

COSI®-NEWSLETTER

Information on collateral secured instruments

SPECIAL EDITION

Structured Products Forum 2013

02 > EDITORIAL

03 > COLLATERALIZATION À LA COSI® – A RECIPE FOR SUCCESS

05 > POST-LAUNCH DEVELOPMENT

07 > INTERVIEW WITH GEORG VON WATTENWYL // Head of Financial Products, Advisory & Distribution Bank Vontobel AG

08 > INTERVIEW WITH JAN SCHOCH // Founding partner and CEO of Leonteq Group

09 > SECURITY THANKS TO THE RIGHT COLLATERAL

10 > THE TOP PRODUCTS // Overview of the top products // COSI® in a nutshell

11 > COSI® NEWS

COSI® for security

As the first leaves start to change color, it is time for some of us to take an initial, brief look back. There has definitely not been any outbreak of euphoria on the stock market in 2013, and the stock exchange barometer looks unlikely to be scaling any heights in the fall either. Security remains a major issue – not just in the investment environment, but also in the political arena. It is now five years since US investment bank Lehman Brothers went bankrupt more or less overnight. The first collateral secured products were launched one year later, in 2009. COSI®, which is now an established and highly diverse segment, is as topical as ever. Even better, thanks to its capacity to innovate and continuous expansion in its providers and services, the segment is extremely successful in the structured investment products landscape. In time for its fourth birthday, we would like to take another detailed look at what makes COSI® such a success. You can find more on this in the lead article on pages 3 and 4.

Alongside a clear guide to how collateralization works, on our interview pages Georg von Wattenwyl from Bank Vontobel and Jan Schoch of Leonteq Securities give us an insight into how their respective institutions have implemented the segment and what their blockbusters are. A further aspect of COSI® security is examined in an article on the composition and development of the collateral portfolio. Turn to page 9 to find out more.

It will not be long before the doors open once again to the Structured Products Forum at the Kongresshaus in Zurich. Alongside numerous providers from the financial sector, Scoach and SIX Swiss Exchange representatives will have a stand at the exhibition and will also be holding a knowledge workshop. Read more on this in the COSI® News section and make sure you secure your free ticket.

We look forward to your attendance at the Structured Products Forum in Zurich.

Your COSI® Newsletter editorial team

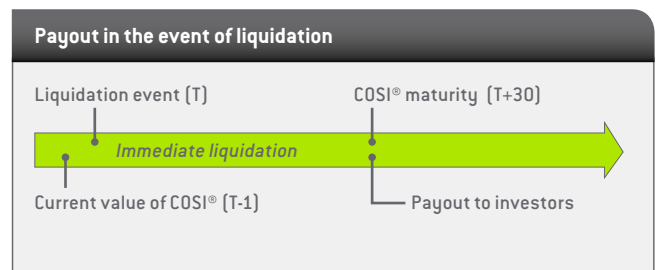
Collateralization à la COSI® – a recipe for success

In legal terms, structured products are bearer debt instruments. They enable issuers to make a swift response to market trends and to launch related products. However, in addition to the market risk that any investment entails, investors are exposed to borrower risk, which depends on the credit rating of the respective issuer. This does not apply to Collateral Secured Instruments, or COSI®: The issuer pledges selected collateral consisting of bonds, cash or equities for each product. This collateral is safe-kept in a SIX Swiss Exchange account and, if the need arises, it is sold in the investor's favor – see the graphic below.

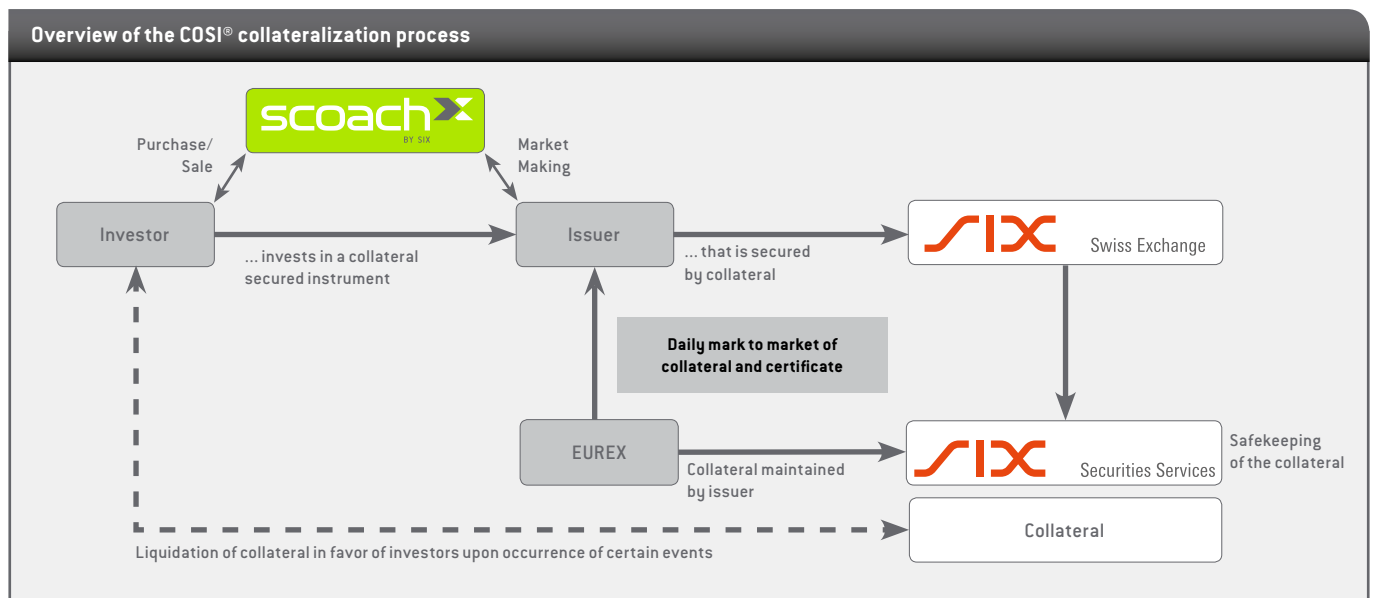
What happens in the event of liquidation?

If certain events occur, the collateral will be liquidated, i. e. it will be sold at the market value and paid out to investors on a pro rata basis. For example, if an issuer fails to provide the required collateral in full or on time. The collateral will also be liquidated if the issuer encounters payment or delivery difficulties upon a

product's expiry. If a liquidation event has occurred, SIX Swiss Exchange will establish the current total value of all the relevant issuer's collateral secured products. Each investor has a maximum claim to the portion of the liquidation proceeds corresponding to the current value of his or her COSI® product. If the products current total value exceeds the proceeds from selling the collateral, repayment will be made on a pro rata basis.



Source: Scoach, October 2013



Source: SIX Swiss Exchange, 2013

Composition of the collateral

The amount of collateralization is based on the current value of the collateral secured structured product. All COSI® products and the corresponding collateral are reviewed on a daily basis and the collateral is adjusted accordingly if required: the issuer is obliged to provide additional collateral if the current values of the collateral secured products increase or the value of the collateral falls. You can find further details on this in the article on collateralization on page 9.

The methods for valuing COSI® products

If, in an extreme situation, the issuer is no longer able to post "fair" repurchase prices on the secondary market, a set of rules ensures that investors do not suffer as a result. One key element in this regard is the independent valuation of COSI® products by external calculation agents. They recalculate the current values in the relevant trading currency of the corresponding COSI® product on each banking day. These calculations are then used as the basis for identifying the required amount of collateralization in Swiss francs. In the listing prospectus and the term sheet, the issuer discloses the method – fair value or bond floor – used to calculate the current value of a COSI® product. In the fair value method, prices calculated by the calculation agents are used as input to the process of valuing COSI® products. The bond floor method can only be used for capital protected products and uses, among other elements, the bond floor of the corresponding product for valuation purposes. The bond floor is calculated in line with the provisions of the Swiss Federal Tax Administration.

Method A – the fair value method

The vast majority of all products (92%) are currently collateralized in line with method A – the fair value procedure. This method is essentially based on including product prices (fair values) calculated by external calculation agents – where available – in the calculation of COSI® products' current values. Three prices are relevant to calculating the current value: Two fair values calculated by third parties and the closing bid price calculated on Scoach Switzerland for the product on the preceding exchange day. If the closing price of the prior day is the highest of these three prices, the current value of the COSI® product will always be based on this price. Otherwise, the middle of the three prices will apply. If some prices are not available on an exchange day for certain reasons, the calculation will be based on the prices available at this time.

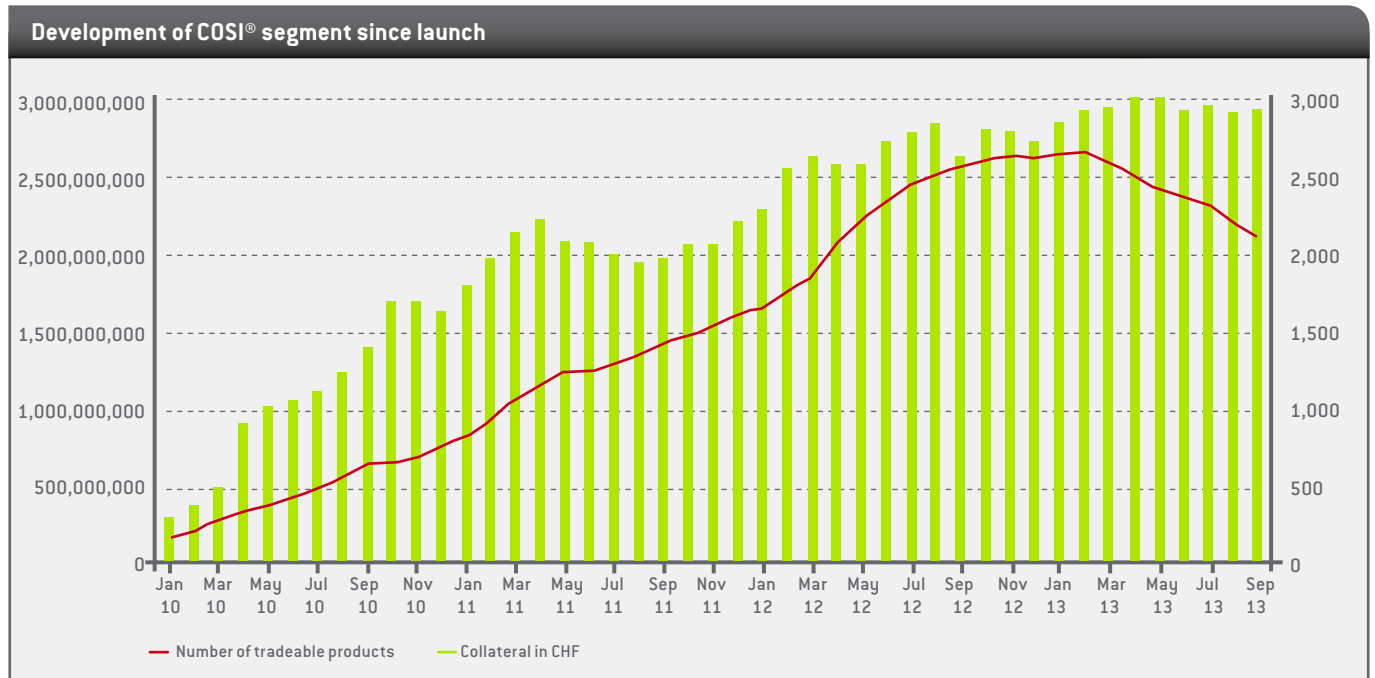
Method B – the bond floor procedure

The remaining products (8% at present) are currently collateralized in line with method B, the bond floor procedure. This method can only be used for capital protected products and is applied if a fair value cannot be calculated using method A. Instead of a fair value, method B uses a product's bond floor, which is calculated in line with the provisions of the Swiss Federal Tax Administration in Berne. Under method B, the current value of a collateral secured product is always at least equal to the bond floor. If this is not available, an equivalent or higher price will always be used for collateralization purposes.

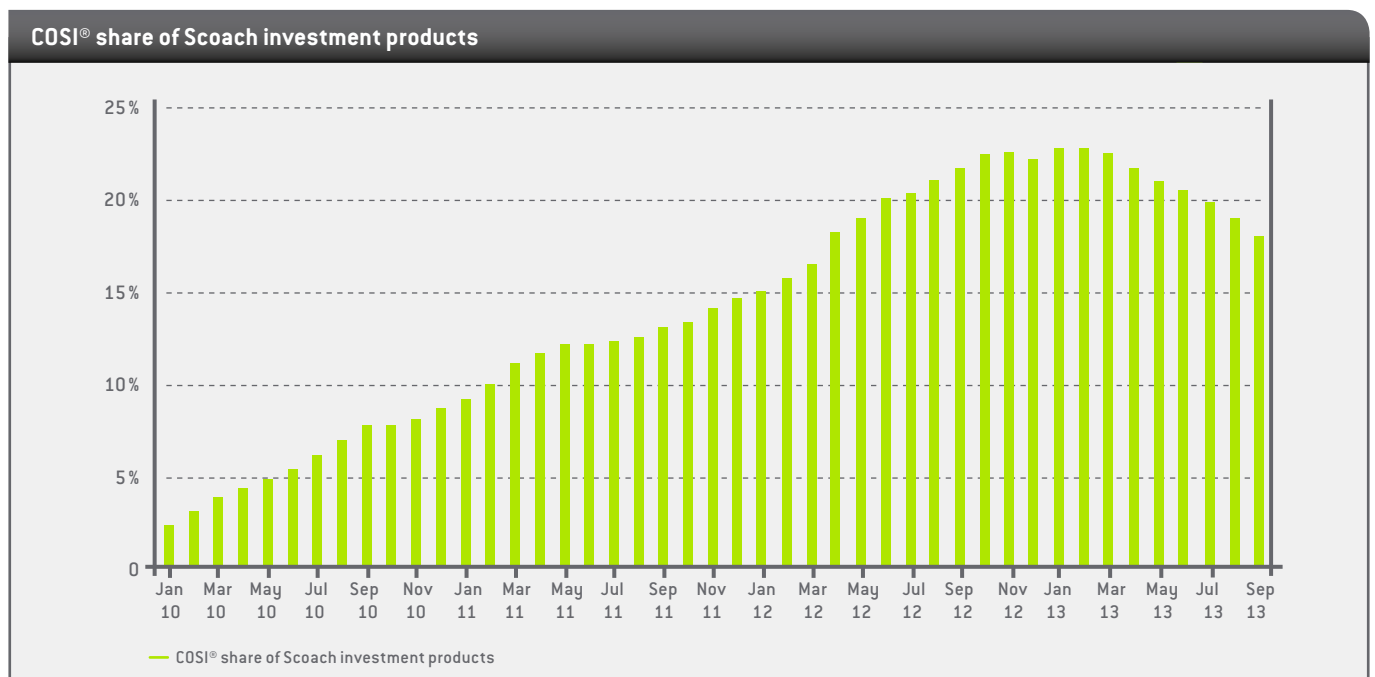
Development

Four years after the launch of the first COSI® product, as at the end of the third quarter there were 2,122 tradable collateral secured products from seven different issuers. The outstanding volume of COSI® products amounted to some CHF 2.9 billion as

at quarter-end. The highest daily volume ever traded is some CHF 70 million, a record set on 13 September 2011.



Source: Scoach, October 2013



Source: Scoach, October 2013

COSI® issuers

As at the end of the third quarter, seven issuers were offering collateral secured structured products. With more than 1,160 products, the largest provider, even after spinning off from its former parent EFG, is Leonteq Securities. Bank Vontobel is the leader in the collateral secured products with a reference bond category.

The choice of an appropriate reference debtor is crucial in the category of reference entity certificates with COSI®. The general rule is that the higher the yield, the higher the risk. Bonds with a low credit rating or high credit spreads generally offer a higher yield than highly rated debtors, but also harbor elevated default risk. Structured products featuring a reference entity

are also issued without the issuer default protection of COSI®. However, it seems wise to issue such products in tandem with COSI®. Otherwise, investors need to examine two different unsecured debtor risks – that of the product issuer and that of the reference debtor, increasing the complexity of the investment decision.

COSI® can only minimize issuer default risk, but it cannot minimize the additional market risk of the reference entity. On account of the risks that a reference entity entails, investors should have a clear opinion on the relevant debtor's creditworthiness before buying this type of product. In addition, it is a good idea to monitor the reference debtor's creditworthiness throughout the entire holding period.

COSI® collateral providers' products at a glance

Collateral providers	Investment products with reference entity	Yield optimization	Participation	Capital protection	Leveraged products	Total
Bank Julius Baer		9	24			33
Bank Vontobel	217	102	25	1		345
Credit Suisse	1	1		7		9
Leonteq Securities	8	918	153	49	36	1,164
EFG Bank	14	329	66	141	4	554
Merrill Lynch Capital Markets			2			2
Bank J. Safra Sarasin		10	5			15
Total	240	1,369	275	198	40	2,122

Source: Scoach, 30.09.2013



Georg von Wattenwyl has been at Vontobel since 1998. As Head of Financial Products Advisory & Distribution since 2007, he is responsible for the global sales of Vontobel's financial products and has been jointly responsible for the development of and trading in derivative products from the outset. Today, Vontobel structured products are distributed in Switzerland, Germany and the UK as well as beyond the continental boundaries in Singapore and Dubai. Before joining Vontobel, he held several positions at Credit Suisse where he worked as a fixed income specialist for several years. Georg von Wattenwyl has a banking diploma and graduated from the Executive Programme of the Swiss Banking School and the International Executive Programme of Insead in Fontainebleau and Singapore. Since October 2010, he has been a Committee Member of the Swiss Structured Products Association (SSPA) and was appointed Vice President in September 2011.

Interview with Georg von Wattenwyl, Head of Financial Products, Advisory & Distribution, Bank Vontobel AG on his experience of COSI® products.

What do your clients most appreciate about COSI® collateralization?

Even if you're convinced about an issuer's soundness and capital strength, there may be particular reasons why it makes sense to obtain protection against a potential default – for example in light of the risk positions of a portfolio as a whole. Thanks to COSI® collateralization, issuer risk for a structured product can be almost eliminated, while at the same time there is no need to forego the customary flexibility and diversity of this product category. As a result, minimizing issuer risk gives investors a little more independence. By the way, Vontobel was the first provider in Switzerland to launch a whole series of COSI® products in 2009. Vontobel has continued to develop its range since then. The impact of our pioneer status is still being felt. For example, we can now offer our clients comparatively attractive conditions.

How has the demand for COSI® products developed this year?

Very well. More than anything else, the great success in relation to the launch of COSI® products with a reference entity – one of Vontobel's innovations – has exceeded our expectations.

Which products are in particularly great demand in the COSI® format?

The category attracting the highest demand at present is reference entity certificates in conjunction with COSI®. The reasons for this is the added value which these certificates can offer in comparison with conventional COSI® products. Firstly, reference entity products enable management of debtor risk in the portfolio as a whole. For example, in choosing the reference borrower, investors often opt for industrials in a targeted attempt to lower what is typically a high proportion of financial institutions in their portfolios. COSI® eliminates issuer risk almost completely, leaving the risk of the carefully selected reference debtor, enabling an additional contribution to returns to be generated. Our current offering comprises 72 potential reference debtors from over 20 different sectors.

Many thanks for speaking to us.



Jan Schoch began his career at Goldman Sachs in London. Having initially worked within the Structured Solutions Group in Structuring, he later transferred to Goldman Sachs International in Switzerland where he was responsible for the Swiss business in OTC Options, Futures, Listed Options, Portfolio Trading and Equity Finance. He built up the Structured Products business and was Head of Public Distribution for Goldman Sachs in Switzerland. Jan Schoch was at Goldman Sachs for over six years before becoming Head of Equity, Commodity and Hybrid Derivatives at Lehman Brothers International Europe in Switzerland. Here his responsibilities spanned 20 employees across three locations. In April 2007 he resigned from Lehman Brothers to found Leonteq Securities.

Interview with Jan Schoch, founding partner and CEO of Leonteq Group on his experience of COSI® products.

What do your clients most appreciate about COSI® collateralization?

Since the collapse of Lehman Brothers at the latest, issuer risk is a key factor in selecting investment products. COSI® offers what remains a unique opportunity to minimize issuer risk via collateralization with an independent third party. This way of reducing complexity and the increased security are what investors appreciate most.

How has the demand for COSI® products developed this year?

The volume of COSI® products that we are currently managing is at a stable level of around CHF 1.81 billion. By way of comparison, as at end-2012 the volume was some CHF 1.84 billion.

Which products are in particularly great demand in the COSI® format?

Traditionally, there has been strong demand in Switzerland for yield optimization products such as barrier reverse convertibles and express certificates. It therefore comes as little surprise that this is where we see the greatest demand for COSI®, with our broad-based offering of over 1,200 products on Scoach. The use of COSI® is also increasing in products involving a reference entity. Until these products were introduced, the only option was to accept the default risk of certificate issuers or to minimize it using COSI®. This limited the choice of debtor risk to companies from the financial sector. Products incorporating a reference entity enable investors to choose from a universe of reference debtors and to favor bonds issued by debtors which in their opinion are solvent.

Many thanks for speaking to us.

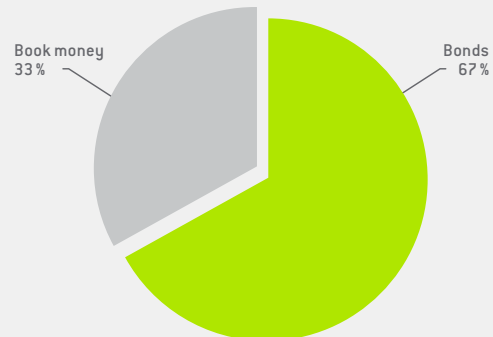
High quality requirements on the collateral

The investment instruments eligible as collateral for COSI® are contractually defined. The options comprise collateral accepted by the Swiss National Bank (SNB) as part of repo transactions or by the European Central Bank, certain highly liquid equities and book money in the most common currencies. SIX can further restrict this collateral if required. For example, the COSI® ECB basket currently only permits collateral denominated in euros that has a minimum rating of A- (Standard & Poor's) or A3 (Moody's), an issue volume of at least EUR 200 million and adequate liquidity. As a result, at present only 6 % of all ECB-eligible securities meet the COSI® quality criteria. At SIX's discretion, these criteria can be adjusted to the latest market circumstances at any time. Although bonds account for the majority of the collateral lodged (see graphic for the breakdown of collateral by asset category), some government bonds, for example, have never been permitted as collateral due to their inadequate creditworthiness.

At present, only book money and bonds are used

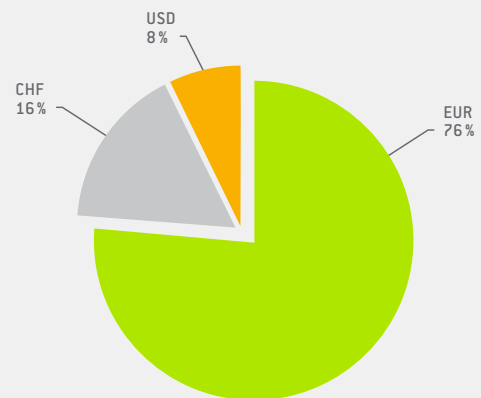
The collateral currently comprises 67 % bonds and 33 % book money. Book money is considered to be the highest-value collateral, as it exhibits virtually no liquidity risk at the time of liquidation. In bonds, the biggest focus is on liquidity, as this has to be evened out by the collateral provider on a daily basis. Fluctuations in value on account of changes in creditworthiness are less significant. Highly liquid paper of the highest quality (AAA/Aaa rating) accounts for 80 % of the bond volume. Although bonds with ratings of A-/A3 are permitted, no paper with these ratings is held at present. The lowest rating of the

The collateral by asset category



Source: Scoach, October 2013

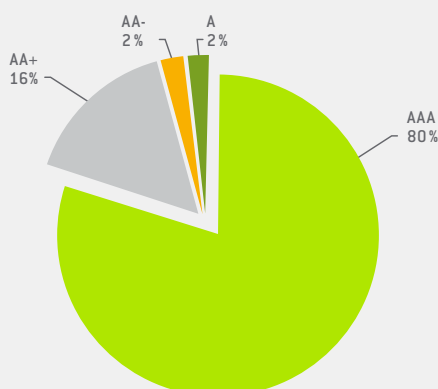
The selected collateral bonds by currency



Source: Scoach, October 2013

bonds currently lodged as collateral is A-/A2. No equities are currently used.

The rating of the selected collateral bonds



Source: Scoach, October 2013

Collateral is monitored and adjusted continuously

Alongside the daily valuation of COSI® products and the collateral, the latter is also actively monitored by SIX for compliance with the above mentioned criteria. For example, if there is a deterioration in the creditworthiness or liquidity of collateral during the term, the issuer must replace it.

Top-Products					
Kategorie	Symbol	SSPA category	Underlying	ISIN Number	Total turnover in CHF
Capital protection	EFGFNB	Capital protection with participation	S&P 500 Index	CH0208022068	3,595,600
	EFHAM	Capital protection with coupon	ABB / CS / Nestlé / Roche GS	CH0110622609	1,778,277
	EFGNR	Capital protection with coupon	ABB / Actelion / Adecco / CS / ...	CH0106308643	1,726,202
	EFHSX	Capital protection with coupon	Novartis / Swisscom / Syngenta / Zurich	CH0115890706	1,431,638
	BCNCH	Capital protection with coupon	CLEU Internationaler Aktien Basket	CH0110879472	703,840
Yield enhancement	EFGCUB	Reverse convertible	EURO STOXX 50 PR Index	CH0194433980	29,616,324
	LTQAVV	Express certificate	DAX Price / EURO STOXX 50	CH0222933647	8,121,300
	EFGFUL	Express certificate	Apple Inc.	CH0208024288	5,061,036
	EFGFWW	Express certificate	Astrazeneca / BAE Systems / British American Tobacco / BT Group / ...	CH0208025012	4,178,252
	EFGCRI	Barrier reverse convertible	DAX Index	CH0194432545	3,591,008
Participation	JFKWZ	Tracker certificate	DAX Index	CH0202302326	36,325,303
	JFTIZ	Tracker certificate	JB Japan Export Basket (JFTIZ)	CH0202302318	8,982,309
	EFGES	Participation diverse	EFG Dividenden Basket (EFGES)	CH0201061659	6,780,287
	VZBAT	Tracker certificate	VT EUR Bondbasket (VZBAT)	CH0125723434	6,367,955
	LTQAMO	Bonus certificate	Banco Santander ADR / Deutsche Bank / UniCredit	CH0215666659	4,725,910
Certificates with reference entities	VFRGD	Certificates with reference entities	EURIBOR 3M	CH0141505450	8,151,837
	VUSTX	Certificates with reference entities	EURO STOXX 50 PR Index	CH0141507266	3,919,350
	VFNLE	Certificates with reference entities	EURIBOR 3M	CH0141506466	3,388,149
	VFRGA	Certificates with reference entities	CHF 3M LIBOR	CH0141505302	2,936,267
	VFNLC	Certificates with reference entities	CHF 3M LIBOR	CH0141506458	2,891,788
Leverage products	LTQAIY	Mini-Future	S&P eMini Future DEC 13	CH0213859132	6,082,256
	LTQAIX	Mini-Future	S&P eMini Future SEP 13	CH0213859124	5,714,451
	LTQAJA	Mini-Future	DAX Index	CH0213859157	4,967,317
	LTQAIZ	Mini-Future	DAX Index	CH0213859140	4,119,230
	EFGGNC	Mini-Future	Topix Index Future	CH0213858787	1,092,000

Source: Scoach, 30.09.2013

COSI® in a nutshell	
SVSP category	Number of tradeable products
Capital protection	198
Yield enhancement	1,369
Participation	275
Certificates with reference entities	240
Leverage products	40
Number of issuers	7
Outstanding volume	CHF 2.942 Mrd.

Source: Scoach, 30.09.2013

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Structured Products Forum 2013

The focus of the Structured Products Forum 2013 is an attractive and varied program, with an emphasis on knowledge transfer. This is rounded out by a top-class panel and well-known keynote speakers such as economic expert Marc Faber on Wednesday and Otmar Issing, former Economist of the European Central Bank, on Thursday. Also make sure you visit the Scoach stand No. 19 to find out more about our services. As if that wasn't enough, we'll be treating you to culinary delights à la Scoach again this year and you can try your luck at a great competition. You'll find SIX Swiss Exchange's COSI® stand right next door. This is where you can obtain expert information on collateral secured products and you could be the one to open the safe's door.

Don't miss the knowledge workshop by Christoph Schuler, Senior Sales Manager at Scoach Schweiz AG, and Matthias Müller, Senior Product Manager at SIX Swiss Exchange AG, entitled: "Securities exchange – trading safely. How you can profit from exchange trading." This workshop is being held in the arena at 2 pm on Thursday, 24 October.

Trade fair details

Date: Wednesday, 23 October 2013 and
Thursday, 24 October 2013

Opening hours: Wednesday: 11 am – 8 pm
Thursday: 10 am – 6 pm

Location: Kongresshaus Zurich, Claridenstrasse 5, 8002 Zurich

Further information: www.strukiforum.ch

Exchange Traded Products & Indexing Guide

The new ETP guide provides a practical overview of the world of passive financial products. The guide offers a quick and convenient way for you to find the right passive investment product. The guide is available in German, English and French.

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