



COSI® NEWSLETTER

Information on collateral secured COSI® certificates

SPECIAL EDITION

STRUCTURED PRODUCTS FAIR

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Happy birthday: Three years of COSI®!

As summer turns into autumn and the leaves begin to fall from the trees, it is a good time to have a first look back at 2012. So far this financial year has been an exciting one, calm is yet to be restored on the markets and this autumn promises to be a hot one – especially given the upcoming US presidential election. Three years after the launch of the first collateral-secured products, it is clear that the COSI® segment is still as topical as ever. And better still, thanks to the segment's capacity to innovate and the steady increase in providers and services, it occupies an extremely successful position in the landscape for structured investment products. To mark the third anniversary of the segment, we have summarized the milestones in the history of collateral-secured products in the lead article to give you an overview of what has been achieved. You can read more about this on pages 6 and 7.

In addition to an easy-to-understand report on how collateral-secured products work, Matthias Müller, Head COSI® Product Management at SIX Swiss Exchange, and André Buck, Head Marketing & Sales at Scoach Switzerland, provide an insight into the world of COSI®. What was required to launch this segment, what have been the highlights of the past three years, and how will the segment develop in future? You can find the answers to these questions on pages 8 and 9.

As always in autumn, the annual Structured Products Fair will soon open its doors again at the Kongresshaus in Zurich. In addition to numerous providers from the financial sector, Scoach and SIX Swiss Exchange will have a stand at the fair. You can find out how to get a free ticket for the event in the COSI®-News section.

We look forward to seeing you at the Structured Products Fair in Zurich on 24 and 25 October!

Your COSI® editorial team.

COSI® – Minimizing default risk with collateralization

From a legal perspective, structured products are bearer debt instruments. One disadvantage of this is that in addition to market risk – which exists for any investment – investors are also subject to full issuer risk, which depends on the creditworthiness of the issuer in question. This is not the case for COSI®, where issuers must provide certain collateral for every product. This collateral may take the form of bonds, cash or selec-

ted equities and is held in an account by SIX Swiss Exchange; if the worst comes to the worst, it is liquidated, with the proceeds going to investors. Sufficient collateral has to remain in place for the entire term of the product. Partial collateralization is not possible; the entire value of the newly issued structured product has to be deposited. You can find an overview of the types of collateralization for investment products below:

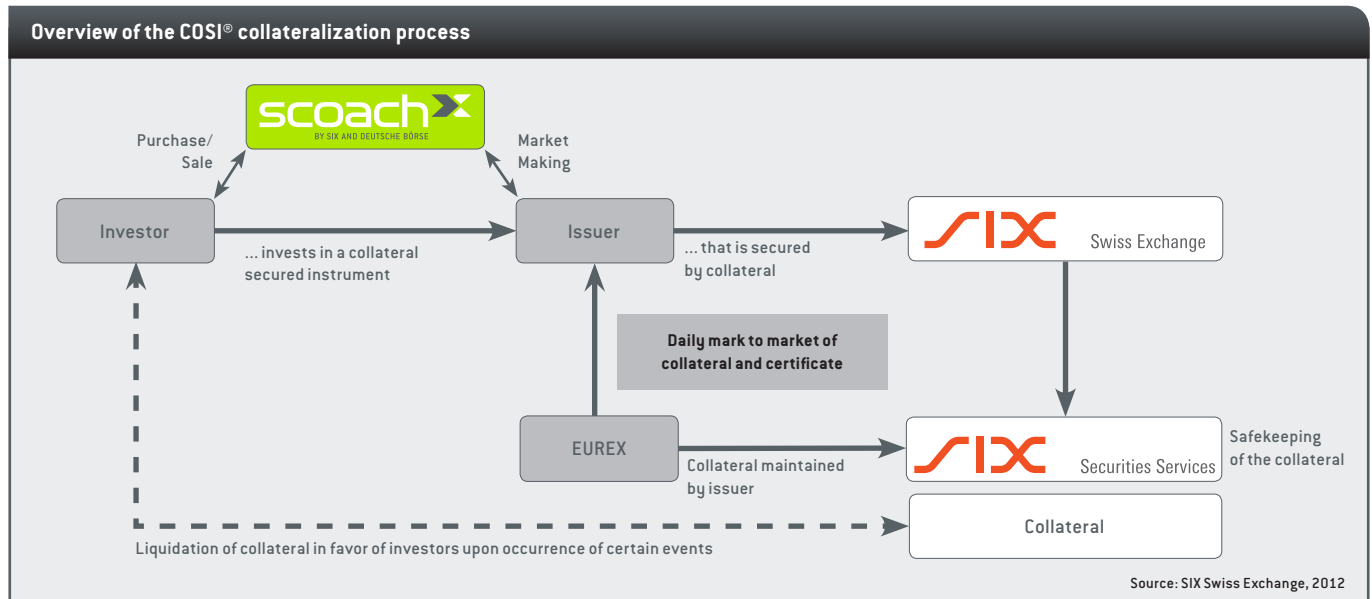
| Counterparty risk of various investment instruments | | |
|---|--|--|
| Instruments | Counterparty risk | Collateralization |
| Bond | yes | none |
| Structured Product | yes | none |
| Structured Product with COSI® | very limited | yes |
| Swap-based ETF and ETSF | yes, but limited to 10% of the fund assets | no |
| Swap-based and secured ETF | yes, but limited to 10% of the fund assets | yes, over-collateralisation of the 10% counterparty risk |
| Fully replicated ETF | n/a | not needed |
| Investment fund | n/a | not needed |

Source: Derivative Partners Media AG

Liquidation of collateral for COSI® products

If certain events occur, the collateral deposited will be liquidated; this means that it is sold at its market value and is paid out to investors on a pro rata basis. Such an event can occur, for example, if an issuer cannot provide the required collateral in due time, or if the collateral is in any way inadequate. Collateral is also liquidated if the issuer experiences any payment or delivery difficulties when the product reaches the end of its term.

If a liquidation event occurs, SIX Swiss Exchange determines the current values of all collateral-secured products of the issuer in question. Investors are entitled to receive a share of the liquidation proceeds that corresponds to the current value of their collateral-secured product. If the current value of the product is higher than the liquidation proceeds, investors are paid on a pro rata basis.



Composition of the collateral

The amount of the collateral is based on the current value of a collateral-secured structured product. All COSI® products and the corresponding collateral are checked on a daily basis, with the collateral being adjusted as necessary. The issuer must provide additional collateral if the current values of the collateral-secured products increase or the value of the deposited collateral falls. The following types of securities can be used to collateralize a structured product:

- Securities that are accepted by the Swiss National Bank as part of a repo transaction
- Selected securities that are accepted by the European Central Bank
- Equities that are included in a recognized equity index, whose acceptance criteria ensure that there is sufficient market liquidity
- Cash (CHF, EUR, GBP, JPY, USD)

Methods used to calculate the value of COSI® products

A key element of collateralization is the independent valuation of COSI® products. In an extreme situation, if the issuer can no longer quote a „fair“ repurchase price in the secondary market, a set of regulations ensures that investors will not incur losses as a result. The current values are recalculated on every bank working day in the respective trading currency of the COSI® product. These values are then used to determine the required amount of collateral in Swiss francs. Issuers must disclose the valuation method used to value COSI® products (fair value or bond floor) in their prospectus and term sheet. The fair value method uses prices calculated by third parties to determine the value of COSI® products. The bond floor method can only be used for capital-protected products. One of the factors it takes into account when calculating the value is the bond floor of the relevant product, which in turn is calculated in line with the requirements set out by the Swiss Federal Tax Administration.

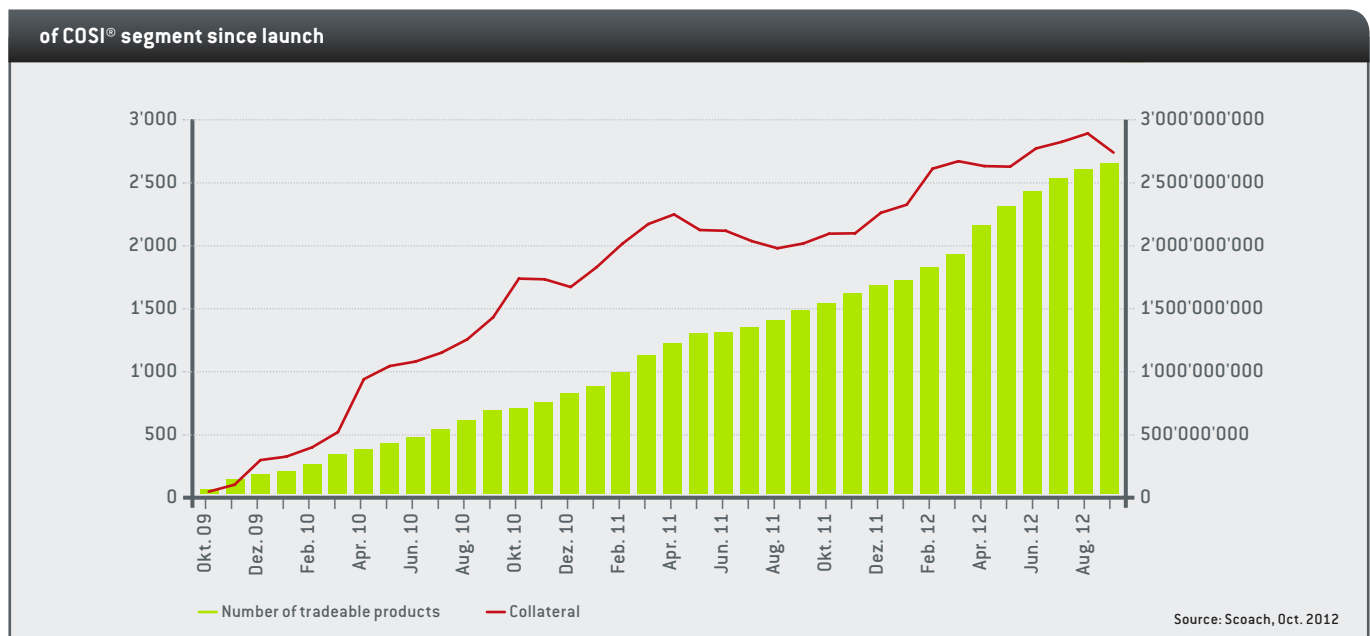
Three years of COSI® – the milestones for collateral-secured products

The first collateral-secured COSI® products were issued around three years ago, at a time when we were still feeling the aftershocks of the financial crisis brought on by the collapse of Lehman Brothers. The last three years have clearly shown that the segment is completely legitimate and is still as topical as ever. This is also reflected in how the COSI® segment has developed.

Development

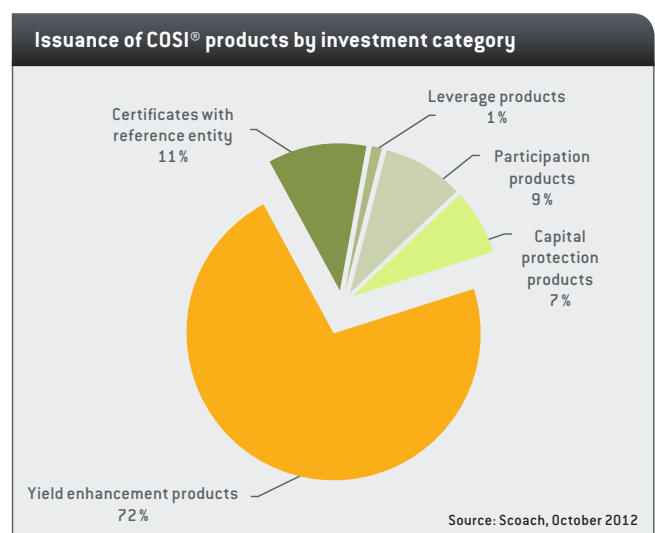
Three years after the launch of the first COSI® products, there were 2,569 tradable collateral-secured products at the end of September 2012. Compared to just a year ago (September 2011), this is nearly twice as many products. As at the end of the quarter, the outstanding volume of COSI® products amounted to around CHF 2.7 billion. The CHF 1 billion mark was passed for the first time in May 2010, with the volume passing 2 billion in March 2011. The highest volume ever traded on a single day is CHF 70 million, which was achieved on 13 September 2011.

Number of tradeable products and collateral in CHF



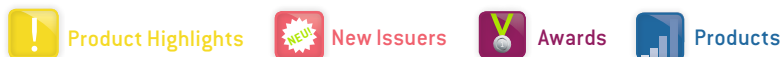
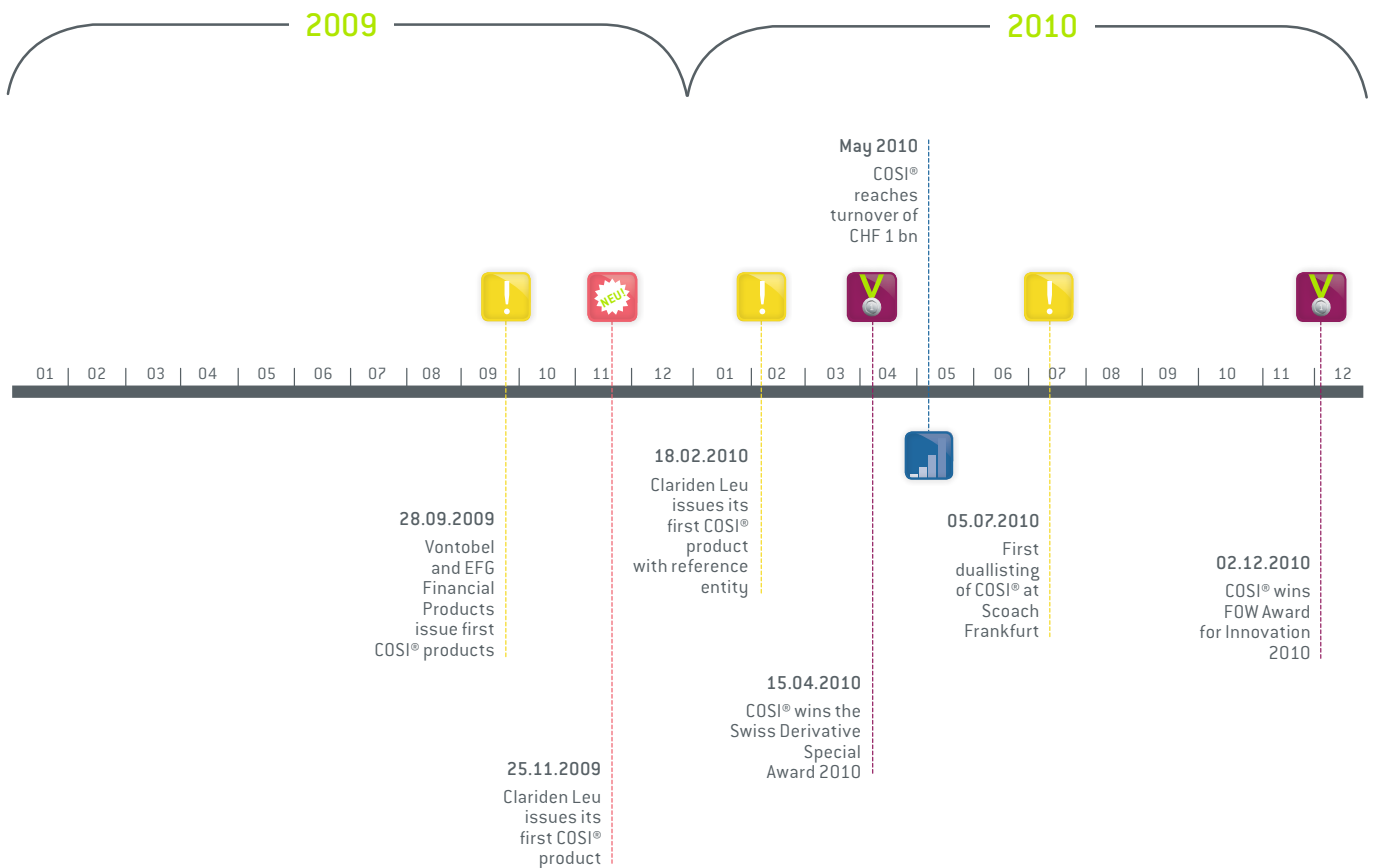
The most popular underlyings and structures

By far the most popular type of COSI® products are yield enhancement products – in particular barrier reverse convertibles. These make up around 50% of collateral-secured products. Investment products with reference entities already have an 11% share, even though this type of product is relatively new. Contrary to what might be expected, the most popular type of underlying is not a Swiss security or index, but the Euro STOXX 50® Price Index, which contains the 50 most important listed companies in the Eurozone. 3.8% of all COSI® products are based on this index, closely followed by six Swiss blue chips, which together make up a further 15%.



COSI®-Milestones:

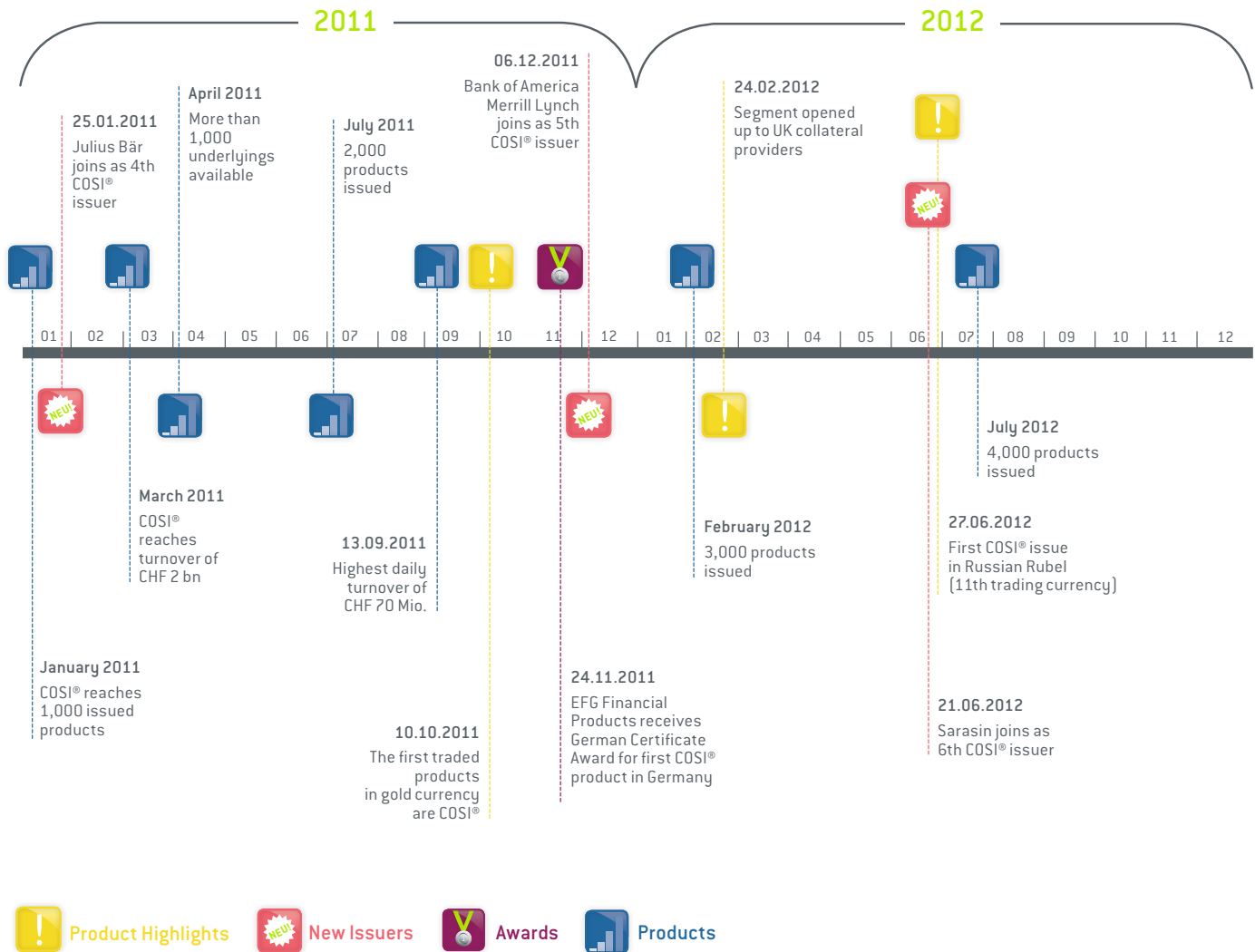
A continuous success



COSI® milestones

The COSI® segment is constantly growing, with new underlyings, product categories, currencies and other innovations. An example of this is the introduction of gold (XAU) as a trading currency. By offering products denominated in XAU, COSI® enables investors to actively manage a mostly non-interest-bearing

precious metal account, or if such an account does not exist, to invest directly in gold. An additional dimension was added to the COSI® segment following the launch of structured products with reference entity. The additional feature of a reference entity allows investors to actively manage their debtor risks in



structured products. Thanks to the collateral security offered by COSI®, the debtor risk of the reference bond can be specifically isolated. While COSI® is a Swiss invention, that is not to say that the concept has not become popular outside of Switzer-

land, as evidenced by the introduction of dual listings in Germany. Another example is the opening up of the COSI® segment to foreign collateral providers in 2012 (e.g. for the UK), which was driven by significant demand from issuers and their clients.



Matthias Müller is Head COSI® Product Management at SIX Swiss Exchange and is responsible for the implementation of various strategic initiatives in the area of structured products.

André Buck is Head Marketing & Sales at Scoach Switzerland. He is also chairman of the association that helps organize the annual Structured Products Fair and is a member of the SSPA Risk Commission.



Interview with André Buck, Head Marketing & Sales, Scoach Switzerland and Matthias Müller, Head COSI® Product Management at SIX Swiss Exchange, on the emergence and development of collateral-secured products

What were the greatest challenges faced when launching COSI®?

Müller: *When so many different parties are involved, it is always a challenge to reconcile all the various interests and opinions. The COSI® segment was created for extreme market conditions in which an issuer can no longer fulfill its payment obligations. While protecting investors is the main priority in this, the issuing bank is also exposed to a risk with COSI® that should not be underestimated, as certain predefined events can lead to the collateral being liquidated immediately, which in turn would have far-reaching consequences for the bank. This sort of consideration has the potential for a conflict of interests and had to be resolved for the service to receive broad market acceptance.*

Could you briefly outline the benefits of COSI® products.

Buck: *The solution developed by SIX Swiss Exchange, Scoach and the issuers meets the requirements of investors, issuers and stock exchanges alike. Investors benefit from the flexibility and innovation offered by collateral-secured products, while issuer default risk is largely eliminated. COSI® also offers investors additional protection against counterparty risk without limiting the huge pay-off flexibility of structured products. Three years in, the COSI® segment has shown itself to be exceptionally diverse and innovative. Investors can choose from around 1,000 tradable underlyings and over 20% of all investment products at Scoach are already collateral-secured. Innovations such as COSI® products denominated in gold or COSI® products with reference entities open up attractive prospective returns – even when faced with very challenging market conditions.*

Which COSI® structures are especially popular?

Buck: *As is the case for structured products that are not collateral-secured, the multi-barrier reverse convertible also tops the list when it comes to COSI® products. There are currently over 1,200 such products available to investors. Products with reference entities are also becoming increasingly popular. These products offer additional return potential thanks to their reference entity component – and at the same time they help minimize issuer risk thanks to COSI®.*

Which COSI® services do SIX Swiss Exchange and Scoach Switzerland offer?

Müller: *SIX Swiss Exchange holds the collateral in favor of the investor and is responsible for all the data processing, calculating the current value of the COSI® products and all processes regarding the admission to and maintenance of trading. However, in addition to SIX Swiss Exchange and Scoach Switzerland, a number of other important companies in Switzerland's financial center also play a key role in the COSI® collateralization process. The actual collateral management process, that is to say the management and valuation of the collateral, is handled by our sister company SIX Securities Services together with our partner Eurex Zurich.*

Buck: *Scoach Switzerland also publishes a quarterly newsletter, which is produced together with SIX Swiss Exchange's COSI® Product Management team and provides an in-depth look at developments in the COSI® segment. It contains interesting discussions on individual aspects, interviews and COSI® news. You can subscribe to the newsletter free of charge at scoach.ch/cosi.*

Does the COSI® concept actually pay off in the event of collateral being liquidated?

Müller: *We didn't develop COSI® to be a fair-weather solution; the protection mechanism was designed to withstand extreme market situations. There are precisely defined processes in place, which ensure not only efficient daily operations for over 2,500 products, but also smooth settlement should a liquidation event occur. In an emergency, we want to ensure that investors get their money back in good time.*

What does the future hold for the COSI® segment?

Müller: *For us it is important that as many investors as possible have access to collateral-secured products. As part of the internationalization of the COSI® segment and the related services, we plan to connect more issuers from Germany and the UK. At present, we have admitted collateral providers from the UK and by the end of the year, we anticipate being able to expand COSI® to issuers with German collateral providers. We will soon see further product innovations with COSI®.*

Thank you for taking the time to speak to us.

| Top-Products | | | | | |
|------------------------------------|--------|--|---|--------------|-----------------------|
| Category | Symbol | SSPA category | Underlying | ISIN Number | Total turnover in CHF |
| Capital protection | EFHAM | Capital protection with coupon | ABB / CS / Nestlé / Roche GS | CH0110622609 | 7,885,634 |
| | SYDBA1 | Capital protection with coupon | EURO STOXX 50 PR Index | CH0139213513 | 5,124,965 |
| | EFHSX | Capital protection with coupon | Novartis / Swisscom / Syngenta / Zurich | CH0115890706 | 3,003,229 |
| | EFHLD | Capital protection with participation | SMI Index | CH0113519943 | 1,895,177 |
| | HBBC | Capital protection with coupon | CL Health Care Basket | CH0113535667 | 1,521,909 |
| Yield enhancement | EFMGD | Express certificate | MSCI UK Local Index / S&P 500 | CH0140811719 | 5,702,400 |
| | EFMXP | Express certificate | FTSE 100 / S&P 500 | CH0149116417 | 5,245,820 |
| | EFLTE | Express certificate | EURO STOXX 50 PR Index | CH0139211723 | 4,874,725 |
| | EFJRQ | Express certificate | EURO STOXX 50 PR Index | CH0126181855 | 3,798,795 |
| | EFLPL | Express certificate | EURO STOXX 50 PR Index | CH0137244163 | 2,995,468 |
| Participation | EFGBPL | Miscellaneous participation | S&P 500 Index | CH0133271459 | 42,376,008 |
| | EFMVQ | Bonus certificate | Baloise N | CH0146740565 | 6,152,136 |
| | EFGBPR | Outperformance certificate | EURO STOXX 50 PR Index | CH0187372427 | 5,665,958 |
| | EFMQD | Bonus certificate | Microsoft Corp. | CH0144229405 | 3,048,326 |
| | JPYEXP | Tracker certificate | EFG Japanese Exporters Basket [JPYEXP] | CH0149116581 | 3,033,382 |
| Certificates with reference entity | VFREH | Reference entity with conditional capital protection | CHF 3M LIBOR | CH0141498466 | 5,216,788 |
| | VFRRF | Reference entity with conditional capital protection | CHF 3M LIBOR | CH0141501244 | 5,178,526 |
| | VONELY | Reference entity with yield enhancement | RWE AG (St) | CH0141498862 | 5,046,552 |
| | VONCGV | Reference entity with yield enhancement | Nestlé N | CH0132038818 | 4,522,160 |
| | VFCRM | Reference entity with conditional capital protection | CHF 3M LIBOR | CH0141501186 | 3,801,140 |
| Leverage products | CHASIA | Warrant | Devisen CHF/CNY / Devisen CHF/KRW / Devisen CHF/SGD / Devisen CHF/TWD | CH0130539338 | 9,687,000 |
| | EFGBNG | Mini-Future | DAX Index Future SEP 12 | CH0184262266 | 4,378,014 |
| | EFGBNL | Mini-Future | S&P 500 Index | CH0184262308 | 4,359,878 |
| | EFGBNM | Mini-Future | S&P 500 Index | CH0184262316 | 4,299,856 |
| | EFGBNK | Mini-Future | DAX Index Future SEP 12 | CH0184262290 | 4,187,302 |

Source: Scoach, October 2012

| COSI® in a nutshell | | |
|-------------------------------------|----------------------------|-------|
| Number of listed products | | 2,569 |
| Number of issuers | | 6 |
| Yield enhancement products | | 1,890 |
| Participation products | | 227 |
| Leverage products with knock-out | | 12 |
| Leverage products without knock-out | | 10 |
| Highest daily volume | 70,24 Mio CHF (13.09.2011) | |
| Outstanding volume | CHF 2,70 Mrd. | |
| Source: Scoach, October 2012 | | |

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Scoach and SIX Swiss Exchange at the Structured Products Fair.

It is almost time for the Structured Products Fair to open its doors for the sixth time. The fair, which is organized jointly by Scoach and the Swiss Structured Products Association (SSPA) has something to offer for everyone. Both private and professional investors can get a wide range of first-hand information on products, services and providers.

This year Scoach's stand, which will be located right next to the main entrance, will serve up some culinary delights in green and be running an interesting competition. Christoph Schuler, Sales Manager at Scoach, will give a speech titled „Gambling is for casinos, trading for stock exchanges“, which will provide information on the services offered by the exchange for structured products. You can also come to stand E12 to experience the diversity of our web portal. The stand next door, which will be manned by SIX Swiss Exchange, will provide you with comprehensive information on COSI® and you can have a go at cracking the vault! Christian Katz, CEO of SIX Swiss Exchange, will take part in a roundtable, where he will discuss the issue of „Client protection in the financial sector“, a very hot and much discussed topic. You can obtain a free entry ticket worth CHF 20 by sending an e-mail to contact@scoach.com; the ticket will be sent to you electronically.



STRUKTURIERTE PRODUKTE MESSE 2012

We look forward to seeing you there!

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