

## Securities Services

The Securities Services business field, organizationally known as the Securities Services division, provides the Swiss financial center and the international markets with a largely automated infrastructure for securities clearing and settlement. The organization also offers custody and administration services for securities. SIX SIS, SIX x-clear and SIX SAG are responsible for this business field's activities.

As central securities depository (CSD) for the Swiss market and as an international custodian with a global network, SIX SIS' core business is the settlement and custody of Swiss and foreign securities. This includes the corresponding corporate actions (capital measures, taxes and dividend payments). SIX SIS works together with international partner organizations and has direct links to foreign central securities depositories and subcustodians.

As central counterparty for SIX Swiss Exchange, SWX Europe and the London Stock Exchange (LSE), SIX x-clear provides services for clearing and risk management.

SIX SAG specializes in the management of share registers/special registers and in the organization of general meetings in Switzerland.

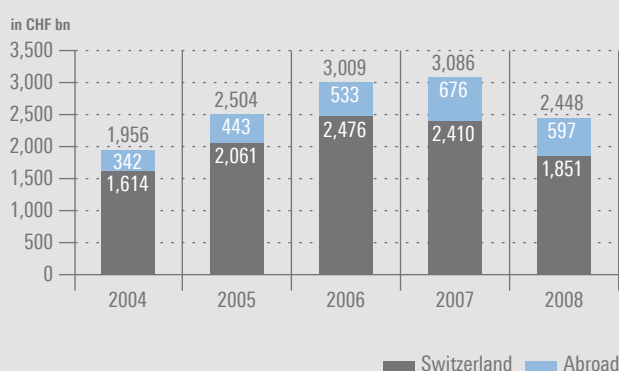
Key figures of the Securities Services business field

Securities Services division	2008	2007
Turnover revenue <sup>1</sup> (in CHF 1,000)	262,396	235,346
Workforce in full-time equivalents <sup>2</sup>	389.1	425.0
Turnover revenue <sup>1</sup> per employee (in CHF 1,000)	674	554
Number of settlement transactions (in 1,000)	34,331	30,502
Deposit volume (in CHF m)	2,447,808	3,086,366
Increase in customer holdings (in CHF m)	43,452	12,030
Number of clearing transactions (in 1,000)	25,422	14,263

<sup>1</sup> Turnover revenue according to the internal management information system

<sup>2</sup> Workforce = Average number of full-time equivalents between 01.01. and 31.12.

Assets in custody at SIX SIS



- *Harmonization and market opening create new global opportunities.*
- *Successful launch of Link Up Markets and new direct links.*
- *Repeated price cuts strengthen the market position.*

### **Change and harmonization**

Not only the financial crisis, but also market opening and regulation contributed to the ongoing transformation of the European post-trading business. Harmonization of the regulatory framework and the “Code of Conduct for Clearing and Settlement” opened up markets and intensified competition between clearing and settlement organizations. In response to this situation, the major European market participants in clearing and settlement are stepping up to the line to compete for pole position in the consolidation of national systems. This new level of competition will enhance the efforts to extend interoperability to other markets and new trading venues.

For the central counterparty SIX x-clear, opportunities are arising out of the successful launch of clearing operations for the London Stock Exchange in December 2008. Thanks to a streamlined and efficient organization, SIX x-clear can compete with international rivals disposing of considerably greater economies of scale.

SIX SAG, which has a purely national orientation, was able to secure its leading market position and increase its share of the Swiss market to 70% of allocated mandates.

### **Global orientation**

Within the scope of the new Group strategy, the focus of the Securities Services business field was more strongly oriented towards Europe. SIX SIS was able to considerably strengthen its position in Europe by participating in Link Up Markets. Set to go live in April 2009, this joint venture was drawn up together with six other CSDs to enable cost-effective, bilateral links to other European CSDs and thus a prominent increase in post-trade efficiency. Link Up Markets will also facilitate new standards of communication which will make cross-border transactions easier.

At the same time, the option of additional direct links will continue to be pursued. Important steps have already been taken with Hungary, the Netherlands (live date in the first quarter of 2009) and the UK. Further direct links are planned, in particular with the Euroclear markets Belgium, France, Sweden and Finland. A sustainable influence on the post-trading business will arise from the “Target2-Securities” project, an initiative of the European Central Bank to develop a central settlement platform for the Eurozone. The Securities Services business field was closely involved with the banks and the Swiss National Bank (SNB) in rigorously checking for possible impacts on the Swiss financial center.

SIX x-clear is also striving for consistent internationalization in the clearing business. The strategic goal is to be accepted as a clearing partner in further trading centers and thus gain additional business volumes.

SIX x-clear was able to reap the first benefits of its international expansion in 2008. The company is in negotiation with further partners and was already able to sign agreements with various market participants.

In 2008, SIX x-clear clearly demonstrated the advantages of strong and stable risk management. The professional handling of risks will continue to be a key factor in competition within the industry. Securities Services is particularly well positioned in this area.

**Financial result**

The business field's turnover revenue rose by 11.5% to CHF 262.4 m (2007: CHF 235.3 m). This takes into account price reductions amounting to CHF 31.7 m. Again taking the price cuts into account, the business field ended the year 2008 with a better result in comparison to the previous year.

SIX SIS recorded a strong increase in settlement transactions by 12.6% to CHF 34.3 m for the year under review (2007: CHF 30.5 m). The deposit volume decreased as a result of the fall in share prices to CHF 2,447,808 m (2007: CHF 3,086,366 m). The value of new client assets, however, was nearly four times higher at CHF 43,452 m (2007: CHF 12,030 m).

Clearing transactions at SIX x-clear rose to 25.4 m (2007: 14.3 m). This excellent result is attributable to the internationalization of business.

**Customer growth**

The Securities Services business field was able to persuade many new customers to place their trust in its global custodian network. More and more clients are using SIX SIS as a single point of entry for domestic and international securities settlement. The higher deposit volumes recorded in both the foreign stock market and in international bonds are particularly worth mentioning for the year under review. The increase in the number of new repo customers, from both Switzerland and abroad, was particularly strong. The number of SIX SIS clients rose to 431 (2007: 404).

SIX SAG's share register management business gained approximately 30 new customers, i.e. a total of 179 clients were on record at the end of 2008. The company organized and carried out more general meetings than in the previous year, 133 as opposed to 120. Demand in this segment tended to grow due to the more exacting requirements placed by the money laundering legislation. The number of companies using these services increased to 78 (2007: 70), with Nestlé as one of the new clients.

**Triparty repo on the rise**

The situation in the financial markets had a positive influence on the Triparty Repo Service. 2008 saw a strong influx of new customers and a remarkable increase in business operations. In the space of a year, 39 new customers signed up for the service and outstanding repo trades reached an all-time high of more than CHF 162 bn. Besides Swiss francs, other currencies such as USD and EUR were also in high demand. As lender of last resort, the Swiss National Bank (SNB) provided the market with an exceptionally large amount of collateralized liquidity within a very short time frame. The Swiss triparty repo market infrastructure thus passed the stress test, proving extremely reliable even during the financial crisis. The business field was thus able to significantly expand its market share in the European triparty repo market.

- *Marked increase in customer assets and transaction volumes.*
- *Highly professional risk management has proven worthwhile.*
- *A consistent effort to strengthen the division's international position.*

#### **Promising development in the investment fund business**

Global Funds Services (GFS) also made excellent progress in 2008. Along with a constant increase in the number of clients choosing SIX SIS as a strategic partner for funds settlement, new settlement channels were opened up for funds services. Vestima+, an order routing system run by Clearstream Luxembourg, was activated in May 2008, making it possible for investment fund companies in key European markets to choose their preferred custodians and means of settlement and transmit orders online via a single interface. Customers can thus benefit from yet another means of settlement for traditional funds that is very attractive in price.

#### **Expansion of clearing and IT activities**

SIX x-clear had a very successful year in 2008. Record-breaking volumes were processed with the highest level of availability and efficiency. Further development of services, particularly internationalization, peaked with the successful connection to the London Stock Exchange and the launch of central counterparty services for UBS, the first client in this field.

The continual development of applications led to a further expansion of IT services. This in turn allows for additional improvements to business processes at the customer's end along with the associated cost reductions and efficiency gains in many areas of securities processing.

#### **Outlook**

Free competition in clearing and settlement will be even more accentuated in 2009. International positioning will be consistently pursued. With the setup of an international sales and relationship management function, the needs of international clients are to be clearly identified and fully satisfied. The goal is to promote the modular value chain with international institutions.

New fee models are being introduced for clearing as well as settlement in early 2009. The substantial price reductions will have a positive effect on client-side costs. Link Up Markets will be productive within the first half of 2009. At the end of March, SIX SIS, Clearstream Banking Frankfurt, OeKB (Österreichische Kontrollbank, Austria) and VP (Denmark) will be the first to connect to the new infrastructure.

All in all, against a backdrop of decreased financial market activity, a diminished turnover is to be expected. The steps initiated towards internationalization will help to compensate for these losses in part.