



The Swiss Stock Exchange

# Investing with Minimum Issuer Risk

COSI<sup>®</sup> – Collateral Secured Instruments

## **In Principle, Structured Products Are Only Available in the Legal Form of a Bearer Debenture**

This means that investors incur not only the market risk associated with any type of investment, but also an issuer-related default risk. Just how significant that risk is depends on the creditworthiness of the issuer. If the issuer is not able to uphold its payment obligations, the investor's capital commitment is jeopardized. That's where COSIs come in: thanks to collateral backing of the structured product's current value, the counterparty risk posed by the issuer is minimized.

## **COSI – Safety through Collateralization**

Collateral secured instruments (COSIs) are backed with collateral in the form of securities and so allow investors to minimize issuer risk. The provider of collateral – generally the issuer of the COSI product – pledges precisely defined securities with a countervalue equal to the current value of the outstanding COSI product. To do this, the issuer and the provider of collateral conclude the "Framework Agreement for Collateral Secured Instruments" with SIX Swiss Exchange and SIX SIS, which is decisive in establishing the legal stature of investors and is made available to them costfree upon request.

## **Product Requirements/Secondary Listings**

All COSI products can be traded on SIX Swiss Exchange and go through the SIX Exchange Regulation listings admission procedure. The issuer commits to regular market making in COSI products. COSI products may, optionally, also be traded on other exchanges via a secondary listing, without this affecting the investors' legal position.

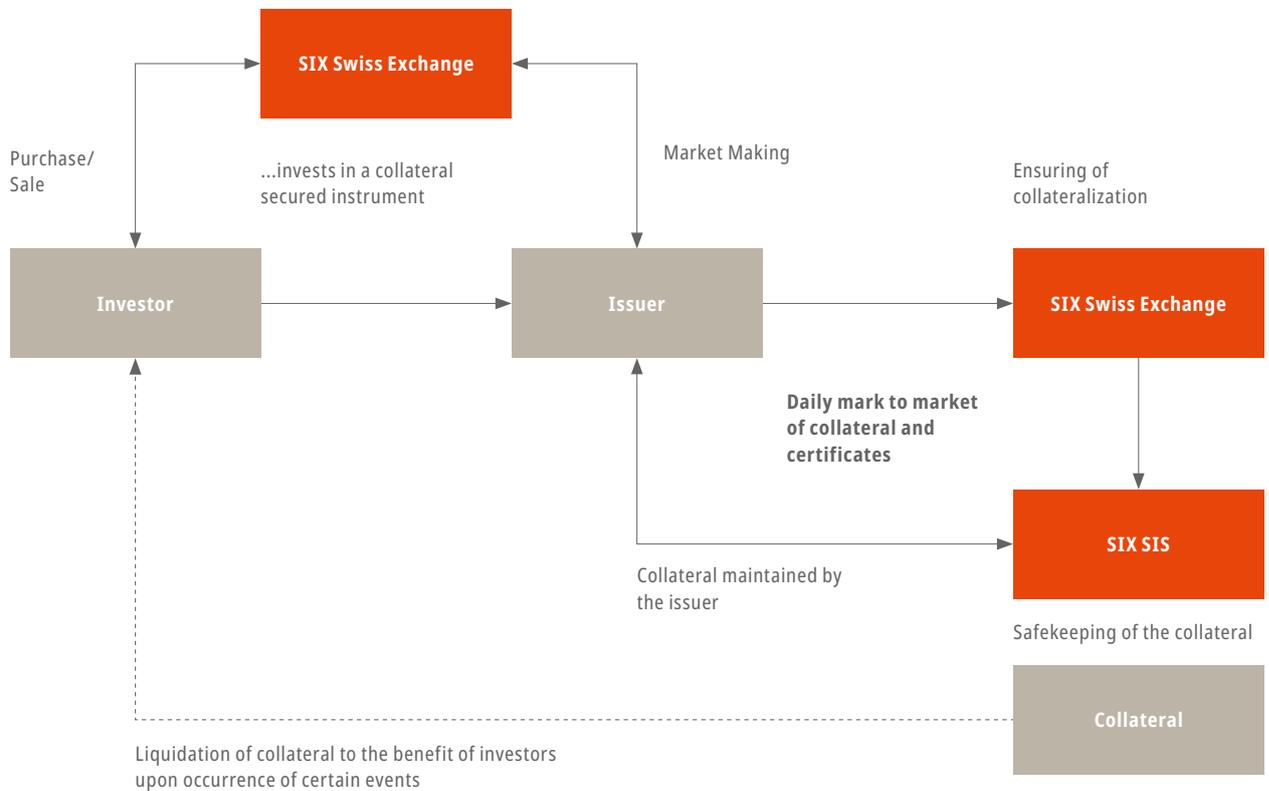
All currently available COSI products can be viewed at [www.six-structured-products.com/cosi-certificates](http://www.six-structured-products.com/cosi-certificates).

## **Well-Conceived, Fully Automated Collateralization**

For each issued COSI product, the necessary amount of collateral is booked into a SIX Swiss Exchange account at SIX SIS. It is mandatory that the collateral be maintained during the entire term of the COSI product.



## The COSI® collateralization mechanism by SIX



### Collateral Protection Marked to Market Daily

The collateral provider's securities on deposit must be of sufficient value to satisfy the potential claims of investors. Because the value of the COSI product as well as that of the collateral securities fluctuates constantly, the collateral provider must offset any difference on a daily basis. Once the COSI product increases in value or the deposited securities decline in value, a margin call is triggered and the issuer must provide more collateral. In the opposite case, SIX Swiss Exchange returns to the issuer any collateral surplus.

### Fair and independent valuation

So that collateral with a sufficient value is available to cover claims if needed, an independent valuation process is conducted by the following companies for COSI products:

- Solvians Switzerland Ltd, Baar
- swissQuant Group Ltd, Zurich
- SIX Financial Information Ltd, Zurich

### **Stringent Requirements for Collateral**

Only recognized securities that fulfill specific liquidity and/or creditworthiness criteria are permissible for collateralization purposes. Furthermore, a haircut must be applied on the collateral, which will result in a corresponding overcollateralization of the current value of the COSI product.

Recognized securities include:

- Securities accepted by the Swiss National Bank in conjunction with repo transactions (2% haircut).
- Selected securities accepted by the European Central Bank (5% haircut).
- SIX Delta<sup>1</sup> eligible collateral (5% haircut).
- Shares that are included in recognized stock market indices (10% haircut).

### **Cases of Collateral Liquidation**

The collateral on deposit can be liquidated not just in the event of insolvency of the issuer or of the provider of collateral but also and in particular in case of:

- delayed or inadequate delivery of collateral to SIX Swiss Exchange.
- delayed or inadequate payment or delivery to investors.
- the initiation of protective measures or liquidation proceedings by the Swiss Financial Market Supervisory Authority (FINMA).
- similar decrees by comparable foreign authorities.
- violation of the obligation to make a market daily for 10 trading days in succession.
- delisting of COSI product without satisfying investors' claims.

The COSI information sheet containing details of cases of collateral liquidation is available for download at [www.six-structured-products.com/cosi](http://www.six-structured-products.com/cosi).

### **Investor Compensation**

If as a result of a liquidation event the COSI product becomes due and payable, investors have a claim against SIX Swiss Exchange for payment of their prorata share of the net liquidation proceeds. Any such payment will be made exclusively in Swiss francs. Claims asserted in other currencies will be converted accordingly.

### **The Costs of Collateralization**

The provider of collateral pays a fee to SIX Swiss Exchange for the collateralization of the related certificate. That fee can be taken into account in the price of the certificate, whereby the exact pricing is at the discretion of the issuer.

### **The Limits of Collateralization**

The collateralization pertains solely to the risk that the issuer could default on its obligations. In particular, the market risk that arises from fluctuations in the price of the structured products and the collateral, as well as any additional risk in connection with reference bonds, are borne fully by the investor.

<sup>1</sup> Rule-based category of collateral of SIX Swiss Exchange, with sole application of the admission criteria valid until the end of 2014 according to the "Instruction sheet on Collateral eligible for SNB repos", excluding Collateral being already accepted by the SNB or the ECB.

### For More Security

SIX Swiss Exchange is one of the most important European stock exchanges. It offers outstanding liquidity in trading of Swiss securities and connects companies from around the world with international investors and trading participants. As a self-regulated exchange, it is able to provide particularly market-friendly conditions for listing and trading in Swiss and foreign equities, bonds, ETFs, ETPs, funds, and structured products. SIX Swiss Exchange multiplies the locational advantages of the Swiss financial center with first-class services and is an ideal listing location for companies of every origin, size and sector. It operates its own range of indices, which includes the SMI®, Switzerland's most important equity index.

[www.six-group.com/swiss-stock-exchange](http://www.six-group.com/swiss-stock-exchange)  
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This publication does not contain a complete description of the investor's legal position, but instead provides a simplified overview of the collateralization of certificates. The legal position of the investor regarding Collateral-Secured Instruments is determined solely by the provisions of the Framework Agreement. None of the information contained herein constitutes an offer or a solicitation to buy or sell or take any other action regarding Collateral-Secured Instruments. The present information does also not represent an offer for the rendering of a service. The content of this publication shall not be deemed to serve as the basis for or component of any contract. SIX Group and its direct and indirect subsidiaries (hereafter: SIX) are liable neither for the completeness, accuracy, currentness and continuous availability of the information given, nor for any loss incurred as a result of action taken on the basis of information provided in this or any other SIX publication. SIX expressly reserves the right to alter prices or composition of products or services at any time.

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