

ASSET MANAGEMENT | JANUARY 2014

TCM – TRIPARTY COLLATERAL MANAGEMENT MAKING YOUR PRODUCTS SAFER



For more information, please contact us

+41 58 800 1827
am@leonteq.com | www.leonteq.com

The financial instruments mentioned in this document are derivative instruments. They do not qualify as units of a collective investment scheme pursuant to art. 7 et seqq. of the Swiss Federal Act on Collective Investment Schemes (CISA) and are therefore neither registered nor supervised by the Swiss Financial Market Supervisory Authority FINMA. Investors do not benefit from the specific investor protection provided under the CISA.

TCM. Neutral third-party collateral management by SIX Securities Services.

With the new TCM – Triparty Collateral Management – setup, investors can now reduce the counterparty risks associated with unlisted investment products more efficiently. For products issued under the TCM setup, the issuer provides specific collateral that is used to cover obligations to investors in the case of a so called Insolvency Event (e.g. default event) or under-collateralization.

For each investment product issued under TCM, SIX Securities Services (through SIX SIS Ltd) takes collateral from the issuer according to a specific collateral schedule. This collateral is then deposited in a segregated TCM-account in the name of the issuer. SIX SIS Ltd handles all of the account administration while the collateral is pledged in favor of the investor.

As the administrator, SIX SIS Ltd is a completely neutral and independent third-party to the underlying investment transaction and continuously tracks the value of both, the issued product – according to market prices published by a pre-defined official price data provider – and the associated pledged collateral.

In the event of under-collateralization where more collateral is needed, SIX SIS Ltd transfers additional – specified – securities from the issuer into the segregated TCM account to ensure continued and sufficient collateralization.

Should a transaction be under-collateralized and no additional collateral is provided by the issuer within 5 working days, or the issuer defaults or falls into an Insolvency Event, a designated independent collateral agent acting for, and on behalf of, the investors, liquidates the pledged collateral in their favor.

INSOLVENCY EVENT SCENARIOS

In the event of an issuer insolvency event (like a default) or the under-collateralization of a specific product where the coverage requirement is not met within 5 business days after SIX SIS Ltd has notified the issuer, the specified collateral on deposit will be liquidated based on a notification of the Collateral Agent.

Automated, real-time Exposure Management

The TCM setup automatically monitors the outstanding exposure as soon as a product is issued using TCM collateralization. The collateralization is fully automated according to pre-defined collateral eligibility. SIX SIS Ltd continuously compares the prices of the issued product with its corresponding collateral based on prices received from SIX Financial Information.

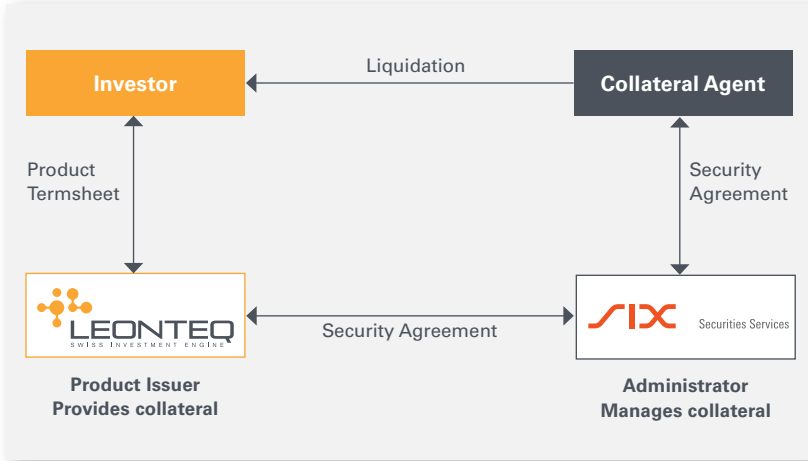
Collateralization

Collateral has to meet the requirements as set out in the collateral schedule. In relation to a specific issued product, it consists of liquid collateral and/or securities that possibly underlie the specific issued product, as described in the relevant Termsheet.

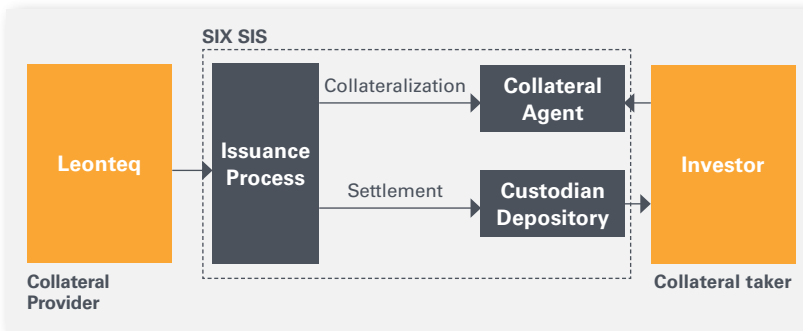
Transparency

The assets specified in the TCM process are transferred to a segregated TCM-account, held and administered by SIX SIS Ltd. The issuer receives a regular statement on the state of this collateralization and a notification in case of any undercollateralization.

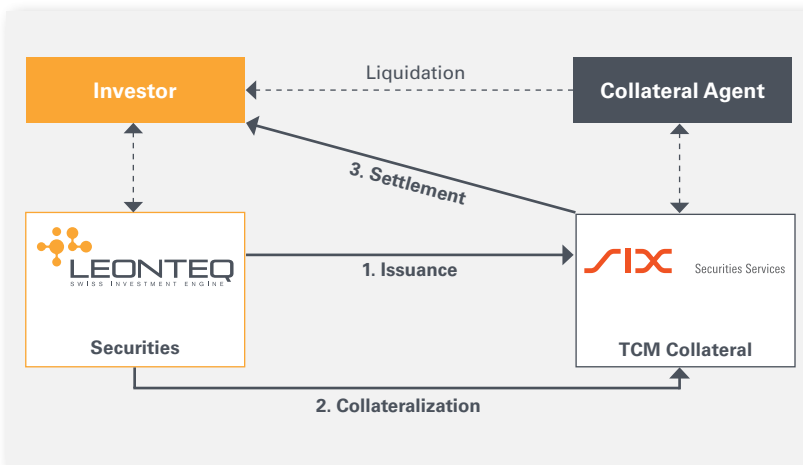
TCM SETUP STRUCTURE



TCM PROCESS STRUCTURE



TCM PROCESS OVERVIEW



1. New product issuance at SIX SIS Ltd.
2. Issuer pledges collateral to a segregated TCM collateral account, monitored and administered by SIX SIS Ltd.
3. Settlement to the investor’s custodian bank. In the event of default or under-collateralization, the Collateral Agent liquidates the collateral in favor of the investor.

LEGAL DISCLAIMER

This publication serves only for information purposes and is not research; it constitutes neither a recommendation for the purchase or sale of any financial products nor an offer or an invitation for an offer. No representation or warranty, either express or implied is provided in relation to the accuracy, completeness or reliability of the information contained herein.

Before investing in financial products, investors are highly recommended to contact their financial advisor for advice specifically focused on the investor’s individual situation; the information contained in this document does not substitute such advice.

Any – including only partial – reproduction of any article or picture is solely permitted based on an authorization from Leonteq Securities AG. No responsibility is assumed in case of unsolicited delivery. The SIX Securities Services logo and any copyright for the TCM – Triparty Collateral Management approach as provided by SIX SIS Ltd are owned by SIX.

© Leonteq Securities AG 2014. All rights reserved.