



To the Members of SIX x-clear Ltd

SIX x-clear AG
Brandschenkestrasse 47
CH-8002 Zürich
Postfach 1758
CH-8021 Zürich

T +41 58 399 4311
www.six-securities-services.com

Zürich, 11 April 2016

SIX x-clear Ltd:

- **final version of Financial Collateral Agreement - conclusion of consultation process**
- **partial revision of Contract for Clearing Services**
- **partial revision (additions) of General Terms and Conditions**

Dear Sir / Madam

On 11 January 2016 we submitted to you a draft version of the new security contract, the **Financial Collateral Agreement** ("FCA") for consultation. In the period to 4 March 2016 you had the opportunity to review this document and to provide to us your observations and amendment proposals. Attached to this letter we now send you the final FCA.

As a consequence of the new FCA also a number of adjustments to the **Contract for Clearing Services** and to the **General Terms and Conditions** became necessary. These two documents are also enclosed in this mailing.

For your information and ease of reference we further add **compare versions** (in track-change mode) of all three documents. In these the details of all changes in relation to the consultation version (FCA), respectively to the current contracts, are depicted and briefly explained.

1. Contract for Clearing Services (revised)

This basic contract was last renegotiated and established in early 2012. The present new version correctly reflects the amended structure of our Contractual Relationship. At the same time various editorial clarifications and improvements (e.g. eliminations of redundancies) could be made.

In particular, we selectively adjusted the rules relating to the amendments of the Contractual Relationship (Chapter 3), namely as to:

- the exceptions when having to observe a Member consultation period (section 3.5):
 - more restrictive wording for the two exceptions in letters a. and g.
 - deletion of the rule about the charging of fees (old contract: let. c.)
- extension of lead time for changes (consultation period) from 40 calendar days to 40 Business Days.



In light of the fact that all these changes stand for amendments which are beneficial to the Members and on the basis of the respective rule in clause 3.2 of the current contract, we can refrain from subjecting this revised document to a consultation by the Members.

2. Financial Collateral Agreement (new)

In their overwhelming majority your comments were consenting to our proposals. We are pleased to conclude that the majority of substantial changes and additional elements (as discussed hereafter) have been accepted and shall be introduced therefore.

Most of your feedbacks “only” referred to the clearness or unambiguity of the new rules. Consequently, we improved the wording or provided additional specifications where appropriate. Please refer to the attached “track-change”-version for the details.

Hereafter we will only briefly discuss the most salient points and inform you in a generic way about the results of the consultation. Members, who submitted written responses which were singular and not also raised by other Members, received an individual answer from our side.

2.1. Default Fund: Change from regular to irregular pledge (transfer of title)

SIX x-clear is required by its regulators to establish best market practice not only in terms of security but also with respect to practicality and efficiency of its contractual arrangements. Members acknowledged that the “transfer of title” concept is an accepted standard for the establishment of collateral arrangements in financial affairs. In addition, a uniform legal basis for all collateral components (Margins and all Default Fund Contributions) harmonises operational set-ups, reduces complexity and provides immediate access to the collateral items. Thus the transfer of title basis also supports SIX x-clear’s liquidity concept and facilitates an efficient usage of the collateral items for short term investments (see hereafter clause 2.3).

2.2. Enhancement of the system of collateralisation

The additional level in our system of collateralisation (“waterfall of resources”) - the so-called “**Top-up Contribution**” - will be introduced as planned, because such enhancement was encouraged by our regulators and similar security enhancements beyond the Default Fund have been adopted by our competitors as well. SIX x-clear is convinced that this solution best fits its needs and meets Members’ acceptance.

With respect to the application of the “Cooling-off”-Period, a supplementary phrase was introduced unmistakably clarifying that during this period a Member must effectively make a Top-up Contribution (equaling the ordinary Default Fund Contribution) only once. The deadline for the furnishing of the Contribution was extended from 2 to 3 Business Days (after a respective call).

2.3. Usage of the collateral

The usage of collateral by a Financial Market Infrastructure for the safe-guarding of SIX x-clear’s own liquidity and for short term investments is recognised by law (Art. 22 Swiss Intermediated Securities Act and Art. 5 Financial Collateral Directive 2002/47/EU) and by regulators. Through the clear temporal delimitation of these rights of use the primary purpose of the collateral items as security is not adversely affected. Hence, the explicit stipulation of these rights of use in the FCA was not contested in principle by Members.

The Investment Regulations will be published in June before entry into force of the FCA.



3. General Terms and Conditions (revised)

The third document enclosed in this mailing is the revised General Terms and Conditions ("GTC").

As already explained to you in the letter initiating the consultation procedure for the FCA, we newly foresee to provide our full **Dedicated Capital Contribution** ("skin in the game") only once during the month following its usage for a Member Default. Thus SIX x-clear is able to protect its own capital resources temporarily in an analogous manner as it is conceded to Members by the Cooling-off Periods (in respect of their potential DF Replenishment and Top-up Contributions). During that month SIX x-clear will have to reinstate its capital base. The definitive period in clause 18.3 GTC is significantly shorter (one month) compared to our first proposal in January, and thus corresponds with the respective term defined in EU law (Delegated Regulation EU 153/2013, Article 36 para. 3).

Furthermore, we selectively complemented and slightly amended the GTC in other parts – yet, without affecting the rights and obligations of Members and SIX x-clear significantly. These modifications primarily serve the purpose of reflecting the newly introduced elements of the FCA. For the exact wordings please refer to the compare version - especially in the following parts:

- several new definitions (clause 1.1)
- additional opportunity for a Member to terminate Membership (clause 4.1)
- administrative arrangements with respect to the FCA (in particular, clause 17.1)
- tax regulations with respect to the FCA (clause 17.2)
- adjustments to the measures to be taken by SIX x-clear following a Member Default (clause 27.5).

Next steps

Early next week we will send you as physical documents by regular mail two copies each of:

- the Contract for Clearing Services
- the Financial Collateral Agreement

We kindly ask you to sign all three documents and to return a copy of each to us until **20 May 2016**.

In addition, we also ask you to sign and send back the **Power of Attorney document** which will be forwarded to you together with the physical contracts. This document will facilitate an efficient transfer of your current Default Fund collateral items at SIX SIS Ltd from the existing account to the new Collateral Accounts of SIX x-clear Ltd (which is designated by the name of your institution) – all in accordance with the new FCA and the transfer of title concept.

The revised Contract for Clearing Services and the FCA will become effective on **1st July 2016**. At the same time also the revised General Terms and Conditions will be enacted by official publication on the website of SIX Securities Services.

Should you have any questions, please do not hesitate to contact your Relationship Manager (www.six-securities-services.com > Clearing > Contacts).



Securities Services

Kind regards

SIX x-clear AG

Christian Sjöberg
Head Clearing

Markus Heiniger
Head Risk Management Operations

Enclosures (*electronic mailing*):

- **Contract for Clearing Services (revised)**
- **Financial Collateral Agreement (new)**
- **General Terms and Conditions (revised)**