

## Supervision and regulation of SIX Group

**SIX Group maintains the systemically relevant infrastructure of the Swiss financial center and is supervised accordingly. Various activities are overseen by regulatory or supervisory bodies such as the Swiss Financial Market Supervisory Authority (FINMA) or the Swiss National Bank (SNB). As a self-regulating entity, SIX Group also supervises stock exchange trading and the admission of securities together with the related obligations that arise.**

Self-regulation activities are separated from operational exchange trading. The Listing & Enforcement and Surveillance & Enforcement (SVE) units within SIX Exchange Regulation are responsible for regulatory activities. SIX Exchange Regulation is the executive arm of SIX Group's stock exchange regulation and is responsible for the implementation thereof as well as the regulation and monitoring of issuers and participants. The Regulatory Board is responsible for setting regulations, while decisions on implementing them are taken by the Sanction Commission, the independent Appeal Board and the Board of Arbitration.

### Regulatory activities

During the year under review, the rules and regulations governing SIX Swiss Exchange and Scoach Switzerland were revised. The new Rule Book and Directives entered into force for SIX Swiss Exchange on 1 April 2010, and Scoach Switzerland on 1 November 2010. Given the market needs and the change in practice by FINMA, SIX Exchange Regulation created a new regulatory standard for Exchange Traded Products (ETPs). The regulations governing the initial listing and the maintenance of listings of ETPs entered into force on 15 October 2010.

### Listing

The year under review saw two constant trends in the admission business: the lively issuing activity witnessed in the bond segment throughout the year and the positive development recorded in the area of new derivatives issues. The number of derivative admissions reached record levels in 2010.

### Trade monitoring

SVE monitors exchange trading in order to detect any breaches of the law and regulations or other failings and take appropriate measures (Art. 4 and Art. 6 SESTA). Trading in 2010 was conducted in accordance with the rules and without any serious incidents. Most of the irregularities detected during monitoring were duly resolved by phone calls or written notifications to the participants. During the course of the year, SVE launched 24 investigations into suspected breaches of the rules and laws. It was only necessary to impose sanctions on transgressing participants in a few of these cases. The results of investigations involving suspected breaches of criminal or regulatory law were forwarded to the relevant criminal prosecution bodies and/or FINMA; the same also applied to nine cases where insider knowledge may have been misused (Art. 161 Swiss Penal Code).

### Systemically relevant systems

Pursuant to Art. 5 para. 2 lit. e of the National Bank Act, it is the SNB's duty to promote the stability of the financial system. As part of this remit, the central bank supervises Switzerland's systemically relevant payment and securities settlement systems. Such systems can generate or spread a systemic crisis, which can in turn lead to severe credit and liquidity problems for financial intermediaries or even jeopardize the stability of the financial system as a whole. Subsidiaries of SIX Group operate the systems SIC (interbank payment system), SECOM (securities settlement system) and SIX x-clear (Central Counterparty), which are deemed to be systemically relevant by the SNB. They must therefore meet the minimum requirements set out in the National Bank Ordinance.

On behalf of the SNB, SIX Interbank Clearing provides services essential for payment settlement in the SIC system. As SIC's system manager, the SNB maintains giro accounts for the participating financial institutions that form the system's core. The collaboration between the SNB and SIX Interbank Clearing on operation, maintenance and development is regulated by contracts. Secu-

rity requirements based on international IT standards effectively reduce technical and operational risks in SIC. The organizational and transparency requirements follow widely accepted corporate governance guidelines.

The minimum requirements, observance of which is monitored by the SNB, are aimed primarily at reducing systemic risk. They are applied to areas such as organization, public information, contracts, controlling and the limitation of credit/liquidity risks and means of payment. However, security requirements aimed at reducing and controlling technical and operational risk, protecting information and providing safe access to systems are also included. All in all, Switzerland's systemically relevant systems are characterized by high levels of security and efficiency. Their architecture helps to minimize the risks typically associated with the settlement of payments and securities transactions. As integrated applications, they provide efficient, highly automated transaction settlement, while minimizing the related systemic risks.

#### Banking and consolidated supervision by FINMA

Besides the systemic supervision of payment and securities settlement systems by the SNB, parts of SIX Group are also subject to direct institutional supervision by FINMA. SIX SIS and SIX x-clear have operated as licensed banks since 1999 and 2003, respectively, and are therefore required to comply with Swiss banking regulations. The latter include – alongside equity and risk diversification rules – provisions with regard to guarantors, internal organization and the separation of powers. Changes to the articles of association or organizational and business regulations must be approved by FINMA in advance.

Although SIX Group is for the most part not subject to banking or stock exchange regulation, FINMA has classified it as a financial group pursuant to the banking law due to its significance for the financial center. Hence, SIX Group is subject to institutional supervision by FINMA at group level, albeit with exceptions. This

#### Development of listing applications

	2007	2008	2009	2010
Equities	152	132	126	137
Bonds	256	239	241	306
Derivatives	25,767	33,119	29,760	41,176

means that the guarantors and internal organization, the organizational, competency and business regulations, and the risk controlling and risk management regulations are subject to approval by FINMA.

#### Regulation in a European context

As a result of the financial crisis, the frequency with which new laws have been passed and the degree of detail contained in such laws has continued to increase; the same also applies to the intensity of the state supervision to which SIX Group's business fields are subject in Europe. The aim of these laws is to develop and integrate markets, promote competition, create a minimum level of protection and reduce systemic risks. Recent estimates suggest that the Securities Law Directive, European Market Infrastructure Regulation, Regulation on Central Securities Depositories and the revision of the Markets in Financial Instruments Directive will all have a particular impact on the business of SIX Group. SIX Group always aims to optimally position its organizational structure and legal framework in the local European business and for cross-border services.