



COSI[®] – Collateral Secured Instruments

Investing with Minimum Issuer Risk



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 COSI[®]s 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 (COSI[®]s) are backed with collateral in the form of securities or cash deposits 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. The latter is decisive in establishing the legal stature of investors and is made available to them cost-free upon request.

Product requirements/secondary listings

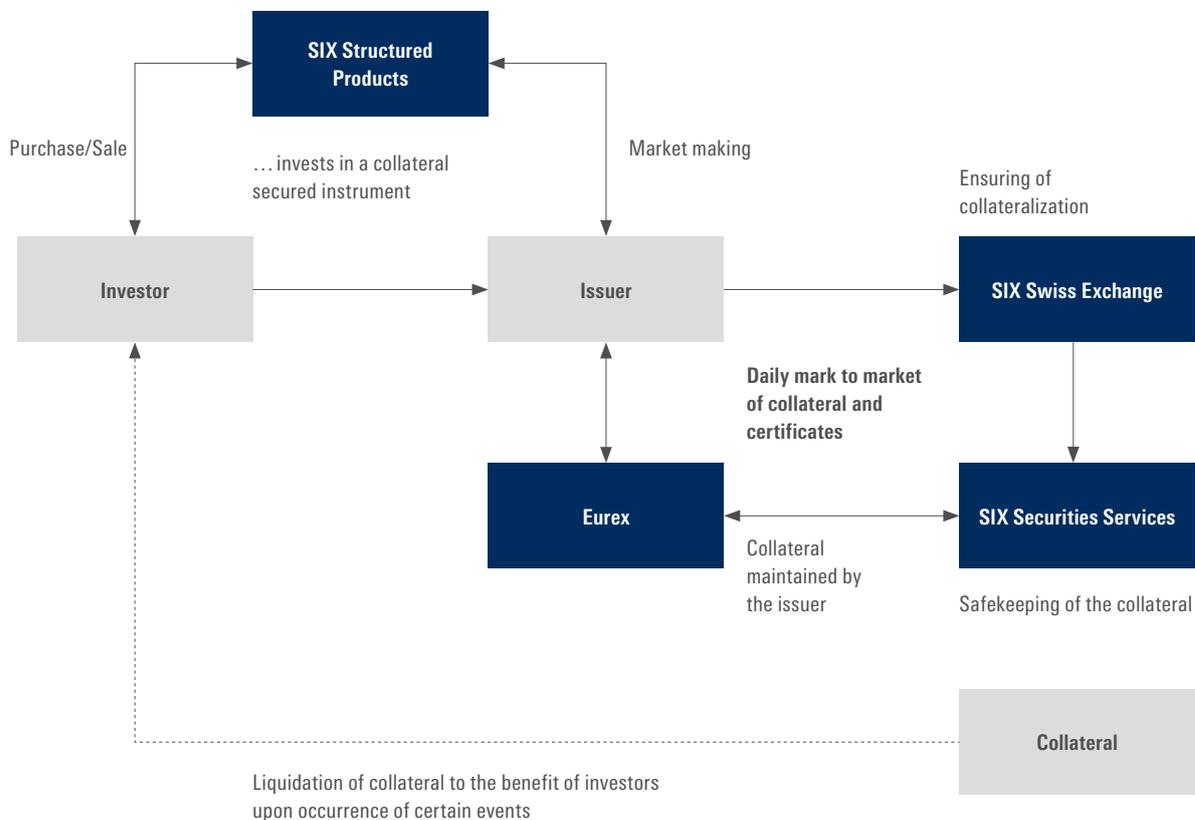
All COSI[®] products can be traded on the SIX Structured Products derivatives exchange and go through the SIX Exchange Regulation listings admission procedure. The issuer commits to regular market making in COSI[®] products. COSI[®] products may, optionally, also be traded on other exchanges via a secondary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

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

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 Securities Services. 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:

- Derivative Partners Research Ltd, Zurich
- Deriva SPI Ltd, Bruettisellen
- European Derivatives Group Ltd, Zurich
- swissQuant Group Ltd, Zurich
- SIX Financial Information Ltd, Zurich

Stringent requirements for collateral

Apart from cash deposits, 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).
- Shares that are included in recognized stock market indices (10% haircut).
- Cash deposits in CHF, EUR, GBP, JPY and USD (no 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 brochure containing details of cases of collateral liquidation is available for download at www.six-structured-products.com/cosi-certificates.

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 pro-rata 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.

For more Security

SIX Structured Products Exchange Ltd

SIX Structured Products Exchange Ltd (formerly Scoach Schweiz Ltd) runs the Exchange for Structured Products in Switzerland and is a wholly owned subsidiary of SIX Swiss Exchange. The Exchange for Structured Products in Zurich is characterized by a high level of investor protection, active market management and a fully electronic trading system. It trades only in products that have passed through the regulated SIX Swiss Exchange listing process and that satisfy clear requirements for investor security. Trading on SIX Structured Products is subject to strict rules. This guarantees both transparent and fair dealings for all market participants and the equal treatment of issuers and investors alike.

www.six-structured-products.com



This fact sheet 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 an investor in COSI is determined solely by the provisions of the Framework Agreement. In the event of contradictions between the provisions of the Framework Agreement and this information sheet, the Framework Agreement takes precedence.

None of the information contained herein constitutes an offer to buy or sell a financial instrument that is traded on SIX. SIX Group and its direct and indirect subsidiaries (hereafter: SIX) are liable neither for the completeness and accuracy 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 product composition at any time.

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