



Collateral Secured Instruments



Investor Protection
engineered by SIX



COSI – structured products with minimum issuer risk

Structured products (certificates) are legally deemed to be debentures. As a result, investors also bear an issuer default risk in addition to the market risk associated with any investment. Just how great that counterparty risk is depends on the creditworthiness of the issuer. If the issuer were not able to uphold its payment obligations, the investor's capital commitment is jeopardized. That's where COSIs come in: thanks to collateral backing of the structured product's current value, the counterparty risk posed by the issuer is minimized to the greatest extent possible.

COSI – safety through collateralization

Since September 2009, investors have been able to minimize issuer risk by using collateral secured instruments (COSIs) backed with collateral in the form of securities or cash deposits. The provider of collateral – generally the issuer of the COSI product – pledges precisely defined securities with a countervalue equal to the current value of the outstanding COSI products. To that purpose, the issuer and the provider of collateral conclude with SIX Swiss Exchange and SIX Securities Services a "Framework Agreement for Collateral Secured Instruments". The latter is decisive in establishing the legal stature of investors and is made available to them cost-free upon request.

Product requirements/secondary listings

Collateral can be pledged only for those COSI products that are admitted primarily for trading on the Scoach derivatives exchange. COSI products may, optionally, also be traded on other exchanges via a secondary listing, without this affecting investors' legal position. In principle, any structured product denominated and traded in major currencies such as the Swiss franc, euro, British pound, Japanese yen or US dollar can be collateralized. The term to maturity of these products can range up to a maximum of ten years. All currently available COSI products can be viewed at the Scoach website: www.scoach.com.

Well-conceived, fully automated collateralization

For each issued COSI product, the necessary amount of collateral is booked into a SIX Swiss Exchange account at SIX Securities Services. It is mandatory that the collateral be maintained during the entire term of the certificate.

Collateral protection continually marked to market

The collateral provider's securities on deposit must at all times be of sufficient value to satisfy the potential claims of investors. Because the value of the COSI product as well as that of the collateral securities fluctuates constantly, the collateral provider must offset any difference on a daily basis. Once the COSI product increases in value or the deposited securities decline in value, a margin call is triggered and the issuer must provide more collateral. In the opposite case, SIX Swiss Exchange returns to the issuer any collateral surplus.

Fair and independent valuation

So that collateral with a sufficient value is available to

cover claims in a worst-case situation, there are two methods for valuing the COSI product:

- Fair value method: Apart from the bid price posted by the issuer, fair market prices calculated by third parties are taken into account.
- Bond floor method: Applied in addition to the issuer's bid price is the so-called bond floor calculated at the behest of the Swiss Federal Tax Administration. This method can only be applied for capital-protected products.

The precise rules in this regard can be found in the "Information for investors in Collateral Secured Instruments" published by SIX Swiss Exchange at www.six-swiss-exchange.com/cosi. The independent valuation process is conducted by the following companies:

- Derivative Partners Research Ltd, Zurich
- Deriva SPI Ltd, Bruettisellen
- European Derivatives Group Ltd, Zurich
- swissQuant Group Ltd, Zurich
- SIX Financial Information Ltd, Zurich

Stringent requirements for collateral

Apart from cash deposits, only recognized securities that fulfill specific liquidity and/or creditworthiness criteria are permissible for collateralization purposes. Furthermore, a haircut must be applied on the collateral, which will result in a corresponding overcollateralization of the current value of the COSI product. Recognized securities include:

- Securities accepted by the Swiss National Bank in conjunction with repo transactions (2% haircut).
- Selected securities accepted by the European Central Bank (5% haircut).
- Shares that are included in recognized stock market indices (10% haircut).
- Cash deposits in CHF, EUR, GBP, JPY and USD (no haircut).

Cases of collateral liquidation

The collateral on deposit can be liquidated not just in the event of insolvency of the issuer or of the provider of collateral but also in case of:

- delayed or inadequate delivery of collateral to SIX Swiss Exchange.
- delayed or inadequate payment or delivery to investors.
- the initiation of protective measures or liquidation proceedings by the Swiss Financial Market Supervisory Authority (FINMA).
- similar decrees by comparable foreign authorities

- violation of the obligation to make a market daily during 10 trading days in succession.
- lapse or cancellation of provisional admission to trading of the collateral secured certificates without satisfying investors' claims.
- delisting of the collateral secured certificates, without satisfying investors' claims.

Detailed information on cases of collateral liquidation can be found in the information brochure published by SIX Swiss Exchange at www.six-swiss-exchange.com/cosi.

Investor compensation

If as a result of a liquidation event the COSI product becomes due and payable, investors have a claim against SIX Swiss Exchange for payment of their pro-rata share of the net liquidation proceeds. Any such payment will be made exclusively in Swiss francs. Claims asserted in other currencies will be converted accordingly.

The costs of collateralization

The provider of collateral pays a fee to SIX Swiss Exchange for the collateralization of the related certificate. That fee can be taken into account in the price of the certificate, whereby the exact pricing is at the discretion of the issuer.

The limits of collateralization

The collateralization pertains solely to the risk that the issuer could default on its obligations. In particular, the market risk which arises from fluctuations in the price of the structured products and the collateral, as well as any additional risk in connection with reference bonds, are borne fully by the investor.



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COSI Quality Mark

As a sign of trust, this seal of approval signifies the unique quality characteristics and advantages of structured products that are secured independently by SIX and Eurex Zurich. Thanks to this readily identifiable mark, investors can quickly differentiate between COSI products and conventional structured products.



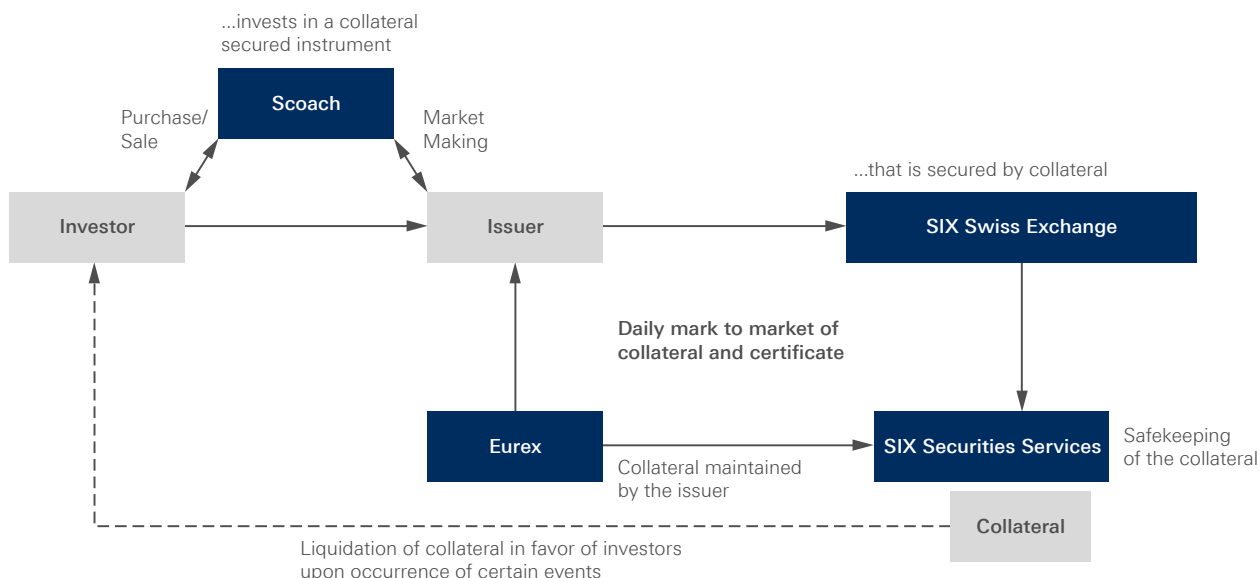
Awards

The FOW Awards are presented annually by the "The Global Derivatives Magazine" in recognition of initiatives by exchanges which invigorate the derivatives market with innovative solutions. On 2 December 2010, SIX Swiss Exchange together with Eurex Zurich received the award in the category "Best innovation by an exchange in the field of product design".



The Swiss Derivative Awards are given yearly by Derivative Partners, financial magazine Stocks and online bank Swissquote for special achievements within the derivatives industry. On 15 April 2010, SIX Swiss Exchange received the coveted "Special Award" for the realization and launch of the innovative globally unparalleled COSI service.

The COSI collateralization mechanism by SIX



Security through smooth cooperation



Swiss Exchange

SIX Swiss Exchange Ltd

SIX Swiss Exchange is a leading regulated securities exchange in Europe and unrivalled in the life science area. As a key pillar of the Swiss financial sector's infrastructure, it is an ideal listing location and helps create the best possible trading conditions, connecting investors, issuers and participants from across the world. It forms the efficient and transparent reference market for trading in its attractive segments of equities, bonds, ETFs, ETPs and securitised derivatives (via Scoach). It invests continually in high-performance exchange technology. Its trading platform supports multiple currencies and features an impressive selection of modular connection options as well as low latency and high capacity. As a reliable, well connected and highly engaged partner, SIX Swiss Exchange enables the success of its customers.

SIX Swiss Exchange is a company of SIX, which offers on a global scale comprehensive services in the areas of securities trading, clearing and settlement as well as financial information and payment transactions. www.six-swiss-exchange.com



Scoach Ltd

Scoach, a joint venture between SIX and Deutsche Börse, is a leading exchange for structured financial products. Scoach operates trading platforms in Zurich for Swiss market participants, as well as in Frankfurt for investors in Germany and the EU member states. On Scoach Schweiz, only those products are traded that have completed the regulated listing procedure of SIX Swiss Exchange and fulfill clearly defined requirements with regard to investor protection. Trading is subject to strict rules that ensure transparent and fair dealings for all market participants. This regulated market vouches for the equal treatment of issuers and investors alike. Speed of execution, fairness, transparency, security and innovativeness are the criteria by which we measure our success. www.scoach.com



Securities Services

SIX Securities Services Ltd

SIX Securities Services specializes in post-trade activities. Its services are available both for the domestic Swiss market and international markets. These services include Custody (domestic and international), CCP Clearing, Risk Management, Real-time Settlement (including real-time realignment of holdings), Collateral Management and Share Registration services. SIX Securities Services is a company of SIX, which offers on a global scale comprehensive services in the areas of securities trading, clearing and settlement as well as financial information and payment transactions. www.six-securities-services.com



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Eurex Repo is the leading provider of electronic trading for international financing in the secured money market business (repo and securities lending). The self-regulated Eurex Repo interbank markets are accessible to almost all financial institutions. The system's high technical availability and its performance in terms of volumes guarantees efficient trading in all market situations.

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COSI® Collateral Secured Instruments – Investor Protection engineered by SIX. COSI® are structured products with a minimal counterparty risk. This protection is provided by means of a collateral pledge. Investors thus profit from increased protection on the invested capital.

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