



# COSI<sup>®</sup> - Collateral Secured Instruments

Information on collateral secured COSI<sup>®</sup> certificates

## The minimal counterparty risk of COSI<sup>®</sup> products

From a legal perspective, structured products are classified as bearer debt instruments. For investors, this brings with it the problem of issuer risk in addition to the market risk that any investment entails. The level of issuer risk always depends on the creditworthiness of the issuer. If an issuer is unable to meet its payment obligations, the capital invested in that issuer's structured products is at risk. This is where COSI<sup>®</sup> (Collateral Secured Instruments) come in: Thanks to collateral deposited with SIX, which can be sold on behalf of investors in the event of solvency problems, investors can now minimize the issuer risk and thus continue to benefit from the interesting payout profiles of structured products.

## Robust and cost-effective collateral mechanism

By putting up collateral in the form of the securities or cash deposits, issuers can minimize the counterparty risk for investors. The provider of the collateral – typically the issuer of the collateral secured certificate – deposits certain specifically-defined securities to the value of the outstanding COSI<sup>®</sup> product. For each collateral secured certificate issued, the collateral required is booked into a custody account of SIX Swiss Exchange held with SIX SIS. The collateral provided must remain in place for the entire term of the certificate in question.

## Product prerequisites

Collateral may only be deposited for certificates that are listed on SIX Swiss Exchange. As a general rule, any structure may be collateralized. More than 10 trading currencies are currently available, including gold (XAU). Maturities may not exceed 10 years, however.

## Collateral requirement recalculated on a daily basis

The securities provided as collateral must be of sufficient value to satisfy the potential claims of investors at all times. Because both the value of collateral secured products and the value of the collateral in question continually fluctuate, any difference must be made good by the collateral provider on a daily basis. Whenever a collateral secured product appreciates or the value of its collateral falls, a

'margin call' is triggered and the issuer must provide additional collateral. In the opposite case, the collateral surplus is returned to the issuer. Furthermore, a specific collateralization margin (so-called «haircut») is applied depending on the type of collateral pledged, thereby defining the extent of the collateral required. This means that COSI<sup>®</sup> products may potentially be overcollateralized.

## Fair and independent valuation

In order to ensure that collateral of sufficient value is in place in the event of solvency problems, the market price of a collateral secured product quoted on Scoach is validated on a daily basis by independent companies. Two methods may be used for this valuation:

- The fair value method: In addition to the bid price quoted by the issuer, prices calculated by third parties are also taken into account.
- The bond floor method: In addition to the issuer's bid price, the so-called bond floor is calculated at the behest of the Swiss Federal Tax Administration.

The precise rules can be found in the «Information for investors in Collateral Secured Instruments» factsheet by SIX Swiss Exchange at [www.six-swiss-exchange.com](http://www.six-swiss-exchange.com).

## Stringent requirements for collateral

Apart from cash deposits, only recognized securities that fulfill specific liquidity criteria are permissible for collateralization purposes. These include:

- Securities accepted by the Swiss National Bank in conjunction with repo transactions (SNB basket).
- Selected securities accepted by the European Central Bank (ECB basket).
- Equities that are included in recognized stock market indices.
- Cash deposits in CHF, EUR, GBP, JPY and USD

In order to enhance investor protection, SIX Swiss Exchange applies further exclusion criteria to the securities described.

### Collateral liquidation

The deposited collateral may be liquidated not just in the event of insolvency, but also in the following situations:

- 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) or by a comparable foreign authority
- the violation of market-making obligations
- the lapse or cancellation of provisional admission to trading of the collateral secured certificates without satisfying investors' claims
- delisting of the collateral secured certificates without satisfying investors' claims

### Investor compensation

If a collateral secured product becomes due for payment as a result of liquidation, 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 a structured product. This fee may be taken

into account in the pricing of the certificate, which is always at the discretion of the issuer.

### The limits of collateralization

Collateralization only protects the investor against issuer default risk. In particular, the market risk arising from fluctuations in the price of the structured products and the collateral, as well as any additional risk in connection with reference bonds, is borne fully by the investor.

### Only products marked COSI® offer COSI® protection

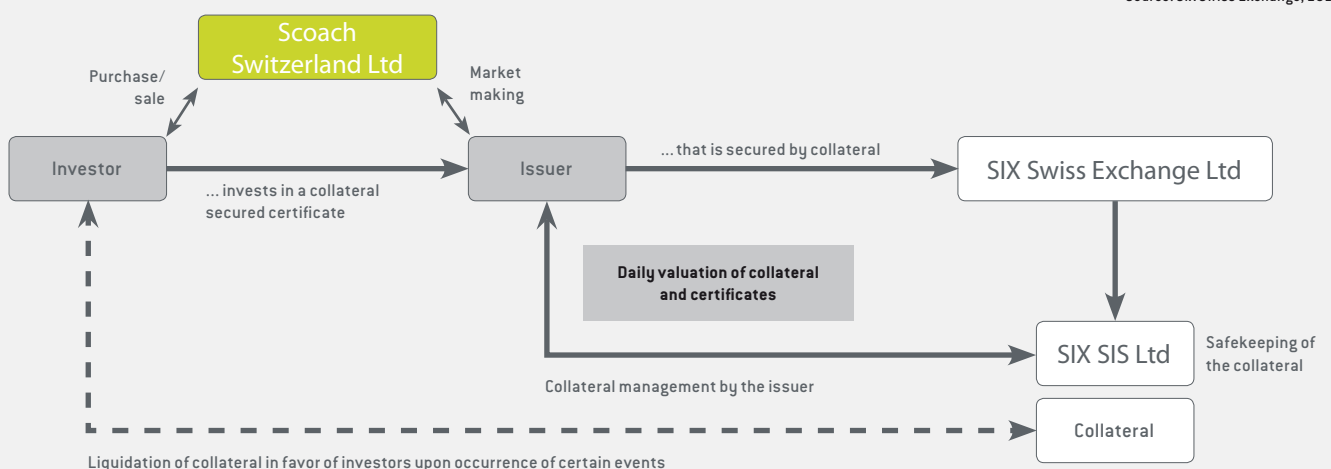
The COSI® quality seal denotes structured products that are collateralized under the special regulations of SIX Swiss Exchange and trade on Scoach, the exchange for structured products. Thanks to this readily identifiable trademark, investors can quickly distinguish between COSI® products and other structured products.

### Regular information on COSI®

The COSI® newsletter provides you with information on the latest developments and trends in the COSI® segment on a quarterly basis. Simply subscribe at [www.scoach.ch/cosi](http://www.scoach.ch/cosi)

### The collateralization mechanism at a glance

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