

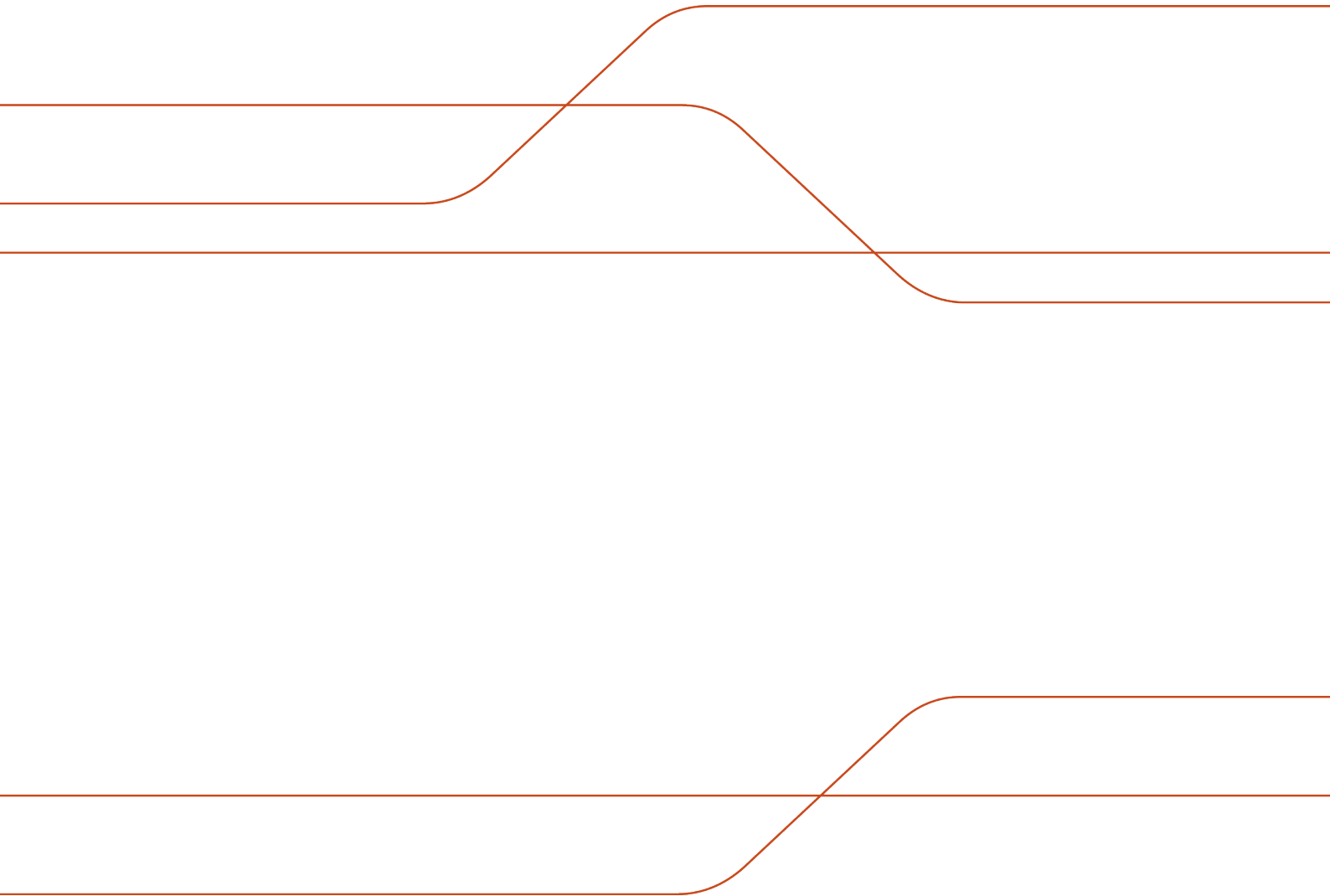


SIX Structured Products Exchange Ltd.

# Rule Book

of 01/01/2016

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## 1. Purpose

<sup>1</sup> Under the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA), the Rule Book governs the admission of participants on the Exchange, the organisation of securities trading on the Exchange, and the rules of conduct for participants and their traders.

<sup>2</sup> The Rule Book aims to ensure equal treatment of investors and participants, as well as the transparency and proper functioning of securities trading on the Exchange.

## 2. Structure of the Rule Book

<sup>1</sup> The Rule Book consists of the following five parts:

- I The **Admission** section governs admission to participate in trading on the Exchange, the rights, obligations and exclusion of participants, as well as the suspension and termination of participation.
- II The **Trading** section governs the organisation of trading on the Exchange, including how trades come about.
- III The **Clearing and Settlement** section describes the clearing and settlement of trades on the Exchange.
- IV The **Monitoring and Enforcement** section governs how Rule Book compliance and enforcement are monitored, as well as the sanctions that may be imposed in the event of violations.
- V The **Final Provisions** govern the confidentiality and partial invalidity of the Rule Book, how it may be amended, its binding nature, applicable law, place of jurisdiction, and transitional provisions.

<sup>2</sup> The provisions for implementing the Rule Book are laid down in Directives and are an integral part of the applicable rules and regulations.

<sup>3</sup> General explanations and technical instructions with regard to participants connection to the Exchange system, as well as the organisation of on-exchange trading, can be found in Guidelines.

<sup>4</sup> Notices inform participants about changes to the Rule Book, Directives and Guidelines.

# I Admission

*The provisions of Part I govern the admission of securities traders to participate in trading on the Exchange, the rights and obligations of participants, and the suspension and termination of participation.*

## 3. Admission requirements

The Exchange shall admit an applicant as a participant and conclude a participation agreement with it, providing it meets the following admission requirements:

### 3.1 Admission as a participant of SIX Swiss Exchange

The applicant is admitted as a participant of SIX Swiss Exchange.

### 3.2 Authorisation as securities trader or remote participant

The applicant must hold a licence from the Swiss Financial Market Supervisory Authority (FINMA) as a securities dealer pursuant to SESTA or a remote participant authorisation from FINMA, as laid down in the FMIA.

### 3.3 Participation in a settlement organisation

The applicant must be a participant in a settlement organisation recognised by the Exchange, or must have access to such via a custodian.

### 3.4 Collateral deposit

<sup>1</sup> The Exchange may require participants to pay a collateral deposit, which is used to secure outstanding financial obligations to the Exchange and, secondarily, to cover outstanding obligations to other participants.

<sup>2</sup> The details are laid down in the "Admission of Participants" Directive.

### 3.5 Connection to the exchange system

<sup>1</sup> The applicant must satisfy the technical and operational requirements in order to be connected to the exchange system.

<sup>2</sup> The details are laid down in the "Technical Connectivity" Directive.

## 4. Participants' rights and obligations

Admission entitles the participant to take part in Exchange trading for its own account and that of third parties.

### 4.1 Continued compliance with admission requirements

The participant must comply with the admission requirements laid down in this Rule Book for as long as it remains a participant.

### 4.2 Compliance with statutory and regulatory provisions and rulings from the relevant supervisory authority and the Exchange

The participant undertakes to comply with and enforce internally:

- a) the code of conduct for securities trading, as laid down in SESTA, the relevant FINMA circulars, and the corresponding professional standards;

- b) those domestic and foreign exchange-related laws that apply to it, the corresponding implementing provisions and the rulings of the relevant supervisory authority; and
- c) the Rule Book, the Directives as well as rulings issued by Exchange bodies.

### **4.3 Appropriate organisation and registration obligations**

#### **4.3.1 Principle**

<sup>1</sup> The participant must:

- a) have a sufficient number of staff with the necessary specialist expertise, experience and training for stock exchange trading and its processing;
- b) issue appropriate internal guidelines and monitor compliance with the Rule Book;
- c) appoint one or more internal officers to support the participant and its staff in complying with the Rule Book; and
- d) register responsible persons, specifically traders, with the Exchange and report any changes to the Exchange immediately.

<sup>2</sup> The Exchange may suspend or revoke existing registrations.

<sup>3</sup> The details are laid down in the "Admission of Participants" Directive.

#### **4.3.2 Registration of traders**

<sup>1</sup> The participant undertakes to register traders who trade on the Exchange. Such registrations must be made with the Exchange.

<sup>2</sup> The Exchange registers traders who are of good repute and can display to the Exchange that they possess sufficient specialist knowledge. Traders must be subject to the participant's direct right of instruction at all times and acknowledge the rules and regulations of the Exchange.

<sup>3</sup> The Exchange allocates an identification number to each registered trader. The Exchange system shall record all system entries along with the trader's ID number. The identification number is personal but may be given to other registered traders for purposes of proxy. The participant shall ensure the traceability of this proxy.

#### **4.3.3 Clients with direct market access (direct electronic access; DEA)**

<sup>1</sup> The participant may grant clients direct access to the Exchange system ("DEA clients"). The participant remains liable to the Exchange for all actions and non-actions on the part of DEA clients.

<sup>2</sup> The participant must have suitable systems in place to monitor and filter DEA client orders. It must be authorised and able at any time to delete DEA client orders from the order book on instruction of the Exchange.

### **4.4 Reporting office**

The reporting office in the sense of Article 15 of the Swiss Federal Stock Exchange and Securities Trading Act (SESTA) in connection with Art. 5 para. 4 of the Swiss Financial Market Supervisory Authority Ordinance on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FINMA Financial Market Infrastructure Ordinance, FMIO-FINMA) is SIX Swiss Exchange AG.

### **4.5 Duty to trade on the Exchange**

<sup>1</sup> The Exchange may provide for a duty to trade on the Exchange in individual market segments. This duty obliges the participant, during trading hours, to execute orders on order book only.



<sup>2</sup> Provisions on "best execution", which oblige the participant to execute trades to its best ability (*best execution*) take precedence over any duty to trade on the Exchange.

<sup>3</sup> The details are laid down in the "Trading" Directive.

#### **4.5.1 Client clearing**

Off-order-book Transactions on the Exchange must not be cleared in respect of the client as an on-order-book transaction on the Exchange.

### **4.6 Duty to provide information**

<sup>1</sup> The participant undertakes to inform the Exchange immediately if

- a) it has violated the Rule Book or is unable to comply with it;
- b) there is a technical problem connecting to the exchange system;
- c) the relevant supervisory authority has instigated proceedings against it, its traders or a person as described in Clause 4.3.1 para. 1 above, or has issued a ruling, if these proceedings or rulings are relevant to the admission requirements or registration; or
- d) access to the clearing or settlement organisation has been or is very likely to be suspended or terminated.

<sup>2</sup> Furthermore, while obliged to uphold statutory confidentiality requirements, the participant must provide access to documents and all such information as is required to maintain an orderly market and to enforce the provisions of the Rule Book (Clause 16). Where statutory confidentiality requirements exist, the Exchange may demand information with identifying elements removed.

### **4.7 Use of the exchange system**

<sup>1</sup> The participant undertakes to use the exchange system in accordance with the provisions laid down by the Exchange.

<sup>2</sup> In particular, the participant must refrain from

- a) manipulating or modifying the exchange system and its interfaces; and
- b) improper use or passing on of exchange software or data received from the exchange system.

<sup>3</sup> The details are laid down in the "Technical Connectivity" Directive.

### **4.8 Charges and costs**

<sup>1</sup> The participant undertakes to pay all charges and costs laid down by the Exchange.

<sup>2</sup> The details are laid down in the "Fees and Costs" Directive.

## **5. Admission as a market maker**

<sup>1</sup> A market maker is a participant which, pursuant to Clause 10.3, undertakes to ensure a liquid market for one or more securities.

<sup>2</sup> The Exchange concludes a market maker agreement with the participant that it admits as a market maker.

<sup>3</sup> The Exchange may offer a market maker that fulfils its obligations faultlessly better terms than those that apply to other participants.

<sup>4</sup> The details are laid down in the "Admission of Participants" Directive.

## 6. Liability

### 6.1 Liability of the Exchange

<sup>1</sup> With the exception of intent and gross negligence on the part of its bodies or employees, the Exchange shall not be liable for the loss or damage that a participant, its clients or third parties might sustain from actions or omissions by the Exchange. Specifically, the Exchange shall bear no liability for the damage or loss as a result of:

- a) measures taken by the Exchange in special situations;
- b) orders issued by the Exchange;
- c) the full or partial unavailability of the exchange system, the clearing and settlement infrastructure or other technical problems;
- d) incorrect or incomplete data processing or distribution;
- e) improper manipulation by participants or third parties; and
- f) the interruption or termination of participation or the suspension or exclusion of a participant.

<sup>2</sup> The Exchange shall accept no liability for claims extending beyond direct losses, for example compensation for indirect losses or consequential losses such as lost profit or additional expenses.

### 6.2 Liability of the participant

<sup>1</sup> The participant is liable for:

- a) actions and omissions by the participant's internal bodies, employees and agents; and
- b) actions and omissions on the part of its DEA clients.

<sup>2</sup> The participant undertakes to ensure the necessary precautions to prevent loss. Specifically, it must have appropriate systems, controls and processes to monitor trades and transaction processing and to reduce potential risks.

## 7. Suspension and termination of participation

### 7.1 Suspension of participation

<sup>1</sup> The Exchange may, at any time, block a participant's access to the exchange system and/or delete its orders if:

- a) the rules of the Exchange are not observed;
- b) the participant is unable to conduct its business properly;
- c) the participant defaults on payments connected to monetary claims by the Exchange against the participant, or if insolvency is threatened or has already occurred;
- d) debt restructuring, composition or liquidation proceedings are instigated against the participant, or criminal proceedings commenced against the participant or one of its senior bodies; and
- e) the participant does not use the exchange system for a considerable period of time.

<sup>2</sup> The Exchange may publicly announce the suspension of participation and name the participant concerned.

<sup>3</sup> A participant may also be suspended in connection with sanction proceedings.

## **7.2 Termination of participation**

### **7.2.1 Termination**

<sup>1</sup> The participant or the Exchange may terminate the participation agreement at any time subject to a notice period of four weeks, effective at the end of a month.

<sup>2</sup> The right to exclude a participant in connection with sanction proceedings remains reserved.

### **7.2.2 Consequences of terminating participation**

<sup>1</sup> Termination shall result in the cancellation of the participation agreement. Regardless of such termination, the participant must continue to fulfil all of its obligations to the companies of SIX Group.

<sup>2</sup> The Exchange shall publicly announce the termination of a participant's participation.

## **8. Possibilities of appeal**

<sup>1</sup> The participant may lodge an appeal with the independent Appeals Board against the following decisions by the Exchange:

- a) refusal to admit the participant;
- b) exclusion;
- c) refusal to register a trader; and
- d) revoking of a trader's registration.

<sup>2</sup> Proceedings shall be governed by the Rules that apply to the Exchange Appeals Board.

## II Trading

*The provisions of Part II govern the organisation of trading on the Exchange.*

### 9. General provisions

#### 9.1 Trading on the Exchange

<sup>1</sup> The Exchange distinguishes between on-order-book trading and off-order-book trading.

<sup>2</sup> A trade conducted via the order book shall be designated as an "on-exchange, on-order-book trade".

<sup>3</sup> A trade made off-order-book that the participant reports to the Exchange in accordance with Clause 11 is designated as an "on-exchange, off-order-book trade". Such trades shall be subject to the provisions of this Rule Book.

<sup>4</sup> An off-order-book trade that is not reported to the Exchange, but to a reporting office recognised by the Exchange or to a Trade Data Monitor (TDM), shall be designated as an "off-exchange trade". Such a trade is not subject to the provisions of this Rule Book.

#### 9.2 Market conduct

<sup>1</sup> The participant and its traders must comply with applicable market codes of conduct, in particular those laid down in Art. 143 FMIA and the FINMA Circular "Market Behaviour Rules" (FINMA-Circ. 2013/8), uphold the integrity of the market at all times and refrain from unfair trading practices. There must be an economic justification for securities transactions, and they must reflect a genuine relationship between supply and demand.

<sup>2</sup> In particular, the following trading practices are forbidden:

- a) concluding securities transactions and entering orders to give the impression of market activity or liquidity, or to distort market prices or the valuation of securities, as well as fictitious trades and orders;
- b) concluding securities transactions at prices that differ substantially from those set on the Exchange, where this compromises the integrity of the market;
- c) entering agreed buy and sell orders in the order book where the time elapsed between the entry of the order and the subsequent counter-order is not at least 15 seconds; and
- d) entering buy and sell orders in a single security for the same beneficial owner. The ban shall not cover simultaneous buy and sell orders for the participant's own account if the participant can prove that individual orders were entered independently of each other and without any form of agreement in the exchange system. The participant shall ensure the necessary precautions to prevent impermissible cross-transactions.

<sup>3</sup> Trades that are attributable to improper market conduct shall be cancelled by the Exchange or by the participant on the instruction of the Exchange. In the event of a trade which is off-order-book, such trades shall be rejected by the Exchange. Regardless of cancellation or rejection, sanctions of the Exchange remain reserved.

<sup>4</sup> The Exchange may issue regulations on short-selling. The details are laid down in the "Trading" Directive.

#### 9.3 Trading segments

<sup>1</sup> The Exchange shall define the market segments and allocate securities to these segments.

<sup>2</sup> The "Trading" Directive determines the trading details, specifically the market model, the cycle of a trading day, and trading hours, trading days and clearing days.

#### **9.4 Market control**

<sup>1</sup> The Exchange shall control trading and thereby promote the transparency, efficiency and liquidity of the securities market with the aim of treating investors and participants equally within their peer groups, and of protecting investors.

<sup>2</sup> The Exchange may interrupt trading, delete orders from the order book and declare invalid or cancel completed trades, or demand that participants reverse these trades.

<sup>3</sup> The details are laid down in the "Market Control" Directive.

#### **9.5 Market surveillance**

<sup>1</sup> The independent Surveillance & Enforcement (SVE) unit monitors trading with regard to its compliance with statutory requirements and the Rule Book.

<sup>2</sup> In particular, SVE shall monitor price-setting and trades in such a way that the exploitation of insider knowledge, price manipulations and other violations of the law can be identified.

<sup>3</sup> Should violations of the law or other improper events be suspected, the market surveillance unit shall notify the FINMA surveillance office and, where appropriate, the relevant criminal prosecution authorities.

#### **9.6 Reporting**

All trades on the Exchange, as described in Clause 9.1 para. 2 and 9.1 para. 3, are deemed to have been reported in the sense of FMIA.

#### **9.7 Trading publicity**

<sup>1</sup> The Exchange shall publish the details required to ensure the transparency of securities trading and transmitted by the participant or generated by the exchange system, specifically price information about the securities traded, and their trading volumes.

<sup>2</sup> The publication shall be made in good time.

<sup>3</sup> The details are laid down in the "Trading" Directive.

### **10. On-order-book trading**

#### **10.1 Order book**

<sup>1</sup> The Exchange maintains one or more order books for each security. These order books shall classify and manage all orders according to price and the time at which they are received by the Exchange.

<sup>2</sup> The orders contained in the order book are binding.

#### **10.2 Orders**

<sup>1</sup> An order is a binding offer to buy or sell a certain quantity of one security at an unlimited or limited price.

<sup>2</sup> Orders may be entered in the order book, amended or deleted, during set periods. All incoming orders shall be assigned a time stamp and an identification number. Amended orders shall lose their original time priority and be given a new time stamp.

<sup>3</sup> Orders must be flagged as follows:

- a) as agent trades, if trading takes place in the participant's own name but for the account of the client; and
- b) as nostro trades, if trading takes place in the participant's own name and for his own account.

<sup>4</sup> The details are laid down in the "Trading" Directive.

### 10.3 Market making

<sup>1</sup> The Exchange determines those trading segments in which trading is supported by market makers, and may admit one or more market makers for each security, as set out in Clause 5.

<sup>2</sup> The market maker undertakes to ensure a liquid market for the securities in question by performing the following functions for a given period within trading hours:

- a) providing bid and ask prices;
- b) offering minimum bid and ask volumes; and
- c) not exceeding a maximum bid-ask spread.

<sup>3</sup> Only participants that have entered into a market maker agreement are subject to market making provisions.

<sup>4</sup> The details are laid down in the "Trading" Directive.

### 10.4 Market model and price-setting rules

<sup>1</sup> The Exchange determines the market models and the rules that apply to price-setting in the order book.

<sup>2</sup> The details are laid down in the "Trading" Directive.

### 10.5 Special situations

<sup>1</sup> Special situations shall be defined as exceptional situations and emergency situations.

<sup>2</sup> The Exchange decides at its own discretion whether there is a special situation.

#### 10.5.1 Extraordinary situations

<sup>1</sup> Should an extraordinary situation arise, the Exchange may institute all the market control measures which it deems necessary to maintain fair and orderly trading as far as possible.

<sup>2</sup> The Exchange may intervene in trading as it considers necessary, in particular by delaying the opening of trading in a security, interrupting continuous trading in a security, deleting orders or declaring trades invalid.

<sup>3</sup> The following specific circumstances shall be deemed to be extraordinary situations:

- a) major price volatility, especially where a trade differs significantly from the market price;
- b) decisions or information which are to be published imminently and which might have a significant influence on the price of a security (price-sensitive facts); or
- c) other situations that might compromise fair and orderly trading.

<sup>4</sup> The details are laid down in the "Market Control" Directive.

### **10.5.2 Emergency situations**

<sup>1</sup> Furthermore, in emergency situations the Exchange may suspend directives in full or in part, including the Rule Book, and replace them temporarily with new provisions instead. In particular, the Exchange may instruct participants to transmit settlement orders to a recognised settlement organisation directly. The Exchange may also temporarily interrupt trading in full or in part.

<sup>2</sup> The following specific circumstances shall be deemed to be emergency situations:

- a) failure of the exchange system or the Exchange's access infrastructure or parts thereof;
- b) failure of a participant's access system;
- c) failure of the technical clearing and settlement infrastructure;
- d) force majeure; or
- e) other situations that might compromise fair and orderly trading.

<sup>3</sup> The details are laid down in the "Market Control" Directive.

### **10.5.3 Cancellation and reversal of trades**

<sup>1</sup> In special situations, the Exchange may declare trades invalid at its own discretion or upon application from one of the participants concerned.

<sup>2</sup> If the Exchange declares a trade invalid, it may cancel it or instruct the participants concerned to rectify the situation using the trade reversal function.

<sup>3</sup> The details are laid down in the "Market Control" Directive.

## **11. On exchange, off-order-book trades**

<sup>1</sup> The provisions of this Rule Book shall apply to off-order-book trades, if

- a) the parties agree prior to or at the time of the trade that it should be made according to the provisions of the Rule Book;
- b) the trade is reported to the Exchange in accordance with the provisions of this Rule Book; and
- c) the price of the reported trade passes an Exchange plausibility test.

<sup>2</sup> These conditions must be met in full. If one or more of them is not fulfilled, the provisions of the Rule Book shall not apply.

### **11.1 Reporting of trades to the Exchange**

<sup>1</sup> The following provisions shall apply to the reporting of trades to the Exchange:

<sup>2</sup> The details are laid down in the "Trading" Directive.

#### **11.1.1 Content of trade reports**

The report to the Exchange must contain the following information as a minimum:

- a) identification of the participant;
- b) description of the transaction type (buy/sell);
- c) identification of the securities concerned;

- d) scope of execution (nominal value for bonds, units for other securities);
- e) price;
- f) time of execution (trade date and time);
- g) value date, if this differs from the general rule;
- h) whether the trade was a nostro or a client transaction;
- i) designation of the counterparty (participant, other securities dealer, client);
- j) exchange ID; and
- k) trade type.

#### **11.1.2 Trade reporting deadlines**

<sup>1</sup> Trades must be reported to the Exchange within the set deadlines.

<sup>2</sup> The Exchange shall determine the maximum reporting deadlines for each market segment.

#### **11.1.3 Reporting functions**

##### a) Two-sided Trade Report

<sup>1</sup> The participant must report trades with another participant to the Exchange as a two-sided Trade Report. The Exchange forwards information on transactions to the relevant settlement organisation.

<sup>2</sup> The participant must report trades with non-participants with Securities Dealer status as a two-sided Trade Report. Such trades are not settled automatically.

##### b) One-sided Trade Report

The participant must report trades with non-participants to the Exchange as an one-sided Trade Report. Such trades are not settled automatically.

#### **11.1.4 Correction of Trade Reports**

<sup>1</sup> Participants themselves are responsible for fulfilling the reporting obligation.

<sup>2</sup> Trades reported incorrectly must be corrected by the participant.

<sup>3</sup> The Exchange may delete a Trade Report upon application by the participant.

## **12. Use and publication of market information**

<sup>1</sup> While upholding the professional confidentiality regulations laid down in Art. 147 FMIA, the Exchange shall publish market information such as price information, turnover figures and other data.

<sup>2</sup> The participant and its traders may use the market information transmitted via the exchange system.

<sup>3</sup> The Exchange may charge a fee for the distribution of market information by participants and third parties.

<sup>4</sup> The details are laid down in the "Market Information" Directive.



## III Clearing and settlement

*The provisions of Part III govern the clearing and settlement of on-exchange trades.*

### 13. General provisions

<sup>1</sup> Securities trades shall be cleared and settled without the involvement of a central counterparty.

<sup>2</sup> The details are laid down in the "Trading" Directive

#### 13.1 Execution of trades

<sup>1</sup> The transfer and payment of trades must occur two trading days after the trade itself (T+2) ("value date").

<sup>2</sup> The exceptions are laid down in the "Trading" Directive

#### 13.2 Clearing and settlement instructions

<sup>1</sup> The Exchange forwards information on transactions directly to the relevant settlement organisation on behalf of the participants or agents concerned.

<sup>2</sup> The Exchange forwards information on Delivery Reports directly to the relevant settlement organisation on behalf of the participants or agents concerned.

<sup>3</sup> The Exchange does not forward any instructions to the settlement organisation in respect of trades that are reported to the Exchange using the trade report function.

## 14. Contractual provisions

### 14.1 Contracting parties

A trade shall give rise to a contractual relationship between the participants concerned. The contracting parties shall bear the counterparty risk.

### 14.2 Content of contract

The contract concluded as described in Clause 14.1 must include the following content, unless the participants concerned conclude other agreements:

#### 14.2.1 Derivatives

<sup>1</sup> The rights and obligations as well as all risks attached to the securities sold are transferred to the buyer upon conclusion of the contract.

<sup>2</sup> Exchange rate for derivatives denominated in foreign currencies. The Exchange shall define the exchange rates that apply to derivatives denominated in foreign currencies.

#### 14.2.2 Material warranty

<sup>1</sup> The buyer must immediately check the securities they receive. Should he identify any defects with regard to their external condition, he must submit a complaint to the seller within two trading days of receipt at the latest.

<sup>2</sup> The complaint period for other defects runs for thirty days from the effective date of transfer. Complaints in respect of defects that are not identifiable in a routine check may be submitted for one year after the transfer of the securities. The complaint must be made no more than 14 days after the defect is discovered.

<sup>3</sup> Notice of defects given within the set time period shall give rise to a claim to have the defective securities exchanged for units without any defects, but not to any conversion or reduction of the purchase price.

#### **14.2.3 Legal warranty**

The Buyer shall continue to be covered by the entitlement to legal warranty of title as described in Article 192 et seq. CO, even if it has not exercised the right of exchange specified under Clause 14.2.2. This claim shall become time-barred after ten years.

#### **14.2.4 Consequences of default (buy-in)**

If a trade cannot be settled on the value date because the selling participant that is in default ("defaulting seller") does not hold the securities, the defaulting seller shall have a further two trading days during which to buy in the missing securities (buy-in on the part of the defaulting seller). The defaulting seller must reimburse the buying participant ("buyer") all direct and indirect costs that it may incur (including costs related to any securities borrowing operation).

If the defaulting seller is not itself able to obtain and deliver the missing securities by no later than noon CET four trading days after the value date (T+6) at the latest, the buyer shall itself be entitled to buy in the same volume of missing securities. The buyer must notify the Exchange and the defaulting seller of its intention to undertake such a buy-in by midnight of the preceding trading day at the latest.

The defaulting seller must bear the costs incurred by the buyer as a result of the buy-in, in particular the difference in price if the price of the securities in question has risen. If the price of the securities has fallen, the defaulting seller shall not have any right to a refund of this difference.

If the buyer's buy-in cannot be effected on day T+6 owing to a lack of trading liquidity in the securities, the buyer shall be entitled to attempt a buy-in for a further 14 trading days, i.e. up to T+20.

Once a buy-in has been affected, the buyer must inform the Exchange and the defaulting seller on the same day, notifying them of the settlement details by fax or electronically.

#### **14.2.5 Applicable law and arbitration clause**

The contract between the participants shall be subject to Swiss law. The jurisdiction is governed by Clause 23.

### **14.3 Execution**

<sup>1</sup> Trades that do not involve a central counterparty must be settled via a settlement organisation recognised by the Exchange.

<sup>2</sup> The participant shall be responsible for ensuring that settlement instructions for trades that are reported to the Exchange using the trade report function are forwarded to the settlement organisation.

<sup>3</sup> The securities must be paid for in the agreed currency.

## IV Monitoring and enforcement

*The provisions of Part IV govern the monitoring of Rule Book compliance and enforcement. They also lay down the sanctions that the Exchange may impose on participants and their traders.*

*Sanction proceedings follow the Exchange's Rules of Procedure.*

### 15. Duties to provide information

While upholding bank client confidentiality, the Exchange is entitled to demand from participants all such information as it requires to enforce the Rule Book. Specifically, it may conduct inspections and question traders.

### 16. Audit

<sup>1</sup> The Exchange may, at any time, require participants to appoint a recognised audit firm or, at the request of the participant, the latter's internal auditors, to check compliance with certain provisions of the rules and regulations. Under special circumstances, the Exchange may also require participants at any time to have certain procedures and transactions reviewed with regard to their conformity with the Rule Book. While upholding bank client confidentiality, the participant must then submit a summary report of this audit to the Exchange.

<sup>2</sup> If the participant does not appoint an audit firm, one shall be appointed for it by the Exchange.

<sup>3</sup> The participant bears the costs of audits required by the Exchange.

### 17. Violations of the Rule Book

Where the provisions of the Rule Book have been violated, the Exchange may impose sanctions on participants and/or traders. Specifically, sanctions shall be imposed in response to the following actions or non-actions:

- a) violation of the rules and regulations of the Exchange;
- b) breach of contractual agreements with the Exchange;
- c) non-compliance with orders from the Exchange;
- d) attempted or actual damage to the exchange system;
- e) attempted or actual manipulation of or modifications to the exchange system, specifically its technical interfaces;
- f) improper use or passing on of Exchange software or data received from the exchange system;
- g) obstructing the auditors in the performance of their duties; and
- h) failure to cooperate in sanction proceedings and failure to observe a sanction order, a sanction decision or an arbitral ruling.

### 18. Sanctions

<sup>1</sup> The following sanctions may be imposed:

- a) against a participant: reprimand, suspension or exclusion; fine and/or contractual penalty of up to CHF 10 million;
- b) against a trader: reprimand, suspension or revoking of registration.

<sup>2</sup> Decisions on the imposing of sanctions shall take into account the gravity of the violation, the degree of fault, and any previous sanctions imposed on the participant or trader.

<sup>3</sup> The sanctions imposed on participants or traders, as well as the underlying violations, may be disclosed to the public and other participants.

## V Final provisions

### 19. Confidentiality

<sup>1</sup> The Exchange, its governing and executive bodies, employees and agents shall be subject to the professional confidentiality regulations laid down in Art. 147 FMIA.

<sup>2</sup> Notwithstanding provisions to the contrary in law or this Rule Book, the Exchange shall treat as confidential all participant-related information that it receives in connection with the Rule Book.

<sup>3</sup> The use and publication of market data (such as price information and trading turnover and number of securities transactions) in market statistics as well as for transparency purposes is allowed if it cannot be concluded which participants are behind them.

<sup>4</sup> The Exchange may disclose data to SIX Group group companies and third parties, such as clearing and settlement organisations, provided the Exchange ensures that these parties are bound by confidentiality provisions that are comparable to those of this Rule Book.

<sup>5</sup> Notwithstanding any imperative provisions in law, the Exchange may pass information on participants to supervisory authorities, the surveillance units of other exchanges and enforcement authorities, and may itself obtain information from such authorities.

### 20. Partial invalidity

In the event that individual provisions of this Rule Book are or become invalid, the validity of the remaining provisions remains unaffected. Should individual provisions of this Rule Book be or become wholly or partially ineffective, they must be interpreted in a way that restores their effectiveness. Where this is not possible, the Exchange shall issue a new rule within a reasonable period and enact it in accordance with the provisions on amendments to this Rule Book.

### 21. Amendments to the Rule Book

This Rule Book may be amended at any time. Participants shall be notified of such amendments in good time before they take effect. The amendments shall also be published on the Exchange website. The amendments shall be binding on the participant unless the participant rejecting the changes terminates its participation agreement in writing before the amendments enter into force.

### 22. Binding nature

<sup>1</sup> With their admission, the participant shall expressly acknowledge the Rule Book and the Exchange's other regulatory provisions and agree to be bound by them.

<sup>2</sup> In the event of any incongruent, the German version of the Rule Book and the Directives takes precedence over any and all other language versions.

### 23. Applicable law and arbitration clause

<sup>1</sup> This Rule Book is subject to the substantive laws of Switzerland. It has been issued in the context of self-regulation activities, as described in Art. 27 FMIA. This choice of law also applies to all of the legal issues referred to in Art. 2 para. 1 of the Hague Securities Convention.

<sup>2</sup> Disputes with SIX Structured Products Exchange Ltd. and the regulatory bodies (currently: these are Regulatory Board, SIX Exchange Regulation, the Sanction Commission and the Appeals Board), in particular those concerning sanctions that have been imposed, shall be decided solely and finally by their Zurich-based arbitration court, and only once internal channels of appeal have been exhausted in accordance with the above legal principles. The arbitration court comprises one chairman and one arbitrator appointed for each party for the case at hand. The chairman and his deputy are appointed by the President of the Swiss Federal Supreme Court for a four-year term of office. If several parties are plaintiffs or defendants, they agree on one common arbitrator otherwise the corresponding arbitrator will be appointed by the competent court. The chairman may conduct verbal arbitration proceedings. The third part of the Swiss Federal Code of Civil Procedure (Schweizerische Zivilprozessordnung) is applicable to the arbitration proceedings. In any case a possible arbitration code passed by the Regulatory Board supercedes the Swiss Federal Code of Civil Procedure and Chapter 12 of the Federal Statute on Private International Law (Bundesgesetz über das internationale Privatrecht [IPRG], SR 291) is expressly excluded.

## 24. Transitional provisions

<sup>1</sup> Participant admission procedures that are currently ongoing will be handled in accordance with the new provisions.

<sup>2</sup> Sanction proceedings that are currently ongoing will be handled in accordance with the old provisions.

<sup>3</sup> Sanction proceedings that do not begin until after this Rule Book has entered into force will also be handled in accordance with the old provisions, provided the actions or omissions on which they rest took place under the old law.

## 25. Entry into force

<sup>1</sup> This Rule Book was decided by the Board of Directors on 10 September 2010 and by the Regulatory Board on 1 October 2010 and shall enter into force on 1 November 2010.

<sup>2</sup> FINMA approved the Rule Book on 7 October 2010.

## 26. Revision

<sup>1</sup> The revision of Clauses 3.2 and 23 that was decreed by the Board of Directors on 11 May 2012 and by the Regulatory Board in its resolution of 2 November 2011 was approved by FINMA on 21 November 2011 and enters into force on 10 December 2012.

<sup>2</sup> The revision of Clauses 11.1.1, 11.1.3 -11.1.4 that was decreed by the Board of Directors on 23 July 2012 and by the Regulatory Board in its resolution of 20 August 2012 was approved by FINMA on 11 September 2012 and enters into force on 10 December 2012.

<sup>3</sup> The revision of Clause 9.2 that was decreed by the Board of Directors on 8 May 2013 and by the Regulatory Board in its resolution of 4 April 2013 was approved by FINMA on 3 October 2013 and enters into force on 11 November 2013.

<sup>4</sup> Change of name from Scoach Switzerland Ltd. to SIX Structured Products Exchange Ltd. and adjustment to superordinate law in Clause 9.2 as of 1 January 2014.

<sup>5</sup> The revision of Clauses 11.1 and 13.2 that was decreed by the Regulatory Board in its resolution of 23 December 2013 was approved by FINMA on 12 February 2014 and enters into force on 7 April 2014.

<sup>6</sup> The revision of Clause 13.1 that was decreed by the Regulatory Board in its resolution of 10 April 2014 was approved by FINMA on 13 May 2014 and enters into force on 6 October 2014.

<sup>7</sup> The revision of Clauses 13.1 and 14.2.4 that was decreed by the Regulatory Board in its resolution of 17 July 2015 was approved by FINMA on 1 September 2015 and enters into force on 26 October 2015.

<sup>8</sup> Amendments due to the entry into force of the Financial Market Infrastructure Act and related ordinances in Points 1, 3.2, 4.4, 9.2, 9.6, 12, 19 and 23 as of 1 April 2016.