



COSI[®] NEWSLETTER

Information on collateral secured COSI[®] certificates

02 > EDITORIAL

03 > **BRITS, GET COSI[®]!** // Details on the new COSI[®] setup for UK collateral providers

05 > **DEVELOPMENT SINCE LAUNCH** // Development since the end of 2011

06 > **INTERVIEW WITH DANIEL SANDMEIER** // President SSPA

08 > **COSI[®] PRODUCTS WITH REFERENCE ENTITIES** // Development overview

09 > **TOP-COSI[®]-PRODUCTS** // Top-products overview

09 > **COSI[®]** // in a nutshell

Only products marked COSI® offer COSI® protection!

We have been marketing COSI® products traded on Scoach with this slogan and the COSI® seal of quality for more than two years now. Thanks to COSI®, investors can keep issuer risk to a minimum – and the ongoing rise in the number of COSI® products shows that we are on the right track. There will soon be even more products marked “COSI®” on Scoach thanks to the expansion of this innovative collateralization mechanism to the British Isles. The new operational setup for UK collateral providers ensures that COSI® will again be at the forefront of developments. Although the difference versus the collateralization mechanism applicable to Swiss collateral providers is only small, it is sufficient to dedicate the main article of this edition to this topic. We also undertake a comparison with the Swiss original on page 3 and 4.

In an interview on pages 6 and 7, Daniel Sandmeier, President of the Swiss Structured Products Association (SSPA), gives us an insight into the way the COSI® segment is opening up to foreign issuing institutions.

On page 5 you will find an updated overview of the development of the COSI® segment, while on page 8 we summarize the first three months of the new SSPA product category “reference entity certificates”. As usual, the newsletter concludes with the top three products in each category and key data on the COSI® segment.

We are delighted to present you this first English version of the COSI® Newsletter. You can subscribe for future editions via this [link](#)

Your COSI® Newsletter editorial team

Brits, get COSI®!

The COSI® collateralization mechanism for structured products traded on Scoach has emerged as a real success story in the Swiss market since it was first introduced in 2009. Some 1,863 products – or around 16 percent of all investment products traded on Scoach – are currently backed by COSI® collateral. The value of the securities deposited as collateral now amounts to 2.6 billion Swiss francs. Thanks to the 129 COSI® products that can be traded on Scoach Europe via dual listing, not only Swiss but also German investors benefit from COSI®.

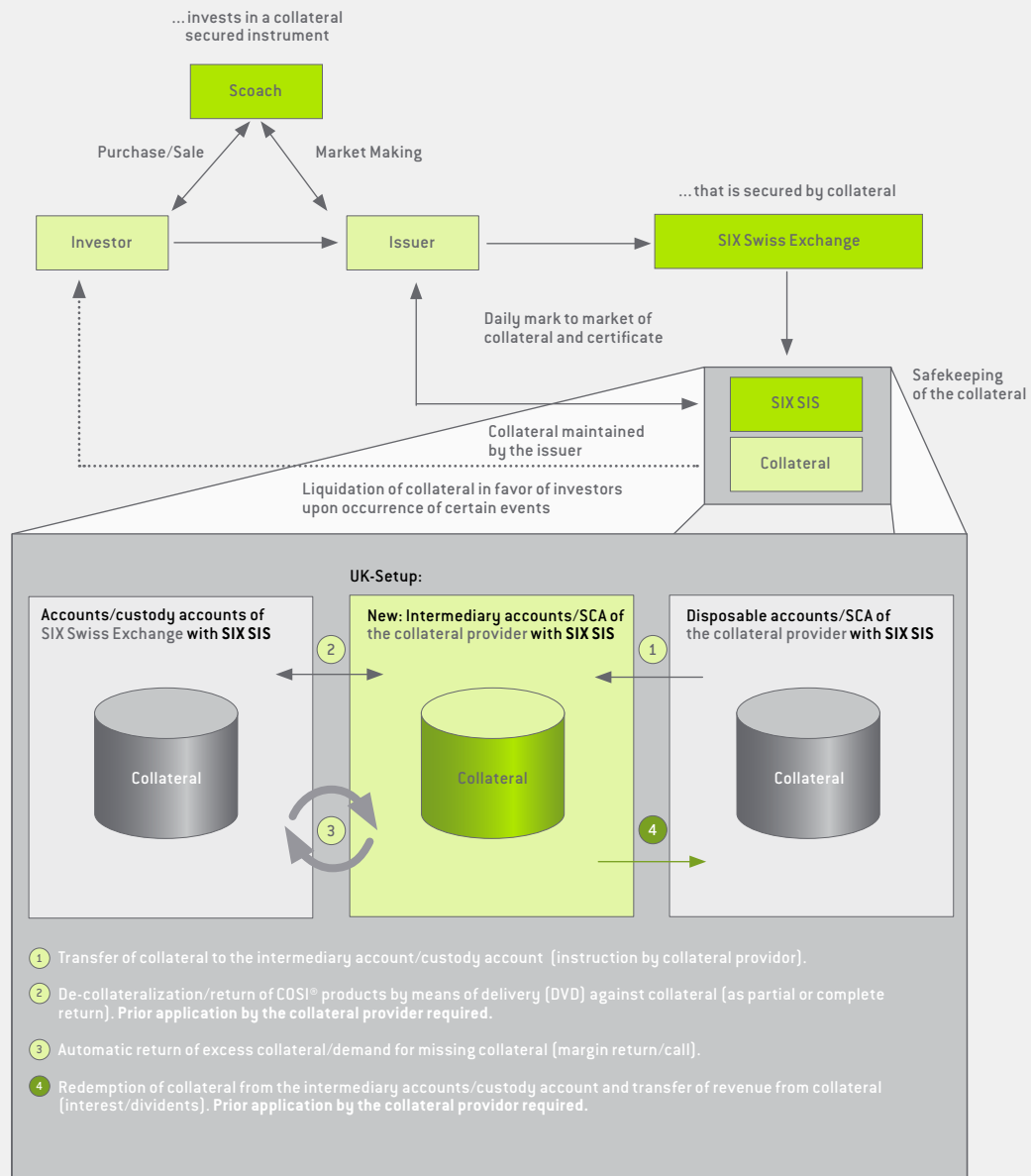
Details on the new COSI® setup for UK collateral providers

But it is not just foreign investors who are interested in COSI® – foreign issuers have also perked up their ears. Until recently, however, the issuance of COSI® products was restricted to banking institutions with a Swiss collateral provider. Although Merrill Lynch joined the four existing Swiss COSI® issuers as the first foreign issuer of COSI® products in October 2011, this was only possible because a Swiss-domiciled subsidiary (Merrill Lynch Capital Markets AG) took on the role of the collateral provider. Banking institutions who manage their securities trading and collateral administration on a centralized basis through their foreign parent company have found it difficult to access the market. Making the COSI® service accessible to all issuers has been and remains a stated objective of both SIX and Scoach.

With effect from March 2012, UK issuers too have been able to issue COSI®. This was made possible by targeted adjustments to the operational setup in the area of collateral management at SIX SIS. In particular, the legal situation in the United Kingdom requires collateral providers to have their collateral claim registered with Companies House (the UK commercial register). In addition, collateral providers must apply to SIX in writing for the return of any surplus collateral rather than receiving this automatically. To address this situation, so-called “intermediary” accounts and custody accounts were created for the collateral provider (see Figure on page 4). The intermediary custody accounts at SIX allow for efficient management of the collateral, but without the surplus collateral being automatically reimbursed. As a result, this setup poses no obstacle to foreign issuers. With the exception of the outlined adjustments, both operational setups are identical, which means the UK setup offers investors the same protection as the Swiss original. For example, listing the COSI® product on SIX Swiss Exchange remains mandatory, as does making a market in (and therefore trading) the products on Scoach Switzerland.

The response of market participants to the new setup to date has been highly promising. Plenty of demand for this new service is expected. As a result, one or two more COSI® issuers are expected to deepen the segment by the end of the second quarter of 2012. SIX Swiss Exchange, Scoach and the Swiss Structured Products Association (SSPA) are continually driving forward the internationalization of the COSI® collateralization mechanism. So with a bit of luck, it could soon be a case of “COSI® fan tutti”.

Operational setup of COSI® collateralization for UK issuers



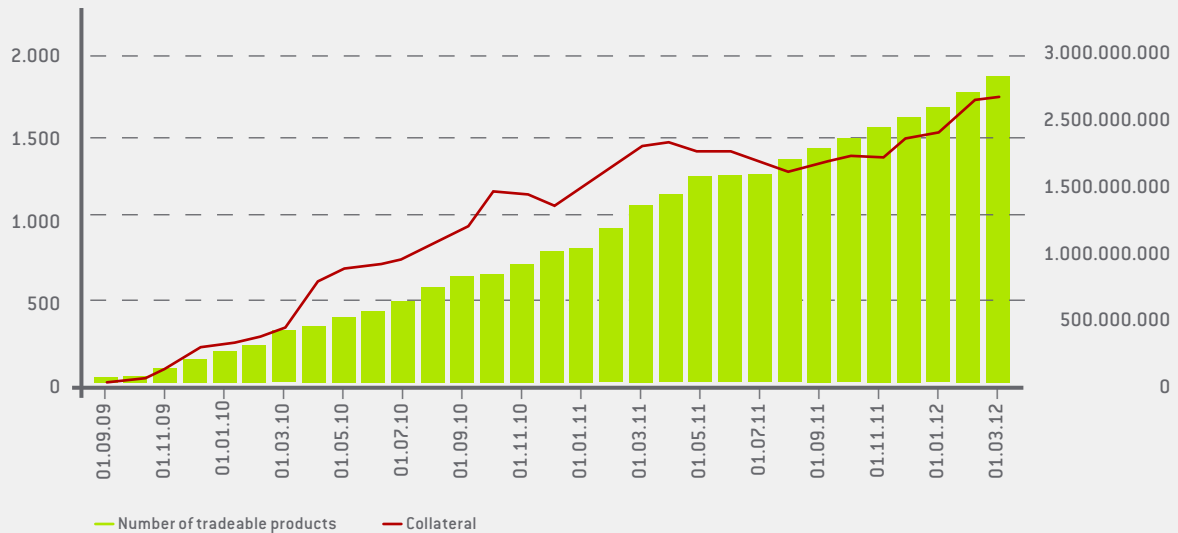
Quelle: SIX Group, April 2012

Development since the end of 2011

Since December, the number of collateralized certificates has risen to 1,863. The outstanding volume of the segment also rose

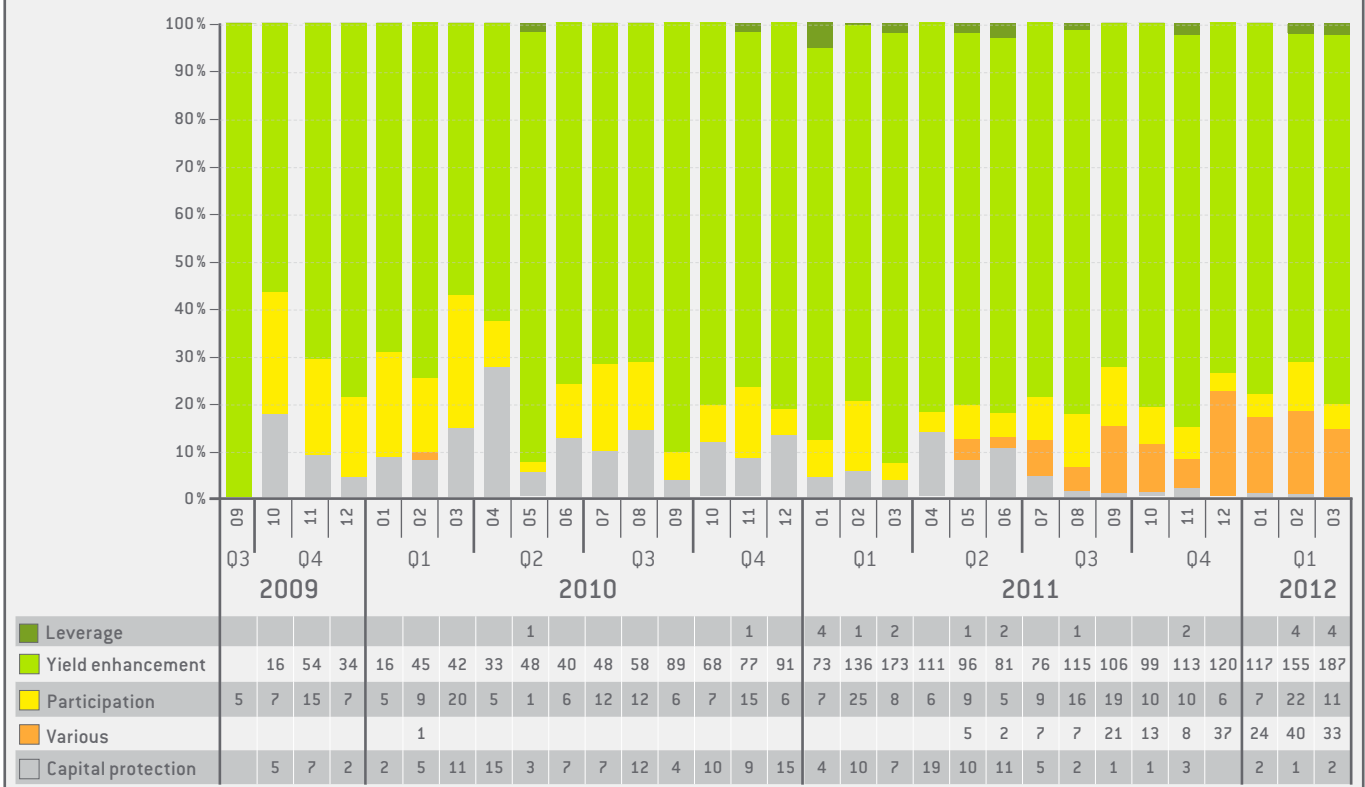
in the first quarter 2012, and amounted to around 2.63 billion Swiss francs at the end of March.

Development of COSI® segment since launch



Source: Scoach, April 2012

Issuance of COSI® products by investment category





Daniel Sandmeier, Head of Marketing & Distribution of Structured Products at Credit Suisse, currently acts as President of the Swiss Structured Products Association (SSPA). He looks back at over 15 years of experience as a trader and he held various positions in equity derivative trading at Credit Suisse, UBS and Merrill Lynch. In the recent past he built the Equity Structuring Team in Switzerland and headed Equity Structured Product Sales into Credit Suisse's Private Banking Division. Sandmeier, born 1966 in New York, was elected President of the industry association SSPA in fall 2010. He holds a Master of Arts UZH.

Interview with Daniel Sandmeier, President of the Swiss Structured Products Association (SSPA).

What is the role of the Swiss Structured Products Association (SSPA)?

The SSPA first and foremost safeguards and represents the common interests of its members. Through its activities, it fosters understanding and knowledge of structured products. This means that the SSPA has to maintain a dialog with the various target groups such as authorities, regulators, the media, clients, and other organizations. The SSPA issues industry standards, rules, and recommendations in order to support development of the market. The association's key focus right now is on developing the regulatory framework. The SSPA intends to play an active part in shaping this.

What role did the SSPA play in the development of the COSI® service?

The SSPA's primary role was to provide ideas in terms of creating an efficient, secure, and easy-to-implement solution for issuer risk. COSI® collateral backing was developed in close cooperation with Scoach and SIX Swiss Exchange, and launched in 2009. COSI® is rightly seen as a milestone in the development of structured products. The volume of more than CHF 2.6 billion is a manifestation of the market need that exists.

Why have issuers' individual collateral solutions failed to convince so far?

From our perspective, COSI® is the safest solution for minimizing issuer risk. The strict rules regarding realization, as well as the quality and liquidity of the deposited collateral, guarantee the highest possible level of security. By contrast, the statutory listing rules for the collateralization of ETP products are very rudimentary.

What is the advantage of COSI®-protected products?

With COSI® collateral backing, deposited securities serve as collateral that is realized on behalf of investors in the event of solvency problems of the issuer.

The type of collateral secured instruments and their mode of functioning must meet a wide range of requirements. The solution devised by SIX Swiss Exchange, Scoach, and the issuers meets the needs of investors, issuers, and exchanges. Collateral secured products enable investors to benefit from the flexibility and innovativeness of structured products and at the same time largely eliminate the default risk associated with an issuer.

For which type of investor are COSI® products suitable?

They're suitable for those investors who wish to minimize issuer risk and are prepared to forgo a portion of their income in return for this "insurance cover".

Do COSI® have a special labeling in the SSPA classification system?

Yes, a labeling of COSI® products is envisaged as being one of the possible additional features of the SSPA's classification model. SIX Swiss Exchange has also created a seal of quality for COSI® products; this denotes structured products that are secured with collateral. COSI® issuers use this seal in their communications.

What is your view on the segment's recent opening up to collateral providers from the UK?

The fact that access to the COSI® segment has now been opened up to international collateral providers is a major success for the Swiss structured products market. Demand for the collateral mechanism from Switzerland and abroad is

growing – among investors and issuers alike. The market is consequently being enriched with additional COSI® issuers, and investors are taking advantage of new investment opportunities enjoying the best possible protection against issuer risk.

Is there also demand from collateral providers in other countries?

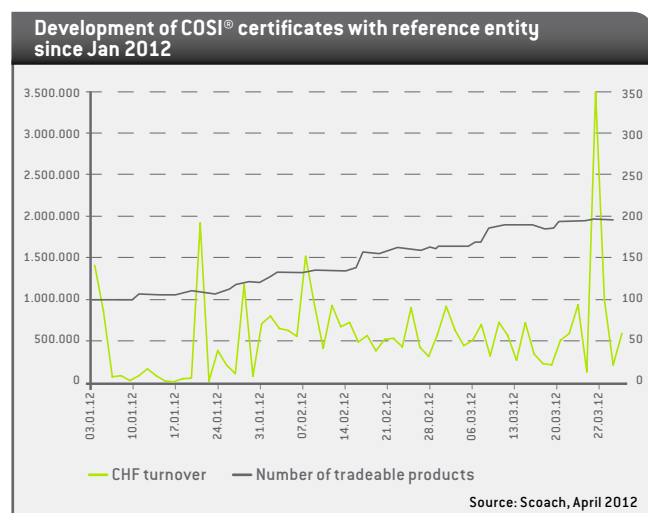
We're seeing interest in COSI® products from German issuers in particular. Accordingly, a German solution is currently being drawn up.

Where do you see the COSI® segment in two years' time?

Volume in the COSI® segment will continue to increase due to the opening-up to foreign issuers. If COSI® achieves success abroad, as an export product bearing the "Swiss made" seal of quality there is nothing to stop the COSI® segment from growing in significance.

Thank you very much for this interview!

COSI® products containing a reference bond to optimize returns are becoming ever more popular. 97 products were issued in the first quarter of 2012 alone; in total, 189 products were being traded by the end of March.



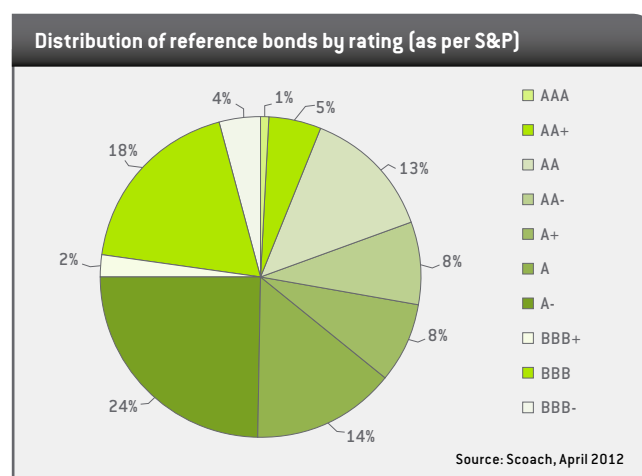
In the case of COSI® products involving a reference bond, the choice of the right obligor is crucial. As a general rule, the higher the return, the higher the risk. Bonds with a lower credit rating – i.e. usually with a higher credit spread – typically offer a higher yield than better-quality issuers, but this higher yield is reflected in a higher default risk.

The reference bonds selected by investors are spread across 50 different issuers. The most popular are the bonds of Daimler AG, General Electric Capital Corporation and BMW Finance NV, which are rated A- (Daimler and BMW) or AA (General Electric) – in other words, firmly in investment grade territory and offering just a modest yield premium.

Top 5 reference issuers	
Obligor	Number of COSI®
Daimler AG	19
General Electric Capital Corp	17
BMW Finance NV	15
Holcim Ltd	10
Roche Holdings Inc	10

Source: Scoach, April 2012

In the sovereign debt segment, only one bond from Spain and one from France have been used so far, with both of these bonds still being rated as solid investments by the rating agencies. A high yield premium is evident for around a quarter of all products, where the reference bonds lie in the lower medium grade area (BBB+ to BBB-). No reference bonds have yet been used in the speculative segment (i.e. a rating of < BBB-).



Some structured products are issued with a reference bond but without the issuer default protection offered by COSI®. However, it makes sense to issue such products in combination with COSI®. Otherwise investors have to cope with two separate uncollateralized issuer risks – that of the issuer of the product itself, and that of the issuer of the reference bond. This adds to the complexity of the investment decision.

Although COSI® can minimize the risk of product issuer default, it cannot mitigate the additional market risk of the reference bonds. In view of the risks associated with the reference bond, the investor should therefore have a clear idea about the creditworthiness of the underlying bond issuer before purchasing such a product. It is also advisable to monitor the credit rating of the reference bond throughout the term of the product.

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	54.460.687
	EFHSX	Capital Protection with Coupon	NOVN / SCMN / ZURN / SYNN	CH0115890706	33.123.356
	EFGNR	Capital Protection with Coupon	Stock Basket	CH0106308643	30.443.809
	BCNCH	Capital Protection Certificate with Coupon	CLEU Internationale Aktien	CH0110879472	16.782.388
	BCNEU	Capital Protection Certificate with Coupon	CLEU Internationale Aktien	CH0110879480	10.318.447
Participation	VZPMT	Tracker Certificate	VT Precious Metals Basket	CH0106995860	180.553.442
	EFGNV	Tracker Certificate	EFG Obligation basket	CH0107029024	28.199.815
	VZESI	Tracker Certificate	Silver	CH0125723475	23.349.307
	VZCSI	Tracker Certificate	Silver	CH0125723467	16.310.845
	EFLMC	Tracker Certificate	EFG European Dividend Basket	CH0133270261	14.039.707
Yield enhancement	EFJKF	Express Certificate	EURO STOXX 50 PR Index	CH0125075975	24.389.784
	EFHQT	Capped Bonus Certificate	Bank of America / JP Morgan	CH0115386259	23.003.913
	EFJQI	Express Certificate	EURO STOXX 50 PR Index	CH0126181467	22.490.514
	EFLIW	Express Certificate	EURO STOXX 50 PR Index	CH0135859475	21.660.680
	EFIBW	Reverse Convertible	EURO STOXX 50 PR Index	CH0118171583	20.223.109
Leverage products	EFIJF	Mini-Future	Not available on webpage	CH0118462693	8.550.896
	EFIYT	Mini-Future	Apple Inc.	CH0120637217	6.186.228
	EFHJA	Mini-Future	Not available on webpage	CH0101034400	6.101.134
	EFMTA	Mini-Future	DAX Index	CH0144229512	4.557.280
	EFKNC	Mini-Future	EFG Currencies Basket (EFKNC)	CH0130538348	3.366.075
Certificates with reference entity	VFREH	Reference Entity Certificate	CHF 3M LIBOR	CH0141498466	11.596.014
	VFREI	Reference Entity Certificate	EURIBOR 3M	CH0141498482	6.759.640
	VONED0	Reference Entity Certificate	GDF Suez S.A.	CH0141498391	2.929.541
	VCROY	Reference Entity Certificate	Royal Dutch Shell Plc.	CH0137711914	2.645.599
	VONDAY	Reference Entity Certificate	Swiss RE AG	CH0137724982	987.396

Source: Scoach, April 2012

COSI® in a nutshell	
Number of listed products	1863
Number of issuers	5
Leverage products	13
Yield enhancement products	1288
Participation products	217
Capital protection products	156
Certificates with reference entities	189
Miscellaneous	0
Highest daily volume	CHF 70.24 m (13.09.2011)
Outstanding volume	CHF 2,631 m

Source: Scoach, April 2012

www.scoach.ch



Publisher:

Scoach Switzerland Ltd
Selnastrasse 30
P.O. Box
CH-8021 Zurich

www.scoach.ch

e-mail: contact@scoach.com

No solicitation; exclusion of liability

None of the information contained herein constitutes a solicitation or recommendation for the purchase or sale of a financial instrument traded on Scoach Switzerland Ltd. Scoach Switzerland Ltd shall bear no liability for the correctness or completeness of said information, nor for damages arising from actions taken on the basis of information contained in this or any other publication produced by Scoach Switzerland Ltd. Scoach Switzerland Ltd reserves the express right to change its prices or the composition of its products at any time.

Scoach Switzerland Ltd

Scoach Switzerland Ltd is a joint-stock company under Swiss law and operates a securities exchange that has been approved and is supervised by the Swiss Financial Market Supervisory Authority FINMA.