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## The Swiss Value Chain



Unlocking the potential.

# The Swiss Value Chain

The Swiss Value Chain links trading on the Swiss stock exchange with the services of post-trading, which include the clearing and settlement of securities transactions and the custody of securities. In Switzerland, SIX operates the entire infrastructure required for this process ("financial market infrastructure"), enabling the electronic and fully automated settlement of securities transactions concluded on the stock exchange from a single source.

The fully automated settlement of securities transactions via a central infrastructure is especially stable and efficient: SIX and its companies participating in the Swiss Value Chain are subject to government supervision – by the Swiss Financial Market Authority FINMA and/or the Swiss National Bank SNB. The integration of the entire financial market infrastructure under a single roof guarantees the continuous monitoring of securities transactions from trading to custody while at the same time permitting cost-efficient settlement supported by state-of-the-art systems.

A special feature of the Swiss Value Chain is integrated payment settlement for securities transactions via the systems SIC (Swiss Interbank Clearing) and euroSIC (for payments in euros). Both are interbank payment systems that settle high-value payments and mass payments individually and in real time and also have liquidity management. In the case of SIC this is ensured through the SNB. As a consequence, the liquidity of the financial institutes participating in the system is conserved, default risk is avoided and the settlement process as a whole is accelerated.

## Then...

The Swiss Value Chain has been ensuring since the mid-1990s that Switzerland plays a pioneering role among international financial centres: In summer 1996, the electronic trading platform replaced trading on the ring; roughly at the same time a link was established between the SIC payment system and the securities settlement system SECOM, which enables the electronic booking and custody of securities. This means a link is established between trading, clearing, settlement and custody, which represents a major gain in efficiency and minimizes the risks of securities transactions.



## ...and now

The **Swiss Value Chain** is one of the most efficient financial market infrastructures in Europe; nowhere else is the stock market connected with the entire post-trading chain including payment settlement under a single roof. The SIX trading platform currently has the latest and fastest trading technology in the world: as many as 10,000 orders can be executed at the bat of an eye. In the settlement of securities transactions SIC and SECOM are among the most secure and cost-efficient systems in the world. Data are received around the clock and processed in real time; an efficient back-up infrastructure prevents any data loss.



## Securities transactions along the Swiss Value Chain

### Trading

A securities transaction requires that a supply of securities is met by corresponding demand. On the trading platform of SIX, buy and sell offers are automatically matched according to defined rules. Buyers and sellers are banks or securities traders; they act on behalf of an end investor or on their own account. Once a securities transaction has been carried out at a certain price, it is referred to as a "locked-in transaction"; it is irrevocably cleared and settled without requiring another order such as a request for payment.

### Clearing

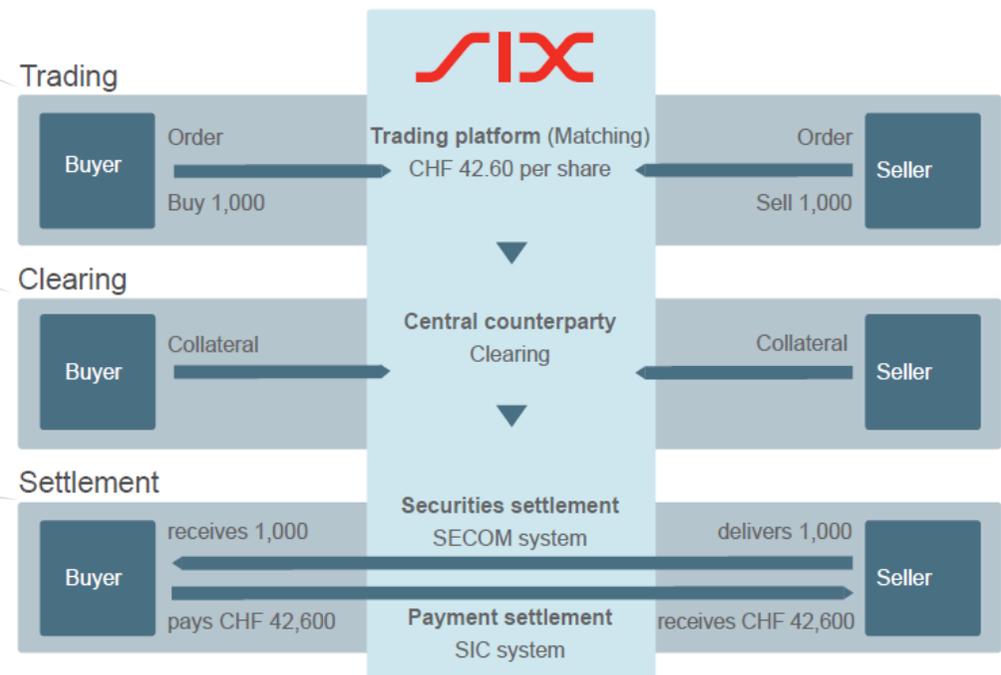
When a securities transaction carried out on the stock exchange is cleared, a third party – the clearinghouse as "central counterparty" – automatically comes between buyer and seller. A central counterparty makes sense because in the two days between the execution of a trade and the settlement of a transaction there is a risk that the buyer cannot meet its payment obligation or the seller cannot deliver the securities. The central counterparty guarantees the fulfilment of the open claims: it commits to the buyer to deliver the securities and to the seller to pay the money – even if one of the trading partners defaults. To minimize the default risk, the trading partners have to deposit collateral with the central counterparty.

### Settlement & custody

Two days after the end of trading (T+2) the open positions are automatically settled and the securities transaction is completed: the securities settlement system SECOM (Settlement Communication) serves the purpose of electronic settlement and custody. The system first blocks the necessary number of securities in the custody account of the seller with the central securities depository; SIX acts as national central securities depository and holds most of the financial instruments issued in accordance with Swiss law. SECOM now sends an automatic payment request to the payment system SIC, which triggers the transfer of funds from the account of the buyer to the account of the seller. The confirmation of the payment simultaneously triggers the transfer of the securities via SECOM to the custody account of the buyer; the transaction is

thus irrevocably and conclusively settled. The simultaneous settlement over the linked real time systems SECOM and SIC ("delivery on payment" principle) and the settlement in central bank funds reduce to practically zero the risk that one of the two trading partners does not fulfil its obligations (settlement risk).

The central electronic custody of securities facilitates all other management services such as carrying out equity splits, capital increases or dividend payments.



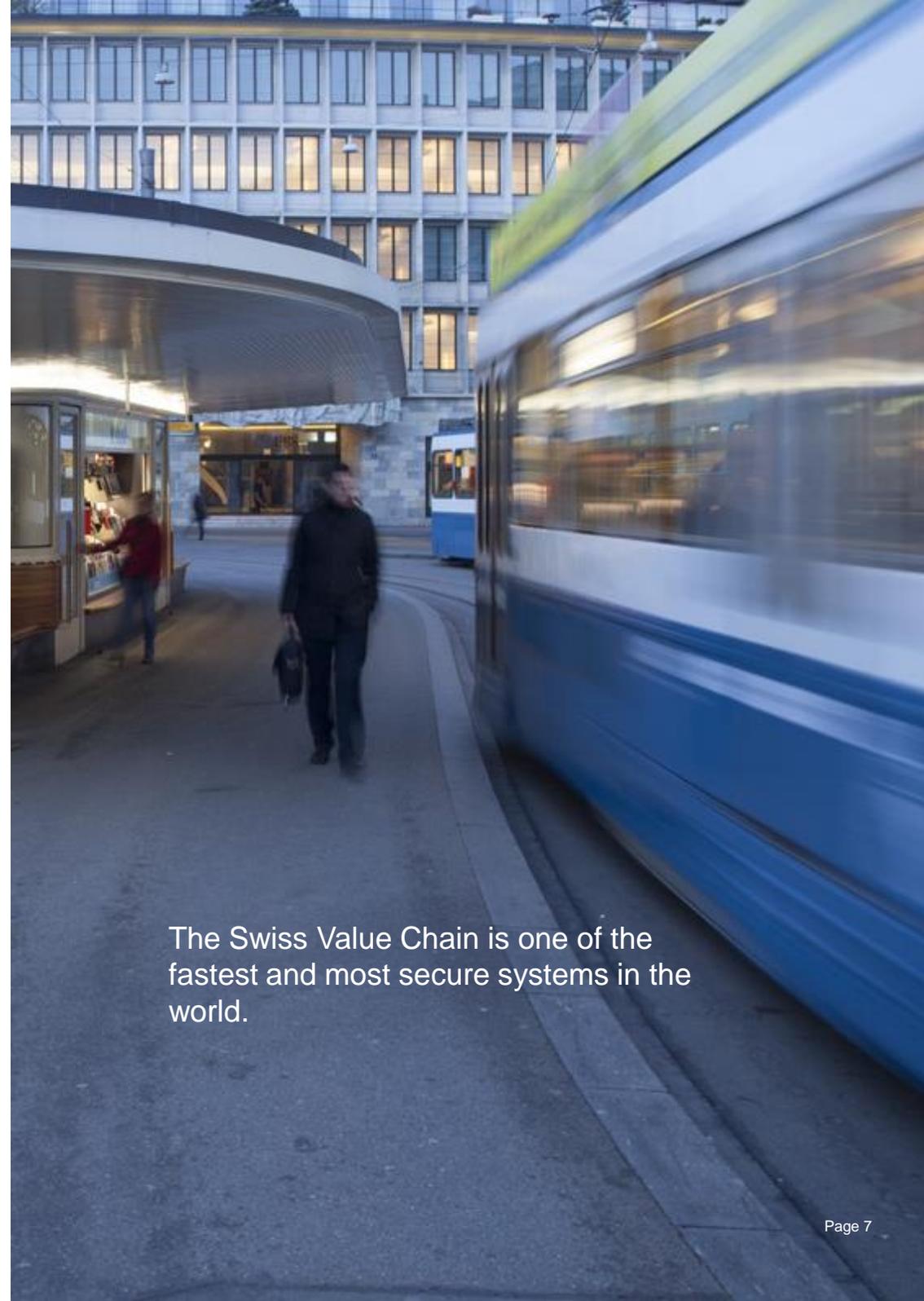
## The Swiss Value Chain and its significance for Swiss financial center.

In terms of the total number of freely tradable shares (free float market capitalization) SIX operates one of the largest stock exchanges in Europe. Among nearly 300 listed companies, Nestlé, Novartis and Roche are the European public limited companies with the highest market capitalization. Zurich is the leading listing location for the European life sciences sector (pharmaceuticals, biotech and medical technology). The high liquidity enables optimal pricing in securities trading; market data and indexes of the stock exchange provide transparency and information for all market participants.

The Swiss Value Chain and its integrated services contribute significantly to the attractiveness of the financial center: A listing ideally lasts only four weeks – the self-regulation competences of SIX facilitate the process considerably. Additional services along the entire value chain simplify and accelerate business processes between SIX and financial market participants.

Uncomplicated raising of capital, the efficient and stable settlement of securities transactions and the safe central electronic custody are in the interest of all stakeholders – issuers, private investors, institutional investors, securities traders and banks. Apart from the operational benefit arising from the increased efficiency and the minimization of risks, the Swiss Value Chain is also important on an economic level.

An integrated and independent financial market infrastructure is less susceptible to crises, permits a long-term perspective in the interest of the financial center and strengthens the competitive position of Switzerland in an international market undergoing change. As a central infrastructure operator SIX is mainly held by Swiss banks; this simplifies and guarantees investment decisions that benefit the competitiveness of the Swiss financial center.



The Swiss Value Chain is one of the fastest and most secure systems in the world.