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Regulatory impact on Clearing Members

A high-level guideline for changes due to EMIR and the NBO

Overview

The revised National Bank Ordinance (NBO) in Switzerland and the European Market Infrastructure Regulation (EMIR) in the EU require changes on clearing services to reduce the risk between clearing and non-clearing members as well as increase market transparency.

Key dates and roadmap

3 September 2013

ESMA technical advice that Swiss regulation is considered equivalent

12 September 2013

SIX x-clear applies to ESMA for reauthorization as third-country CCP

12 March 2014

Deadline to complete application to ESMA

30 June 2014

SIX x-clear to be fully compliant with revised NBO requirement

January 2015

Deadline for reauthorization by ESMA

2015

Swiss Financial Infrastructure Law effective, closing remaining gaps between NBO and EMIR (e.g. portability, clearing obligation)

Regulatory changes

Impact on Account Structure

- To ensure a higher level of protection for Non-Clearing Members (NCMs), we will offer new margin account models to segregate positions and collateral between General Clearing Members (GCMs) and NCMs.
- We will make no changes to Individual Clearing Member (ICM) account structures.

Regulatory changes

- We will introduce a new and enhanced margin-assessment methodology to validate our existing initial margin calculations against more sophisticated VaR concepts.
- To address potential concentration risks inherent in collateral that is found in margin and default funds, we may be constrained to implement maximum concentration limits. These would be based on issuer-specific trading volumes and collateral-type.
- We may consider a minimum concentration limit for highly liquid collaterals (e.g. cash collateral, SNB GC basket).
- Defense lines – we will increase our existing “skin in the game” contribution to 25 % of SIX x-clear’s capital which will be used in case of member default before using the non-defaulting member Default Fund contributions.
- We will introduce a cooling-off period to follow the partial or full usage of the one-time replenishment of the Default Fund before non-defaulting members are obliged to adjust the Default Fund to the level required for normal business operations.

Please note that SIX x-clear will make the necessary legal changes and updates to the Rules and Regulations by the end of June 2014.



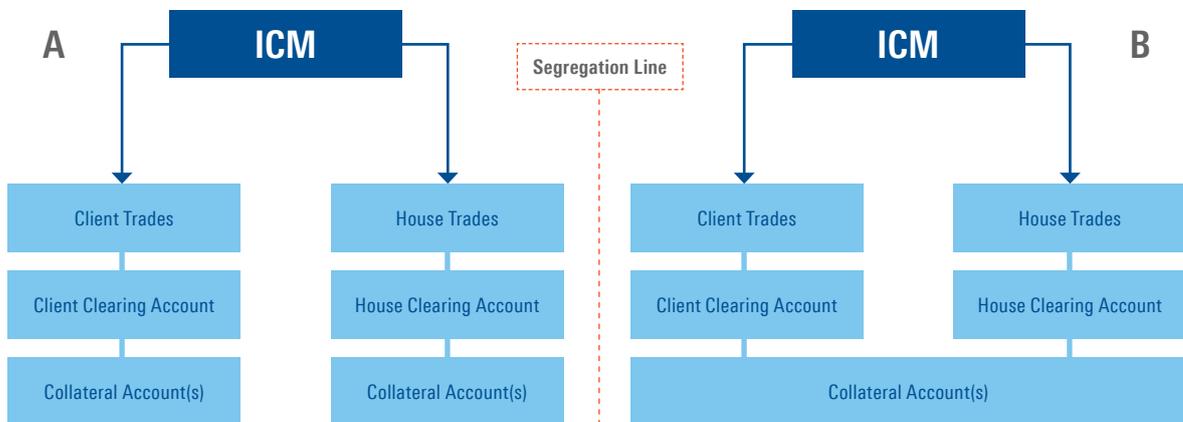
Securities Services

Account Segregation

The following segregation models focus on the contractual and operational relationship between the General Clearing Members (GCMs) and their clients (NCMs) only. SIX x-clear will offer these new types of segregation to all GCMs, independent of their national corporate statute (jurisdiction). These segregation models will be available by **30 June 2014**.

ICM Level

Existing Account Structure



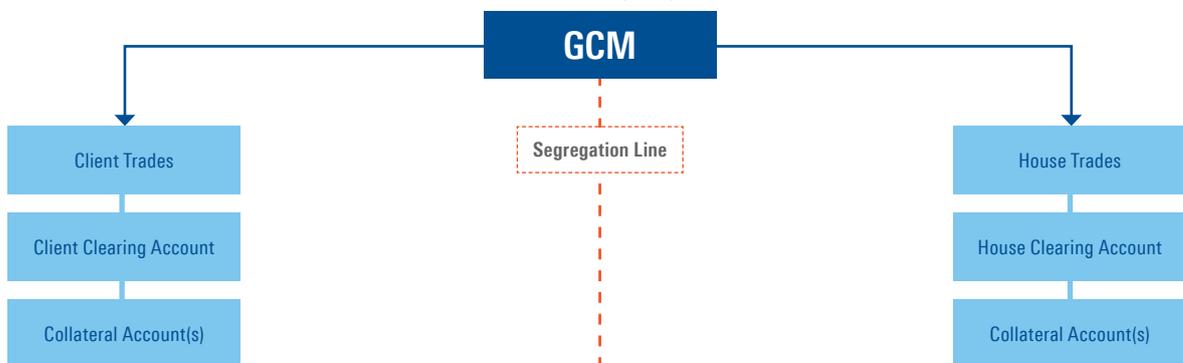
Segregation: This solution will be offered to Individual Clearing Members (ICMs) only. Customers can choose their segregation (client/house) and account options (active/inactive).

Collateral: Option to segregate (model A) or to pool (model B) collateral across client and house clearing accounts.

Portability: None. This is a close-out netting mechanism only.

GCM Level

Omnibus Client Segregation (OCS)



Segregation: A General Clearing Member (GCM) has to segregate client business from its own business with the CCP. The segregation between house and client trades will be mandatory to ensure minimum requirements and regulatory compliance.

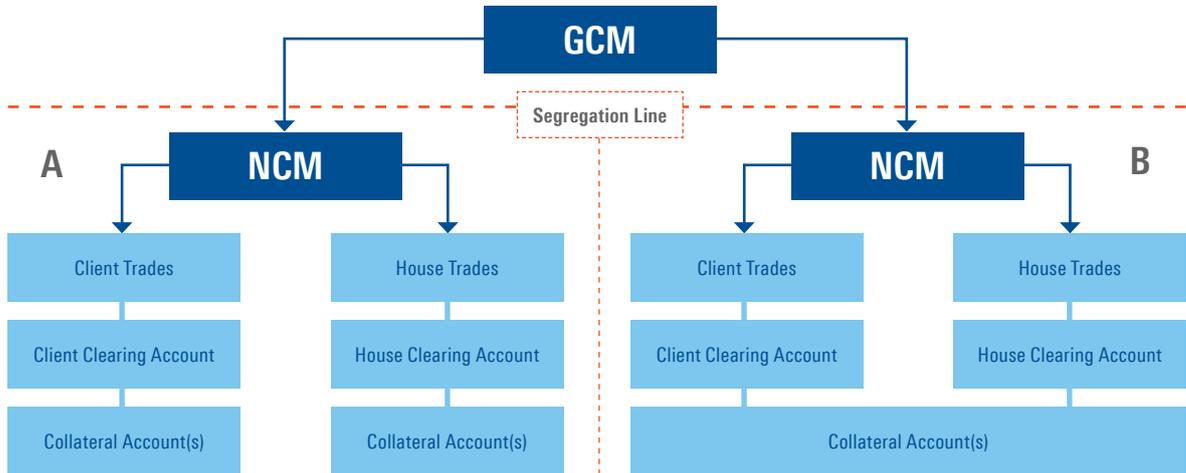
Collateral: Collateral segregation between client and house clearing accounts will be mandatory.

Portability: 1. Porting the group of NCM (bulk transfer) to another designated GCM or;
2. Opting for final pay-out (close-out).

Account Segregation

NCM Level

Individual Client Segregation (ICS)



Segregation: Full segregation of position and assets of a NCM and ring-fenced from GCM. Customer's choice of segregation (client/house) and account options (active/inactive).

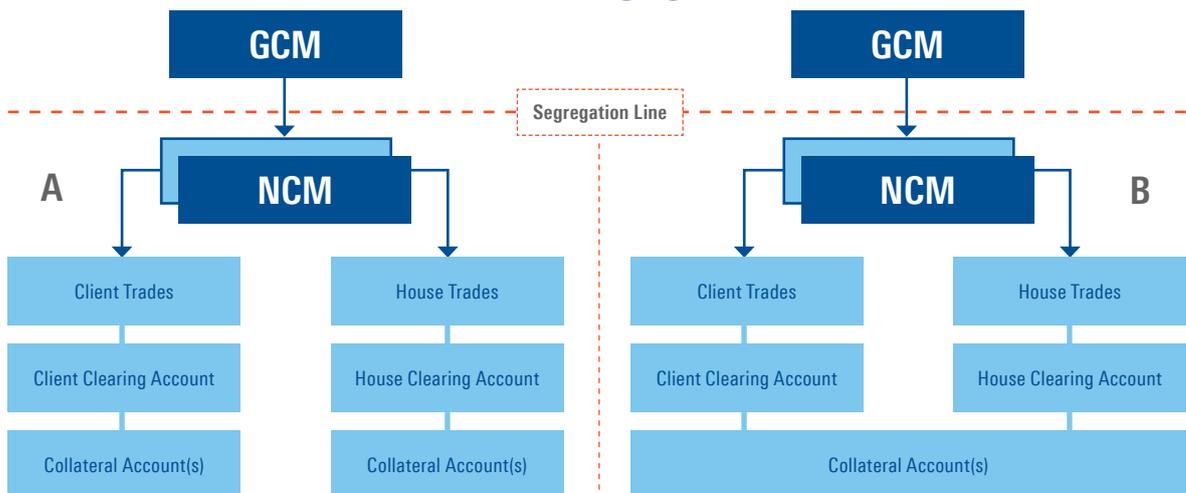
Collateral: GCM collateral accounts are fully segregated from the NCM collateral. Option to segregate collateral (model A) or to pool (model B) across client and house clearing accounts of the NCM.

Portability:

1. Transforming into an ICM or;
2. Porting each NCM to another designated Back-up GCM or;
3. Opting for final pay-out (close-out).

NCM Level

Mini-Omnibus Client Segregation (Mini OCS)



Segregation: Full segregation of position and assets of a group of NCMs and ring-fenced from GCM. Customer's choice of segregation (client/house) and account options (active/inactive).

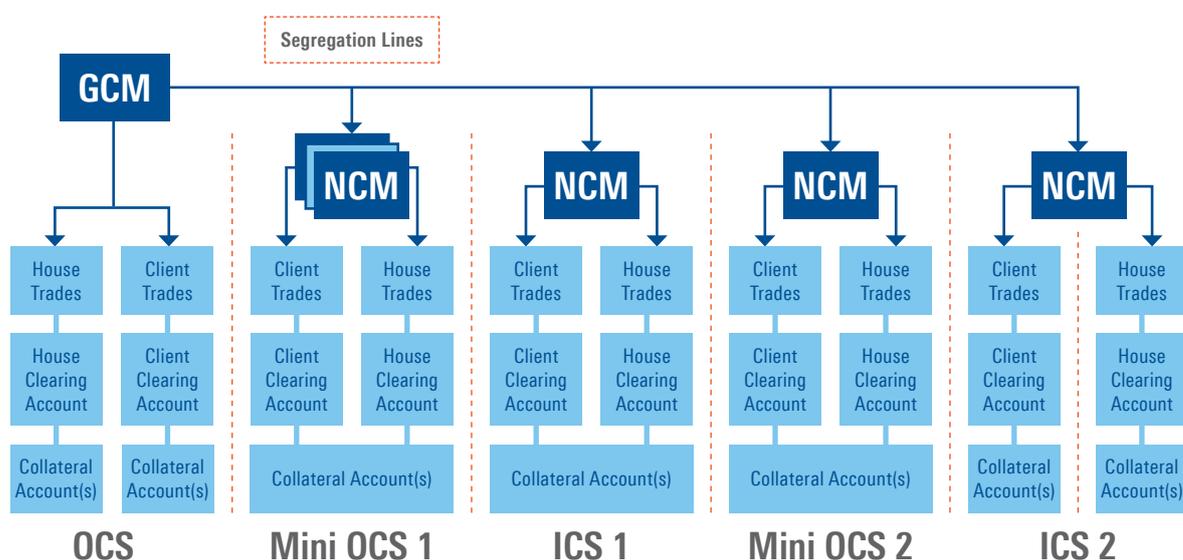
Collateral: GCM collateral accounts are fully segregated from the NCM collateral. Option to segregate (model A) or to pool (model B) collateral across client and house clearing accounts of the NCMs.

Portability:

1. Porting the group of NCM (bulk transfer) to another designated Back-up GCM or;
2. Opting for final pay-out (close-out)

Customer Solution for GCMs/NCMs

SIX x-clear Ltd offers different possibilities to build unique customer solutions by considering the segregation and portability needs of a GCM and its clients. Below is a possible customized account structure by combining the different models as explained earlier on GCM level as on NCM level.



Portability

Portability for SIX x-clear Members under Swiss corporate statute

SIX x-clear is prepared to offer a portability solution as soon as the regulatory basis is set in place in Switzerland. The current requirements of the Swiss National Bank Ordinance (art. 24b) must still be endorsed by a special legal provision which renders portability arrangements incontestable by a liquidator and/or by creditors in case of insolvency of the direct clearing member. The enactment of the Federal Act on Financial Market Infrastructures (FinfraG), which is expected in 2015, is to provide such a rule.

For the time being the SIX x-clear segregation solutions (depending on the differentiation chosen) procure the administrator or liquidator in charge with ready to hand information about the NCMs' clearing positions and collateral and thus facilitate a swift disposition by the authorities.

Portability for SIX x-clear Members under UK and other corporate statutes (jurisdictions)

providing the legal prerequisites for portability

SIX x-clear is planning to establish a portability solution based on respective legislation by 30 June 2014. Trading positions and collateral provided by indirect clients (NCMs) shall be fully protected in case of default of the direct clearing member (GCM) whose clearing services the NCMs use by immediately transferring assets and collateral to another clearing member. Such transfer (porting) shall be based on predefined contractual arrangements. Continuous clearing of the NCMs' transactions will thus be assured.

Questions & Answers

When will these segregation & portability services be offered by SIX x-clear?

SIX x-clear will offer segregation and portability solutions by 30 June 2014. At this time, portability will be supported only for UK-domiciled members based on applicable UK laws as well as members in other jurisdictions providing the legal basis for portability.

In Switzerland portability can only be granted to Swiss members with the introduction of the Swiss Financial Infrastructure law (FinfraG) which is expected to be set in force in 2015.

What does a GCM need to do until end of June 2014?

The GCM will have to segregate NCM positions and collaterals from its own positions and collaterals.

When will portability be initiated?

The portability process will only be executed in the case that the current GCM defaults.

Will partial portability be permitted?

No. Only full portability will be supported by SIX x-clear by porting all clearing accounts (open positions) and collateral account(s) to the designated Back-up GCM.

What happens with the excess collateral in case of a GCM default?

In case of GCM default any excess of collateral for its own house clearing account trades will be returned to the defaulting GCM or – in case of bankruptcy – to its administrator.

For segregated NCM account solutions any excess of collateral will be fully ported to the designated Back-up GCM.

In case of close-out:

- in an omnibus client segregation (OCS; Mini OCS) any excess collateral will be returned to the defaulting GCM or – in case of bankruptcy – to its administrator.
- in an individual client segregation (ICS) any excess of collaterals will be returned to the respective NCM(s).

What are the liabilities of a defaulting GCM?

In any case the GCM will be responsible to cover any NCM liabilities (e.g. margin calls, fees, claims, etc.) as well as its own GCM margin requirement.

Does the GCM have to place NCM collateral on the NCMs CCP collateral account?

For Individual Client Segregation (ICS) any margin related to clearing services and called from NCMs by a GCM, which is over and above the amount called by the CCP to cover the positions of that client, must be posted to the CCP (“push-through principle”).

Glossary

Back-up GCM:

A Back-up GCM will replace the defaulting GCM. The contracts as well as account structures have to be set in place beforehand with a back-up GCM by NCM or the current GCM to avoid time gaps by transferring positions and collaterals to the Back-up GCM.

Clearing Accounts:

Each clearing member is set up with a house and client clearing account by default. Position netting will be performed always on clearing account level. By preference of the clearing member and/or its clients the house or client clearing account(s) can be set up as active or inactive.

Collateral Account(s):

Represent the physical collateral account(s) in which cash or securities (different currencies) can be delivered to cover the margin requirement liabilities.

GCM (General Clearing Member):

GCM means a Person admitted by x-clear to clear own-account trades and trades from other trading platform members which are not direct members of SIX x-clear Ltd.

ICM (Individual Clearing Member):

ICM means a Person admitted by x-clear to clear own-account trades only.

NCM (Non-Clearing Member)

NCM means a trading platform member which is not an x-clear member and which participates in the clearing of trading platform transactions through an x-clear GCM pursuant to a GCM-NCM agreement with this GCM.

Margin:

Refers to the total margin requirement calculation including initial margin (IM) and variation margin (VM) which will be performed on clearing account level.

Segregation:

Refers to risk segregation between clearing members and non-clearing members.