



## FrontLine SIX x-clear Ltd

### Interoperability

#### **Introduction of a new interoperability regime**

##### **1.0 Overview**

In 2007, SIX x-clear expanded to include central counterparty (CCP) services in response to pressure from the market and the EU competition authorities. As a result of this development, SIX x-clear has since established itself as a CCP on SIX Swiss Exchange (SSX) and the London Stock Exchange (LSE) and is the clearing services provider offering the best price/performance ratio in the cash equities segment in competition with LCH.Clearnet Ltd.

As part of a further expansion to open additional European trading platforms, the existing interoperability concept for central counterparties in the European market has been updated after intensive discussion with the Swiss regulatory bodies (SNB, FINMA), the British supervisory body (FSA), and other regulators.

To safeguard against systemic risks, the additional collateral for inter-CCP liabilities for all CCPs in interoperative markets was made available by the regulatory bodies and made a central element of the new interoperability agreement.

##### **2.0 Effective date**

18 July 2011

##### **3.0 Impact on participants**

The new agreement makes it possible to expand the only active CCP interoperability link available in Europe since 2008 for SSX and LSE to include additional European trading platforms. As SIX x-clear's efficient clearing services are an integral part of the Swiss Value Chain, clearing participants will be able to benefit from new link-up and trading opportunities at a lower cost under the new agreement.

Thanks to interoperability, in recent years SIX x-clear has been able to keep prices for clearing services at an unrivalled low level by using an integrated pricing model.

The key elements of the revised interoperability agreement comprise the provision of additional collateral in the form of a scalable model for covering inter-CCP liabilities. To this end, participants must sign a financing contract, which must be provided to SIX x-clear in the form of an uncovered loan.

##### **4.0 Details**

To keep the impact on participants to an absolute minimum, SIX x-clear has decided to initially implement the additional provision of collateral for a fund to the value of CHF 200 million in three pillars:

1<sup>st</sup> pillar: Half of the fund (CHF 100 million) is provided to SIX x-clear as individual participant contributions in the form of uncovered loans.

2<sup>nd</sup> pillar: The other half of the fund (CHF 100 million) is provided by SIX x-clear.

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3<sup>rd</sup> pillar: Any peaks (triple witching day, etc) that cause the fixed fund to be exceeded are to be covered by additional participant contributions in the form of a credit call.

After an initial period of three months, SIX x-clear will check the adequacy of the fund and make any corrections as necessary.

The individual participant contribution is calculated for each participant at the end of the month by taking the proportion of the participant's average gross open position for the past three months (in the same way as for the calculation of the default fund) compared to all participant positions in the first pillar of the fund.

SIX x-clear will send the individual financing contribution and the respective contracts to each participant by registered post by **7 July 2011 at the latest**. The financing contracts have been verified and approved by SIX x-clear's legal user group. The individual financing contribution can be provided in the form of cash or securities. To guarantee that the transfer is effected smoothly, SIX x-clear requests that participants communicate by **8 July 2011 at the latest** whether a separate financing contribution account for securities (custody) and/or cash should be opened.

Procedure for opening a separate financing contribution account:

Participants should send an e-mail to **customer-administration@sisclear.com** with details of whether they would like to open a custody and/or cash account.

Please be aware that if a custody account is to be opened, then Form 128 *Safecustody account opening, modification and closing request* must also be filled out, duly signed and returned to SIX SIS. Under account type, select "Collateral Custody account for CCP (irregular pledge)". Form 128 is available at [www.six-x-clear.com](http://www.six-x-clear.com) > Forms > [Forms SIX SIS](#). When opening a cash account, it is sufficient to indicate via e-mail which currency (a choice of CHF, EUR, USD or GBP) the account is to be opened in. Confirmation that the respective account has been opened will be sent as soon as possible.

According to Swiss law, there is no obligation to use collateral for backing capital adequacy requirements for the uncovered loan in favor of SIX x-clear.

SIX x-clear has already submitted details of the inter-CCP collateral financing to the Swiss Federal Tax Administration (SFTA) to cover any possible tax consequences resulting from the financing contract at Swiss withholding tax level and been able to clarify that there will be no disadvantages for participants. Any participants requiring a hard copy of the tax agreement with the SFTA should contact [xclearops@sisclear.com](mailto:xclearops@sisclear.com) directly.

### 5.0 Contact

For further information regarding the interoperability regime please contact Markus Heiniger at SIX x-clear.

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or



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SIX x-clear – Risk Management

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Any questions regarding the opening of a custody or cash account should be directed to [customer-adminstration@sisclear.com](mailto:customer-adminstration@sisclear.com).