Group Plc issued Europe's first exchange-traded structured notes linked to Indonesian stocks, allowing investors to tap the country's soaring equity market.

Investors have the choice of 13 different products that track the **MSCI Indonesia equity index**, which has surged 33 percent this year, according to RBS. The so-called discount and bonus notes are listed on **Scoach**, the structured products trading platform run by **Deutsche Boerse AG** and Switzerland's **SWX Group**. RBS also listed notes tied to Chilean and Indian stocks.

Investors pumped more than $6 billion into emerging market equity funds last week, the most since 2007 as growth in developed nations slows, according to research firm EPFR Global. Banks worldwide sold a record 16.5 trillion rupiah ($1.8 billion) of Indonesian credit-linked notes this year, triple last year's total, according to data compiled by Bloomberg.

"Investors will have to acknowledge that the emerging markets are gaining weight in the global economy," said **Kemal Bagci**, a Frankfurt-based director in RBS's equity derivatives unit that helped create the notes. "We have seen constant demand for these countries this year."

RBS's issue includes six Indonesian discount certificates, which contain embedded derivatives that allow banks to offer investors assets at below-market prices, though cap gains at a pre-set level.

One of the euro-denominated certificates lets investors buy the MSCI Indonesia index at $657.5 with a cap of $700. The benchmark was at 849.23 on Monday.

RBS also issued seven bonus certificates, which pay a premium as long as the MSCI Indonesia index doesn't drop below a set level. If the benchmark falls below the barrier, the investor only receives money equal to market value of the index, and may take a loss.

RBS also issued its first structured certificates on a Chilean stocks, which increased 51 percent in the past 12 months, and Indian equities, which are up 35 percent.

RBS hopes to sell about 60 million euros ($55.7 million) of the Indonesian, Chilean and Indian notes in total, Bagci said. The euro-denominated securities have a 50 basis-point bid-to-offer spread in secondary market trading, according to RBS.

The bank plans to issue this year structured notes on Bangladesh, Colombia, Nigeria and Sri Lanka stocks after offering tracker notes based on the countries' MSCI indexes last week, Bagci said.

Latin Americans Buying Callable Notes, Ortega Says

BY ZEKE FAUX

Latin American investors are buying increasing amounts of callable equity-linked

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Indonesian Stocks Surge to Record High

Source: *Bloomberg LP*

The Jakarta Composite Index reached a new record high on Oct. 13, bringing the year-to-date gain to 42.5 percent. The index, a market capitalization weighted index of stocks listed on the Indonesia Stock Exchange in rupiahs, has exceeded a series of record high levels over the past four months.

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cording to an Oct. 12 filing with the SEC. The notes have a capped return of 20.5 percent. Investors will lose principal if the stock index vehicle declines more than 15 percent at maturity. **Goldman, Sachs & Co.** distributed the notes for a 0.25 percent fee.
ID BBG0017C1T99

EUROPEAN MARKETS

■ **Deutsche Bank AG** sold $70 million of one-year notes linked to **Chinese government debt**, according to information submitted to Bloomberg. The notes, sold in the Euromarket, pay a coupon of 125 basis points more than three-month Libor. The securities were issued at price of 100 percent of face

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Latin...

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notes issued by U.S. and European banks, according to **Jose Ortega**, senior executive director at **Atlas One Financial Group**.

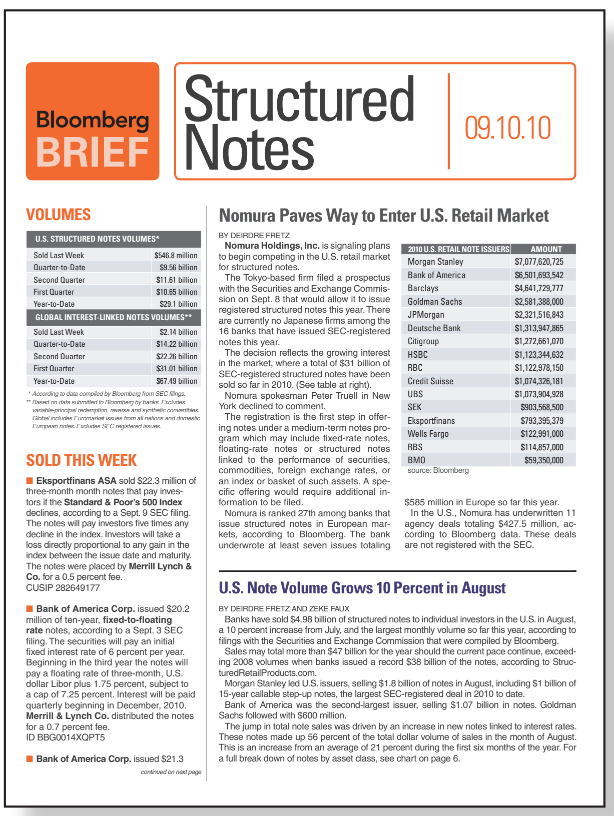
Clients in Mexico and other countries are buying notes with yields as high as 20 percent, said Ortega, who helps manage about $1 billion for the Miami-based company. The securities appeal to investors who might otherwise buy emerging-market bonds, Ortega said in a telephone interview.

"You get a coupon which is one and a half to two times the coupon of an emerging-market bond, however the underlying stocks and the issuer of the note itself are much better credit than an emerging-market bond," Ortega said. Latin American corporate bonds yield 5.9 percent a year on average, according to **JPMorgan Chase & Co.** index data.

On Oct. 6, Atlas One sold a three-year note issued by **Rabobank Nederland NV** and tied to the stocks of **Ford Motor Co.**, **Vale SA**, **Bank of America Corp.**, **General Electric Co.** and **Itau Unibanco Holding SA**, Ortega said. The bond pays 1.6 percent interest each month, or 19 percent annualized, as long as none of the stocks drop more than 50 percent from their initial levels.

If all of the stocks rise beyond those levels at the end of any month, the notes are called for face value plus accrued interest. At maturity, if any of the stocks are down by more than 50 percent, investors lose money because they are paid in shares of the worst performer.

Atlas One has also sold autocalls issued by **Societe Generale SA** and **Commerzbank AG**, Ortega said.



Bloomberg BRIEF

Structured Notes 09.10.10

VOLUMES

U.S. STRUCTURED NOTES VOLUMES*	
Sold Last Week	$546.8 million
Quarter-to-Date	$9.56 billion
Second Quarter	$11.61 billion
First Quarter	$10.65 billion
Year-to-Date	$29.1 billion
GLOBAL INTEREST-LINKED NOTES VOLUMES**	
Sold Last Week	$2.14 billion
Quarter-to-Date	$14.22 billion
Second Quarter	$22.26 billion
First Quarter	$31.01 billion
Year-to-Date	$67.49 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.

SOLD THIS WEEK

■ **Eksportfinans ASA** sold $22.3 million of three-month month notes that pay investors if the **Standard & Poor's 500 Index** declines, according to a Sept. 9 SEC filing. The notes will pay investors five times any decline in the index. Investors will take a loss directly proportional to any gain in the index between the issue date and maturity. The notes were placed by **Merrill Lynch & Co.** for a 0.5 percent fee.
CUSIP 282649177

■ **Bank of America Corp.** issued $20.2 million of ten-year, **fixed-to-floating rate** notes, according to a Sept. 3 SEC filing. The securities will pay an initial fixed interest rate of 6 percent per year. Beginning in the third year the notes will pay a floating rate of three-month, U.S. dollar Libor plus 1.75 percent, subject to a cap of 7.25 percent. Interest will be paid quarterly beginning in December, 2010. **Merrill & Lynch Co.** distributed the notes for a 0.7 percent fee.
ID BBG0014XQPT5

■ **Bank of America Corp.** issued $21.3

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Nomura Paves Way to Enter U.S. Retail Market

BY DEIRDRE FRETZ

Nomura Holdings, Inc. is signaling plans to begin competing in the U.S. retail market for structured notes.

The Tokyo-based firm filed a prospectus with the Securities and Exchange Commission on Sept. 8 that would allow it to issue registered structured notes this year. There are currently no Japanese firms among the 16 banks that have issued SEC-registered notes this year.

The decision reflects the growing interest in the market, where a total of $31 billion of SEC-registered structured notes have been sold so far in 2010. (See table at right).

Nomura spokesman Peter Truell in New York declined to comment.

The registration is the first step in offering notes under a medium-term notes program which may include fixed-rate notes, floating-rate notes or structured notes linked to the performance of securities, commodities, foreign exchange rates, or an index or basket of such assets. A specific offering would require additional information to be filed.

Nomura is ranked 27th among banks that issue structured notes in European markets, according to Bloomberg. The bank underwrote at least seven issues totaling $585 million in Europe so far this year.

In the U.S., Nomura has underwritten 11 agency deals totaling $427.5 million, according to Bloomberg data. These deals are not registered with the SEC.

2010 U.S. RETAIL NOTE ISSUERS	AMOUNT
Morgan Stanley	$7,077,620,725
Bank of America	$6,501,693,542
Barclays	$4,641,729,777
Goldman Sachs	$2,581,388,000
JPMorgan	$2,321,516,843
Deutsche Bank	$1,313,947,865
Citigroup	$1,272,661,070
HSBC	$1,123,344,632
RBC	$1,122,978,150
Credit Suisse	$1,074,326,181
UBS	$1,073,904,928
SEK	$903,568,500
Eksportfinans	$793,395,379
Wells Fargo	$122,991,000
RBS	$114,857,000
BMO	$59,350,000

source: Bloomberg

U.S. Note Volume Grows 10 Percent in August

BY DEIRDRE FRETZ AND ZEKE FAUX

Banks have sold $4.98 billion of structured notes to individual investors in the U.S. in August, a 10 percent increase from July, and the largest monthly volume so far this year, according to filings with the Securities and Exchange Commission that were compiled by Bloomberg.

Sales may total more than $47 billion for the year should the current pace continue, exceeding 2008 volumes when banks issued a record $38 billion of the notes, according to StructuredRetailProducts.com.

Morgan Stanley led U.S. issuers, selling $1.8 billion of notes in August, including $1 billion of 15-year callable step-up notes, the largest SEC-registered deal in 2010 to date.

Bank of America was the second-largest issuer, selling $1.07 billion in notes. Goldman Sachs followed with $600 million.

The jump in total note sales was driven by an increase in new notes linked to interest rates. These notes made up 56 percent of the total dollar volume of sales in the month of August. This is an increase from an average of 21 percent during the first six months of the year. For a full break down of notes by asset class, see chart on page 6.

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value. The securities reference China's 2.48 percent yuan-denominated bonds due October 2011. Investors face losing money on the securities if China defaults. Credit-linked notes are tied to the creditworthiness of a country or company, paying interest based on the income from debt of the borrower they reference. China's debt is rated A1 by **Moody's Investors Service**.
ID BBG001776WF1

■ **Royal Bank of Scotland Group Plc** is selling as much as 20 million euros ($28 million) of structured notes linked to **European inflation**. The six-year securities pay a fixed coupon of 3 percent in the first three years, according to RBS. After that the note switches to a coupon paying the harmonized index of consumer prices in Europe with the minimum payment set at 3 percent. European inflation accelerated to the fastest in almost two years in September, rising 1.8 percent from a year earlier after increasing 1.6 percent in August, the European Union statistics office in Luxembourg said Sept. 30. RBS's notes are listed on **Scoach**, the structured products trading platform run by **Deutsche Boerse AG** and Switzerland's **SWX Group**.
ID BBG00179K4T8

■ **Citigroup Inc.** sold $3 million of six-month notes linked to the **debt of Ghana**, paying a coupon of 10.75 percent. The notes use income from the West African country's debt denominated in cedi, and pay coupons and principal in dollars, according to data compiled by Bloomberg. The exchange rate is fixed at 1.42 cedi per dollar. The securities were issued at a price of 100 percent of face value. Ghana is rated B by **Standard & Poor's**, five levels below investment-grade status, and one step higher at B+ by **Fitch Ratings**. Investors face losing money on the securities if the country defaults.
ID BBG00178J7R7

VOICES

Regatta's Greschner on Risks, Rewards

BY ZEKE FAUX

***Eric Greschner**, co-founder of **Regatta Research & Money Management LLC**, talks about why he uses structured products.*

Greschner, based in Beverly Hills, California, helps manage $155 million. He founded the fee-only advisory firm in 1998 in New Orleans with his father.

*Greschner, who manages money for individuals and institutions, teaches structured-product classes for brokers and advisors and is working on a book about the investments called `Win in Any Market.' He buys products from banks including **HSBC Holdings Plc**, **Barclays Plc** and **JPMorgan Chase & Co.** through intermediaries **Fidelity Investments** and **Charles Schwab Corp.***

He spoke in a telephone interview on Oct. 13.

On how principal-protected notes prevent investing mistakes:

Investors are panicky. Every time there's a market pullback, there's a certain class of investors, 'nervous Nellies,' that want to sell and go to cash. As a result of that the average investor has substantially underperformed a buy-and-hold strategy. They're selling at the bottom and buying at the high.

By providing the principal-protected structure, assuming they're held to maturity and there's no default by the issuer, that issue is eliminated.

We also use principal-protected structured products to buy during market pullbacks. I don't want to catch the proverbial falling knife and lose another 10 or 20 percent, so we'll start with principal-protected products and as the market stabilizes we'll gradually rotate into a direct investment in the underlying asset.

I like the risk/reward profile. You can craft it to be asymmetric. If we take a distribution of the markets and eliminate the left side of the distribution, i.e. all the negative returns, and accept a sizeable portion of the right, positive side of the distribution of returns, that's a powerful tool.

On enhanced-return structured products:

What I like about those is the asymmetrical use of leverage. The leverage only applies to the upside, not the downside, so we've essentially eliminated the double-edged sword of leverage, where it cuts both ways.

It allows us to potentially turn the 'new normal' that **PIMCO**'s **Bill Gross** talks about, where returns are only about 5 percent a year, into a 12 or 15 percent return. My loss is on a one-to-one basis, but I can get 200 percent or 300 percent on the upside, up to a maximum return.

On income-generator CDs:

A lot of people are frustrated with the very low interest rate that they're receiving. To resolve that, some people are going out very long in maturity or down in credit quality, which we don't want to do.

Instead we can go with an FDIC-insured CD that's linked to the average return of a basket of stocks with an annual coupon. We even have ones that are tied to commodities, which allows us to diversify portfolios.

On products he doesn't like:

Right now we're not fans of a lot of the reverse convertible offerings. The coupons are very low, and the barriers are fairly small, given the volatility of the underlying assets.

A lot of the barriers are American-style, which means that if they're violated at any time during the term, the contingent principal protection is knocked out. We give strong preference to European-style where it's only at maturity.

On fees and shopping around:

Selling concessions is one of the big things that we look at. Lower fees are better, but what really matters to me is the net return. I remember during the 2008 sell-off, we bought hedged mutual funds that had 2.5 percent fees. I remember some people said, 'Why pay 2.5 percent when you can get the S&P for 19 basis points?' Well, what we care about is that hedged mutual funds are up 5 or 10 percent while the S&P's down.

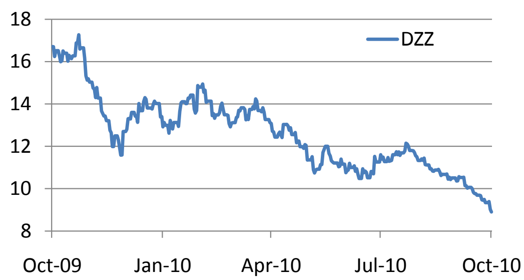
On the highest portion of a portfolio he'd put in structured products:

It depends on the client's sophistication, liquidity needs, account size, etc., but we typically max out around 20 percent.

EXCHANGE TRADED NOTE SPOTLIGHT: DZZ

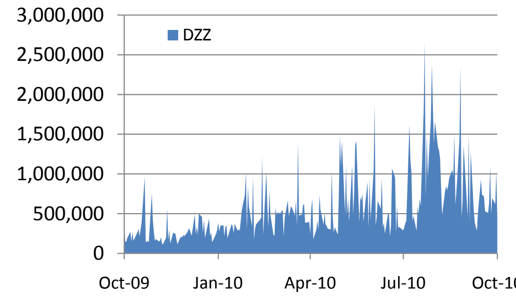
PowerShares DB Gold Double Short was the second-most traded exchange-listed note in the U.S. last week, as the price of gold reached new highs. The note pays investors double the inverse performance of the **DGLDIX** gold index upon maturity.

Price



Source: *Bloomberg LP*

Volume



Source: *Bloomberg LP*

PowerShares DB Gold Double Short (DZZ)

Issuer: Deutsche Bank AG

Price: $8.53, a 52-week low, on Oct. 13

Underlying: The Deutsche Bank Liquid Commodity Index-Optimum Yield Gold Index tracks gold futures. At maturity investors lose money if the index has appreciated or gain twice the absolute value of any decline.

Market Capitalization: $92.98 million

Short Interest Ratio: 0.77

Top Five Holders

HOLDER/PORTFOLIO NAME	SOURCE	DATE	% OUTSTANDING	AMOUNT HELD
IWAMOTO KONG	13F	6/30/10	2.25	239,500
GOLDMAN SACHS GROUP INC	13F	6/30/10	1.79	190,371
JANE STREET HOLDING LLC	13F	6/30/10	1.01	107,908
TRELLUS MANAGEMENT COMPANY LLC	13F	6/30/10	0.47	50,000
SUSQUEHANNA INTERNATIONAL GROUP LLP	13F	6/30/10	0.44	46,522

Source: Bloomberg LP

Top Five Buyers

HOLDER/PORTFOLIO NAME	SOURCE	DATE	AMOUNT HELD	AMOUNT BOUGHT
GOLDMAN SACHS GROUP INC	13F	6/30/10	190,371	150,623
IWAMOTO KONG	13F	6/30/10	239,500	80,000
TRELLUS MANAGEMENT COMPANY LLC	13F	6/30/10	50,000	50,000
SUSQUEHANNA INTERNATIONAL GROUP LLP	13F	6/30/10	46,522	46,522
RUSHMORE INVESMENT ADVISORS INC	13F	6/30/10	15,000	15,000

Source: Bloomberg LP

Top Five Sellers

HOLDER/PORTFOLIO NAME	SOURCE	DATE	AMOUNT HELD	AMOUNT SOLD
MARKETFIELD ASSET MANAGEMENT LLC	13F	6/30/10	0	375,300
EWT LLC	13F	6/30/10	37,746	267,543
DRW SECURITIES LLC	13F	6/30/10	33,201	39,549
IMC-CHICAGO LLC	13F	6/30/10	0	32,154
MARKETOCRACY FUNDS	13F	6/30/10	24,500	3,400

Source: Bloomberg LP

DECONSTRUCTING THE DEAL

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Local Cap/Local Floors: Embedded Bets and Payouts

"Local cap/local floor" notes, also sold with industry brands such as Income Generators, Income Opportunity Notes or Premium Yield Notes, pay a coupon depending on the performance of a carefully chosen basket of stocks. The local cap/local floor securities are principal protected investments--usually certificates of deposits--that are sold to investors who are looking for yield enhancement but without the downside risk of reverse convertibles or the credit risk of high yield bonds.

JPMorgan Chase & Co., **Harris Bank**, **CIBC**, and **HSBC** are among the originators of these products which have been widely distributed in the wholesale marketplace.

To illustrate how such notes can be valued we will use a hypothetical CD which shares some common characteristics of recent issues. Our example is a six-year investment linked to **Abbott Laboratories**; **Amazon.com, Inc.**; **CVS Caremark Corporation**; **Dell Inc**; **General Electric Co**; **Goldcorp Inc**; **NIKE Inc**; **Reynolds American Inc**; **Time Warner Inc** and **Whole Foods Market Inc.**

The coupon, paid annually in this example, is based on the average of the performance of each stock in the basket where "performance" is measured from the initial pricing date of the notes. The return of each stock is subject to a cap of 9 percent (the 'local cap') and losses are limited to 35 percent (the 'local floor'). Investors can view themselves as buying a series of call spreads from 100 to 109 percent of the current price of the underlying stocks and selling a series of put spreads from 100 to 65 percent.

For the example here, pricing, cash flow projections, and sensitivity calculations have been provided by the Bloomberg Derivative Valuation Service (BVAL) on Oct. 13, and reflect market data as of that date.

So what are the embedded viewpoints investors are expressing when buying a local cap/local floor security? The short answer is that investors anticipate that stock prices will go up (Long Delta), expect that stock prices will not fluctuate widely (Short Vega), predict that U.S. stock correlation will remain at the historic highs of the past two years (Long Correlation), and project that interest rates will stay near historic lows (Short Rho).

So how has the CD performed since it was issued, measured by the success of these embedded bets?

Correlation is probably the most important feature of this security. In order for investors to receive the maximum coupon of 9 percent, all of the stocks in the basket have to move upward, to 9 percent or more. As in the majority of instruments with the local cap/local floor structure, the names that make up the underlying basket in this example are from diverse industries, and so the correlation will generally be low. The basket average correlation has increased since the sale date to 28.65, which increases the value of the CD.

Since our hypothetical CD was issued in July, the stocks in the basket have appreciated, along with the broad market, pushing up the value of the investment.

Exposure to volatility in this structure is not entirely obvious from looking at the payoff formula. Investors will lose value if volatility rises because of the asymmetric cap and floor. Extreme upside moves don't contribute to the coupon as much as extreme downside moves detract from the coupon. Volatility has declined since July, hence the CD has increased in value.

Interests rates impact the value of the calls and puts embedded in the security, but the principal impact on the value of the CD will be in the zero coupon bond that ensures the return of principal at expiration. Increases in interest rates will reduce the value of the zero and the value of the investment. Conversely, as interest rates decline, as they have since July, the value of the CD will increase.

Valuing Local Cap/Local Floor CD

VALUATION FACTORS	VALUE
Average Basket Correlation	30.62%
Option Price	5.58%
Bond Floor	90.84%
PROJECTED COUPONS	
7/29/2011	1.91%
7/27/2012	1.17%
7/29/2013	0.83%
7/29/2014	0.67%
7/29/2015	0.59%
7/29/2016	0.56%

Source: Bloomberg LP　　**BVAL <GO>**

Reviewing all of the embedded expectations for correlation, volatility and stock market appreciation, the investor has benefitted. Yet a valuation of the note still raises the question of whether investors will be able to clear the two percent annual yield hurdle offered by plain vanilla bank CDs. Here, the investor does not fare as well.

As of October 13, a BVAL analysis projected the coupon pay-outs on such notes will likely fall below the 2 percent bar, with payments declining over time as correlation declines, and volatility rises. BVAL projects coupons from 1.92 percent in 2011 to 0.86 percent in the last year (see table).

This is based on the BVAL model's assumption of return to the long run average for correlation, volatility, and interest rates (the forward curves). So despite the positive performance of the underlying stocks, correlation, and volatility so far, "reversion to the mean" may keep this note from yield big coupons in the future.

ASSET CLASS BREAKDOWN

U.S. Certificates of Deposits***

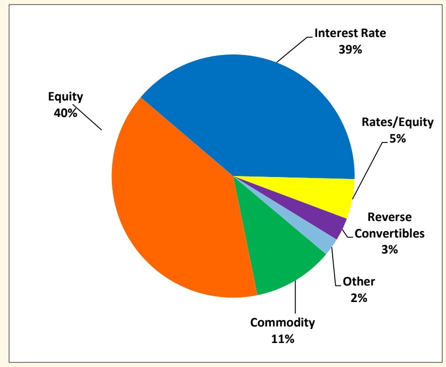
*Banks sold eight market-linked certificates of deposit in the first half of October, according to data submitted to Bloomberg. The investments were split evenly between callable step up CDs and investments linked to equities. **Bank Hapoalim**, rated BBB+ by Standard & Poor's, offered the step-up callable investment with the highest initial rate of interest. The investment will pay a 3 percent coupon for the first three years. That rate will be followed by several periodic increases in the coupon to a final annual payment of 10 percent in the 15th and final year, as long as the bank does not exercise its right to call the bond on semi-annual call dates beginning in the second year.*

***American National Bank of Omaha** sold a 6-year CD linked to a basket of U.S. stocks. **HSBC** offered one linked to a basket of 12 international stocks and another linked to the S&P 500 Index. **Wells Fargo** sold a CD linked to the SGIXWUVT Index, a proprietary index that tracks the performance of a shifting portfolio of long and short holdings in U.S. stocks.*

SEC-Registered Notes*

Banks issued four commodities-linked notes totaling $86 million, or 11 percent of last week's total dollar volume of SEC-registered notes, as hard and soft commodities prices rose and gold hit a record high. The weighting is more than double the 4 percent the week before.

*The percent of equity-linked notes rose last week to 40 percent from 26 percent the previous week. The largest such security sold was a $58 million, five-year, autocallable issued by **Barclays Plc**. The note is linked to the **S&P 500** and has a yield of 9 percent per year, if the note is called, with losses taken only if the index falls by 50 percent.*



RANKINGS

Global Underwriters

GLOBAL RATES-BASED STRUCTURED NOTE UNDERWRITERS**	2010 Year-to-Date RANK	MKT SHARE	VOLUME USD (Mln)	DEAL COUNT
Citi	1	11.6	10,204.33	205
DZ Bank AG	2	10.4	9,169.26	200
Deutsche Bank AG	3	9.3	8,173.92	282
Barclays Capital	4	8.7	7,689.82	662
JP Morgan	5	5.4	4,795.63	125
UBS	6	4.9	4,349.98	330
Landesbank Baden-Wuerttemberg	7	4.9	4,293.42	44
RBS	8	4.9	4,292.52	168
Bank of America Merrill Lynch	9	4.2	3,674.30	134
Credit Suisse	10	2.6	2,325.18	53
Morgan Stanley	11	2.4	2,157.23	120
Goldman Sachs & Co	12	2.2	1,960.64	40
Societe Generale	13	2.1	1,860.58	74
RBC Capital Markets	14	1.5	1,278.95	31
BNP Paribas Group	15	1.4	1,249.62	60
ING Groep NV	16	1.4	1,195.72	54
HSBC Bank PLC	17	1.3	1,176.80	91
Credit Agricole CIB	18	1.3	1,172.26	107
Troika Dialog	19	1.3	1,162.80	2
HSH Nordbank AG	20	1.2	1,063.30	36
TOTAL MARKET (Thru Oct. 14, 2010)	100	100	88,121.00	3,725

U.S. Issuers

SEC-REGISTERED STRUCTURED NOTE ISSUERS*	2010 Year-to-Date RANK	MKT SHARE	VOLUME USD (Mln)	DEAL COUNT
Morgan Stanley	1	24.1	9,202	258
Bank of America	2	19.3	7,364	228
Barclays	3	13.4	5,113	1,675
Goldman Sachs	4	8.5	3,225	224
JPMorgan	5	6.6	2,512	580
Citigroup	6	4.7	1,787	137
Deutsche Bank	7	3.9	1,485	177
HSBC	8	3.6	1,367	255
RBC	9	3.4	1,306	728
UBS	10	3.2	1,215	160
Credit Suisse	11	3.2	1,203	215
SEK	12	2.6	1,002	64
Eksportfinans	13	2.6	974	45
Wells Fargo	14	0.4	171	33
RBS	15	0.4	150	234
BMO	16	0.2	63	6
TOTAL (Thru Oct. 8, 2010)	16	100	38,139	5,019

* 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.

*** Based on data submitted to Bloomberg by banks.