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AllianzIM adds two new 'buffered ETFs'; ESG funds, now a political football, haven't been intercepted; FIDx and Halo partner on annuity/structured product service for advisors; Schwab-TD Ameritrade integration to take 18 to 36 months; Empower in retirement plan deal with Fifth Third Bank; Pandemic raises pressure on insurers' $1.4T in private placements; JPMorgan Chase to pay almost $1 billion in 'spoofing' fraud.

AllianzIM adds two new "buffered ETFs"

Allianz Investment Management LLC, a unit of Allianz Life Insurance Company of North America, has launched two new "buffered" ETFs (exchange traded funds): AllianzIM U.S. Large Cap Buffer10 Oct ETF and the AllianzIM U.S. Large Cap Buffer20 Oct ETF. They will trade on the New York Stock Exchange under the tickers AZAO and AZBO, respectively.

AllianzIM describes the products as the "lowest-cost buffered outcome ETFs on the market." They credit investors with the returns of the S&P 500 Price Return Index up to a stated cap, while eliminating the first 10% (for AZAO) and 20% (for AZBO) of S&P 500 Price Return Index losses.

Both products carry an expense ratio of 74 basis points, with portfolio management by AllianzIM. The 12-month outcome period of the October series ETFs will be October 1, 2020 to September 30, 2021. Each Outcome Period reflects a new stated cap adjusted for prevailing market conditions. AllianzIM already has four other U.S. Large Cap Buffered Outcome ETFs on the market: AZAA, AZBA, AZAL and AZBL. AllianzIM manages over $145 billion in hedged assets.

ESG funds, now a political football, haven't been intercepted

Despite discouragement from the Trump administration regulators, most defined contribution investment-only (DCIO) asset managers expect to keep marketing their ESG (environmental, social, and governance) funds to retirement plans, according to Cerulli Associate's latest report: *U.S. Defined Contribution Distribution 2020: Adapting to Changes in the Regulatory Environment*.

According to the research, 56% of DCIO asset managers expect to increase these efforts during the next 12 months.

In June 2020, the Department of Labor (DOL) proposed new regulations requiring ERISA fiduciaries to complete more stringent evaluations of ESG investments and prohibiting the use of ESG-themed funds as a plan's qualified default investment alternative (QDIA), or a component of a plan's QDIA.

Nearly half (48%) of DCIO asset managers surveyed by Cerulli consider the DOL's proposal one of the most significant barriers to adoption of ESG products in DC plans.

"For now, implementing ESG-themed products within a plan's QDIA is not a viable option from a fiduciary standpoint. However, DC asset managers relate that some of their plan sponsor clients continue to express interest in ESG investments," said Shawn O'Brien, senior analyst at Cerulli, in a release.

Furthermore, many asset managers tout performance-related benefits to incorporating ESG criteria into their investment analysis, even within non-ESG-branded funds.

"Many asset managers stand behind the financial merits of ESG. Some asset managers tell us they employ ESG screening processes or incorporate ESG factors into their investment analysis across all of their funds," O'Brien said.

Three-quarters (75%) of asset managers cite mitigating risk as a top reason for incorporating ESG criteria into their investment analysis and more than two-thirds (68%) indicate incorporating ESG criteria leads to improved alpha opportunities.

On top of these regulatory headwinds, retirement plan providers suggest confusion related to ESG investing has also contributed to a lack of adoption by DC plans.

In the absence of universally accepted definitions and terminology, providers should consider taking a step back to address the fundamentals of ESG investing in order to facilitate more nuanced discussions with their DC clients.

"There seems to be a lingering confusion among plan sponsors and participants about how ESG investing works. Managers should seek to educate DC plan sponsors and intermediaries on the various methods of ESG investing and illustrate how their firm's product fits within the broader ESG landscape," said O'Brien.

"Moreover, helping plan sponsors articulate and document investment decisions related to ESG products—and ensuring those decisions are consistent with the plan's IPS—will be particularly important given the current regulatory environment and the litigious nature of the DC market," he concludes.

FIDx and Halo partner on annuity/structured product service for advisors

FIDx, the product-agnostic platform that integrates insurance solutions with wealth management platforms, will partner with Halo Investing to make annuities available to users of the Halo platform, which connects investors to protective (structured) investment products, according to a release this week.

The partnership will directly serve financial advisors, wealth managers, and Registered Investment Advisors (RIAs), the release said. “Annuities naturally align with structured products and this [move makes] these collective strategies available to a wider audience of firms, advisors, and their respective clients,” said Rich Romano, CEO of FIDx, in the release.

FIDx offers commission-based and fee-based annuities from AIG Life & Retirement, Allianz Life, Brighthouse Financial, Global Atlantic Financial Group, Jackson National Life Insurance, Nationwide, Prudential Financial, and Transamerica.

Halo describes itself as the only independent marketplace for structured products, which use options to produce investment returns within specific ranges. FIDx provides access to commission-based and fee-based annuities from industry leading insurance carriers. Using Halo and FIDx, advisors will be able to “plan, research, propose, execute and manage annuities alongside structured products” through Halo’s platform.

“Advisors [will] have one holistic protective investing experience rather than managing them through separate doors. It really is the future.” said Jason Barsema, President & Co-Founder at Halo.

“Building on FIDx technology, advisors using Halo can incorporate income, protection and growth options through annuities into client portfolios. This technology partnership will dramatically cut time and costs typically associated with the manual, outdated process of executing annuities,” the release said.

Schwab-TD Ameritrade integration to take 18 to 36 months

The Charles Schwab Corp. today announced that the Board of Governors of the Federal Reserve System approved The Toronto-Dominion Bank to acquire a minority, non-controlling interest in Schwab in connection with Schwab’s proposed acquisition of TD Ameritrade.

The approval and related actions from the Federal Reserve follow the June 4, 2020 announcement that the Antitrust Division of the United States Department of Justice closed its investigation of the proposed acquisition as well as approvals from the stockholders of both companies and regulators in international markets where Schwab is active.

Schwab expects to close the transaction on October 6, subject to the customary closing conditions set forth in the merger agreement.

The integration of TD Ameritrade into Schwab is expected to take 18 to 36 months to complete following the close of the transaction. Until then, Schwab and TD Ameritrade will continue to operate as separate broker-dealers, and clients of the two firms can continue to do business with their respective companies. More information will be made available to Schwab and TD Ameritrade clients once the transaction closes.

Empower in retirement plan deal with Fifth Third Bank

Empower Retirement, the nation's second-largest retirement services provider, has agreed to provide recordkeeping and administrative services to 476 retirement plans previously administered by Fifth Third Bank, N.A., according to a release this week. Fifth Third will "continue to serve in a plan-level investment advisory capacity for most of the plans with a continued focus on providing independent fiduciary advisory services," the release said.

Fifth Third's retirement plan business for its institutional clients will now focus on providing independent fiduciary advisory services and comprehensive investment solutions to the plans. It will also continue to deliver advice and client solutions.

"The extended relationship will capitalize on both firms' expertise to the benefit of retirement plan participants and their employers. Empower currently provides recordkeeping services for Fifth Third's retirement business through its private-label retirement plan unit, Empower Institutional. Because of this existing relationship, the Fifth Third plans will not require conversions," the release said.

Empower administers $667 billion in assets on behalf of 9.7 million American workers and retirees through approximately 41,000 workplace savings plans. In August, Empower announced it had completed the acquisition of Personal Capital, a registered investment adviser and wealth manager. On Sept. 8, 2020, Empower announced that it had agreed to acquire the MassMutual retirement plan business.

Pandemic raises pressure on insurers' $1.4T in private placements

Insurers have significantly ramped up their private placement bond holdings over the last decade—to $1.4 trillion at year-end 2019. But, given the effect of the COVID-19 pandemic, an increase in covenant waivers is expected as a means to avoid defaults on these bonds, according to AM Best.

A new Best's Special Report, "Private Placement Assets Double in Decade, Now Face Pandemic Pressure," states that the life/annuity (L/A) segment maintains the largest share, about $1.2 trillion (84%) of total insurance industry holdings.

The growth rate of private placement holdings held by insurers has increased annually by an average 8.4% over the last five years. In the face of the prolonged historically low interest rate environment, insurers have looked to purchase private placements to earn higher returns than with publicly traded securities, but the spread has converged to within less than one percentage point since 2012.

The continued purchases of private placements have exceeded publicly traded bonds in each segment, increasing the share of private placement bonds as a percentage of total bonds. Since 2009, private placement bonds have seen their share of the bond portfolio increase to 35.5% from 24.9% in the L/A segment, the largest allocation of the three segments.

However, the P/C and health segments have dramatically increased their holdings over the last decade, with the P/C segment increasing to 16.3% from 5.1%, and the health segment to15.2% from 3.4%. While AM Best expects insurers to continue to seek private placement bonds, growth rates may slow to some extent as some companies may view giving up the liquidity as less worthwhile.

AM Best expects that many covenant waivers will be approved by insurers to avoid default, aiming instead to achieve better recovery rates. But if investors believe the issuing company's financial woes result from bad decisions and mismanagement, term negotiation will prove more difficult.

The increasing allocations of private placements have not had a substantial effect on liquidity ratios nor on companies' abilities to meet their policyholder obligations. Companies with large exposures have strong credit shops to perform the necessary underlying analysis.

As part of an organization's overall risk management practices, investments should be diversified and there should be no significant concentrations, whether by sector, investment strategy or issuer.

JPMorgan Chase to pay almost $1 billion in ‘spoofing’ fraud

The Securities and Exchange Commission has announced charges against J.P. Morgan Securities LLC, a broker-dealer unit of JPMorgan Chase & Co., for fraudulent, manipulative trading of U.S. Treasury securities.

J.P. Morgan Securities admitted the findings in the SEC’s order, and agreed to pay disgorgement of $10 million and a civil penalty of $25 million to settle the action.

The U.S. Department of Justice and the U.S. Commodity Futures Trading Commission also announced parallel actions against JPMorgan Chase & Co. and certain of its affiliates for engaging in manipulative trading in the precious metals and U.S. Treasuries futures and cash markets.

A total of more than $920 million, including amounts for criminal restitution, forfeiture, disgorgement, penalties, and fines, is to be paid across the three actions. The DOJ entered into a three-year deferred prosecution agreement with JPMorgan Chase & Co., and the CFTC announced settlements with J.P. Morgan Chase & Co., JPMorgan Chase Bank, N.A., and J.P. Morgan Securities.

According to the SEC’s order, between April 2015 and January 2016, certain traders on J.P. Morgan Securities’ Treasuries trading desk placed bona fide orders to buy or sell a particular Treasury security, while nearly simultaneously placing orders, which the traders did not intend to execute, for the same series of Treasury security on the opposite side of the market.

The order finds that the non-bona fide orders were intended to create a false appearance of buy or sell interest, which would induce other market participants to trade against the bona fide orders at prices that were more favorable to J.P. Morgan Securities than J.P. Morgan Securities otherwise would have been able to obtain. According to the order, after the traders secured beneficially priced executions for the bona fide orders, they promptly cancelled the non-bona fide orders. This practice is known as a type of “spoofing.”

“J.P. Morgan Securities undermined the integrity of our markets with this scheme,” said Stephanie Avakian, Director of the SEC’s Division of Enforcement. “Their manipulative trading of Treasury cash securities created a false appearance of activity in the market and induced other market participants to trade at more favorable prices than J.P. Morgan Securities would have otherwise been able to obtain.”

J.P. Morgan Securities agreed to the entry of an order in which it admitted to the SEC's factual findings and that its conduct violated Section 17(a)(3) of the Securities Act of 1933. J.P. Morgan Securities was further ordered to cease and desist from future violations of Section 17(a), was censured, and was ordered to pay disgorgement of $10 million and a civil penalty of $25 million. The civil penalty ordered will be offset by amounts paid by JPMorgan Chase & Co. and its affiliates in the parallel proceedings announced by the DOJ and the CFTC.

The SEC's investigation was conducted by Jessica T. Quinn and Thomas P. Smith, Jr., and supervised by Sanjay Wadhwa, all of the New York Regional Office. The SEC appreciates the assistance of the DOJ and the CFTC.