



Securities Services

# TCM by SIX<sup>®</sup>

## Securing structured products

### Service description



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# Making structured products and your investment safer

**Structured products have been a key investment instrument in international financial markets. They can be tailored to an investor's specific market view and risk profile.**

**While market exposure is the essence of a structured product, investors also face the risk of issuer default. The SIX Securities Services Triparty Collateral Management (TCM) offering ensures the collateral backing of a structured product's current value, allowing investors to reduce the impact of a potential issuer default.**

In 2013 SIX Securities Services developed the Triparty Collateral Management (TCM\*) framework, a cost-efficient and flexible collateralization framework for structured products. This TCM framework has been specifically developed for structured products without a listing on a regulated exchange. For structured products issued under TCM, the issuer of the TCM secured structured product provides specific collateral that is used to cover its obligations to investors in the case of insolvency events (e.g. default, restructuring, liquidation etc.) or under-collateralization.

Collateral, as elected by the issuer, is deposited with SIX SIS Ltd in a segregated TCM account in the name of the issuer of the TCM secured structured product. SIX SIS Ltd handles all of the account administration while the collateral is pledged in favor of the investor. SIX SIS Ltd is a completely neutral and independent third-party and continuously tracks the value of both the issued TCM secured structured product and the associated pledged collateral.

In the event of under-collateralization, SIX SIS Ltd automatically demands additional collateral from the collateral provider. In case the collateral provider does not deliver additional collateral within five business days or in case of an insolvency event, a designated independent collateral agent acting for, and on behalf of investors, liquidates the pledged collateral in favor of investors in the TCM secured structured product.

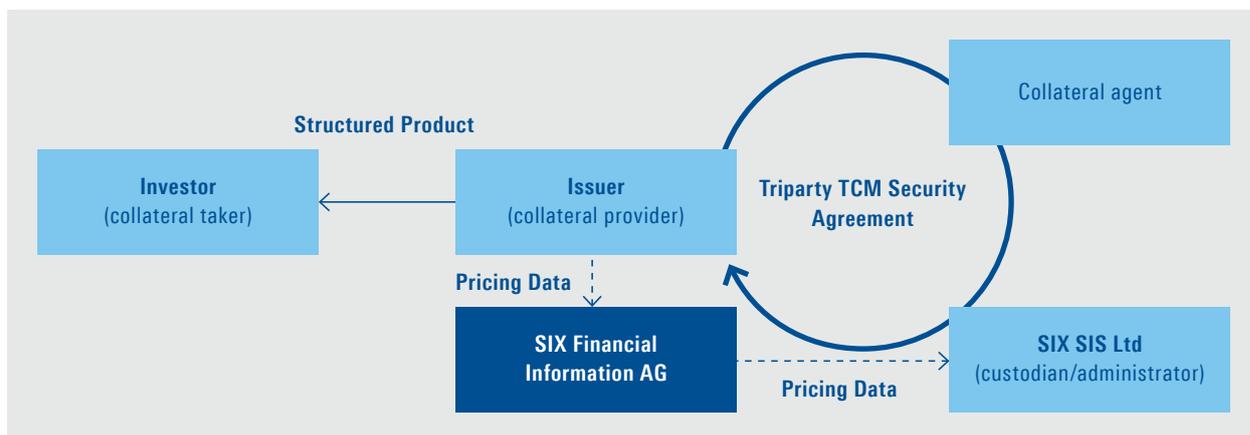
## At a glance

- Highly flexible collateral mechanism for structured products without a listing on a regulated stock exchange
- Collateral monitoring and management by an independent third party, namely SIX SIS Ltd
- Collateral is earmarked for each TCM secured structured product individually (collateral is not pooled)
- Automated, continuous exposure management

\* TCM is used throughout this document to denote TCM by SIX®

# The Triparty Collateral Management (TCM) framework

The figure below illustrates the various parties involved in the SIX Securities Services TCM framework.



The collateral provider, collateral agent and the custodian/administrator sign an agreement (TCM Security Agreement). The TCM Security Agreement sets out how a TCM secured structured product is collateralized, what instruments are eligible as collateral (see section “Eligible Collateral”), the obligations of each

party involved and the steps when realizing collateral in case of an under-collateralization or default event (see section “Collateral Realization”).

The role of each party is summarized in the table below.

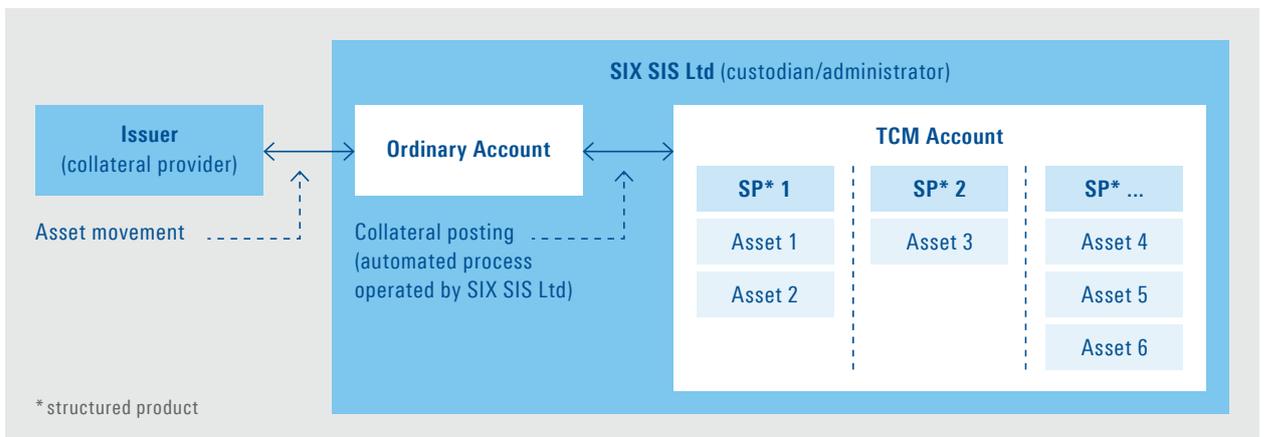
## Role of each party in the TCM framework

Party	Role
<b>Issuer</b>	The issuer is responsible for the issuance and valuation of the structured product.
<b>Collateral Taker (Investor)</b>	The collateral taker, i.e. the investor subscribes to the TCM secured structured product or purchases the TCM secured structured product in the secondary market. The collateral taker is the beneficiary of any realized collateral earmarked for a particular TCM secured structured product after a realization event has occurred. By purchasing the TCM secured structured product, the collateral taker contractually undertakes to exercise its right under the TCM Securities Agreement exclusively through the collateral agent.
<b>Collateral Provider (Issuer)</b>	The collateral provider establishes the collateral eligibility criteria, delivers collateral to the custodian and grants security interest over the collateral in favor of the collateral taker. The collateral provider has no right to dispose collateral or close or transfer the account in which the collateral is registered in.
<b>Collateral Agent</b>	The collateral agent is the direct representative (direkter Stellvertreter) of the collateral taker and acts for and on his behalf. In case of a realization event the collateral agent will realize the collateral in favor of the collateral taker.
<b>Custodian (SIX SIS Ltd)</b>	Within the TCM – Triparty Collateral Management service (TCM), SIX SIS, acts as neutral service provider who maintains the account in which the collateral is held.
<b>Administrator (SIX SIS Ltd)</b>	As administrator SIX SIS Ltd renders the service to monitor and manage the collateral. SIX SIS Ltd calculates the collateral requirement (multiple times intraday), before collateral for a specific TCM secured structured product is moved and blocked in a segregated account and notifies the collateral provider in case of additional collateral requirements. The administrator will notify the collateral agent in case of a realization event.  Account structures and supporting services are designed to deliver transparency and legal certainty as relates to the treatment of collateral assets in case of a default trigger event (insolvency protection).

In order to efficiently manage collateral requirements, the collateral provider maintains an “ordinary” account with the custodian SIX SIS Ltd in which eligible (but unallocated) assets are placed. Additionally, the collateral provider maintains a specific TCM account in which collateral for each TCM secured structured product is booked. Each asset in the TCM account is earmarked for a specific TCM secured structured product and only investors (collateral takers) of that TCM secured structured product will benefit from the earmarked collateral. Both the ordinary account and the TCM account are in the name of the issuer but assets in the TCM account are pledged in favor of the investor of the TCM secured structured product to which those assets are designated to.

SIX SIS Ltd continuously monitors the collateral requirements for each TCM secured structured product. In case the TCM account is under-collateralized, SIX SIS Ltd will automatically move additional assets from the ordinary account into the TCM account. Similarly, if the TCM account is over-collateralized, SIX SIS Ltd will automatically move assets back to the ordinary account.

**Collateral movement from and to the issuer**



### Eligible collateral

The TCM Security Agreement defines a collateral schedule setting out the assets which qualify as eligible collateral. Only assets listed in the collateral schedule can be transferred to the TCM account and

earmarked for a TCM secured structured product. Collateral which does not satisfy the conditions of the collateral schedule anymore is automatically replaced.

### Eligible collateral (as of January 2014)

	Eligible Book Money (Cash)	Eligible Securities
<b>Eligible</b>	Cash in the following currencies: CHF, EUR, USD, GBP, JPY	Collateral has to fulfill minimal criteria's such as: <b>Last published price</b> not older than 4 business days <b>Equities</b> included in standard share indices (as accepted by SIX SIS Ltd) Funds with daily liquidity With a first priority the system allocates <b>Securities</b> that are direct or indirect underlyings of the structured product issued under TCM.
<b>Not eligible</b>	Cash in any other currency not stated above	Funds which are "Non-traditional funds/hedge funds" (based upon the official SECOM categorization). US Securities are not accepted as collateral at the moment, due to IRS regulations. Securities which are not permissible as collateral are (i) securities of companies in which the issuer or the collateral provider directly or indirectly hold at least twenty percent of the share capital or voting rights; or (ii) securities of companies that themselves have interests or voting rights in the issuer or the collateral provider in such an amount; (iii) shares of the issuer or the collateral provider; and (iv) issues for which the issuer or the collateral provider act as borrower/debtor.

# Collateral realization

The TCM Security Agreement establishes under what events the collateral agent can liquidate the collateral on behalf of the investors of a TCM secured structured product.

## Events resulting in collateral realization

Undercollateralization	Payment Failure	Insolvency Event
Collateral value is less than the value of the TCM secured structured product and the collateral provider has not remedied the undercollateralization within five business days following the first notification of undercollateralization through SIX SIS Ltd.	The principal amount of the TCM secured structured product (but not any amount of interest, coupon or other intermediate payments) has not been re-paid by the issuer in accordance with the relevant product documentation and such payment has not been remedied within five business days after the relevant due day.	Restructuring proceedings, liquidation proceedings, protective measures or similar events have been ordered against the collateral provider

Following the occurrence of any of the above events the collateral agent has the right to enforce the collateral in any manner it deems appropriate.

The collateral agent will make a binding determination of the liquidation value of the affected TCM secured structured product based on the last current value available prior to the date on which the realization event occurred. The investors' claims against the issuer in connection with the TCM are determined on the basis of this current value.

The collateral agent will only give the instructions for liquidation of the collateral for the affected TCM secured structured product. Collateral booked for other TCM secured structured products is not

available and will not be liquidated. The liquidation proceeds (less the costs for the liquidation and payment) are available to the investors of the TCM secured structured product.

The highest possible amount for each investor, depending on the specific liquidation, shall be his share of the pro-rata net liquidation proceeds that represents the last available current value of the TCM secured structured product. Should this value exceed the net liquidation proceeds, a payment of the investors pro-rata shares of net liquidation proceeds will be made to each individual investor. Any excess proceeds arising from the liquidation of the collateral will be paid to the collateral provider.

# Frequently asked questions

## Which structured products can be collateralized?

TCM has been specifically developed for structured products without a listing on a regulated exchange. Structured products listed on a regulated exchange are hence excluded. In addition, issuers may impose limitations on structured products available under TCM.

TCM is flexible in terms of products which can be collateralized. Both plain vanilla and complex structured products can be issued under the TCM framework; dated as of January 2014. possible trading currencies for TCM secured structured products are Swiss franc (CHF), Euro (EUR), US dollar (USD), British pound (GBP), Japanese yen (JPY) and also Australian dollar (AUD), Dubai Dirham (AED), Canadian dollar (CAD), Danish crowns (DKK), British pound (GBP), Hong Kong dollar (HKD), Swedish crown (SEK), Singapore dollar (SGD), Norwegian crown (NOK), South African rand (ZAR).

## How does the collateralization of TCM secured structured products work?

The collateral provider determines the eligible collateral for each TCM secured structured product. The collateral provider undertakes to secure the current value of the TCM secured structured product in favor of investors through the collateral agent as direct representative (direkter Stellvertreter, collateral agent). The collateralization over the securities takes the form of a regular right of lien. The collateral is booked from an ordinary account of the collateral provider into a special account of the collateral provider (TCM Account) where each collateral is earmarked or designated for a particular TCM secured structured product. It is the obligation of the collateral provider to supply sufficient assets for the collateralization during the entire term of the TCM secured structured product. Partial collateralization of a TCM secured structured product in the opening process is not possible.

Should the value of the collateral fall below the current values of the TCM secured structured product, the collateral provider is obliged to make additional collateral available. Where the value of the collateral increases above the current values of the TCM secured structured product, SIX SIS Ltd shall book the excess collateral back to the ordinary account of the collateral provider.

## How is the actual amount of collateralization determined?

The amount of collateralization depends on the current value of the TCM secured structured product as calculated by the issuer/collateral provider of the TCM secured structured product.

## What type of collateral is accepted for the collateralization of structured products?

The collateral provider selects the forms of collateral from predefined categories.

Collateral has to fulfill minimal criteria such as:

- **Last published price** not older than 4 business days
- **Equities** included in standard share indices (as accepted by SIX SIS Ltd).
- **Funds** with daily liquidity
- With a first priority the system allocates **Securities** that are direct or indirect underlyings of the structured product issued under TCM.

Not permissible as collateral are (i) securities of companies in which the issuer or the collateral provider directly or indirectly hold at least twenty percent of the share capital or voting rights; or (ii) securities of companies that themselves have interests or voting rights in the issuer or the collateral provider in such an amount; (iii) shares of the issuer or the collateral provider; and (iv) issues for which the issuer or the collateral provider act as borrower/debtor.

The relevant value of the securities used for collateralization is calculated on the basis of their market value.

## Which events can lead to a realization of the collateral?

Upon the occurrence of certain events, the collateral will be liquidated. In particular, a realization event arises if and when:

- the collateral provider fails to provide the required collateral (undercollateralization) and has not remedied the undercollateralization within five business days following the first notification of undercollateralization through SIX SIS Ltd;

- the issuer fails to fulfill a payment of the principal amount of a TCM secured structured product upon maturity according to the issuing conditions in due time and any such defect is not remedied within five business days after the relevant due day;
- restructuring proceedings, liquidation proceedings, protective measures or similar events have been ordered against the collateral provider/issuer.

The collateral agent is under no obligation to investigate the occurrence of a realization event. In determining the occurrence of a realization event, the collateral agent bases its decision on reliable sources of information only. The collateral agent shall determine with binding effect whether an incident qualifies as a realization event and at what point in time a liquidation event occurred.

#### **What happens in case of a realization event?**

If a realization event occurs, the collateral will be liquidated; provided this is not prevented by legal or actual hindrances. The remedy of a realization event is not possible. If such an event occurs, the collateral agent is, at its own discretion, entitled to privately liquidate all earmarked collateral immediately or at some later date, provided the applicable legal provisions do not prohibit such private liquidation. The collateral agent can make public the occurrence of such an event.

If a realization event has occurred, the collateral agent will make a binding determination of the current value of the affected TCM secured structured product based on the last current value available prior to the date on which the realization event occurred. The investors' claims against the issuer in connection with the TCM are determined on the basis of this current value.

#### **What claims can be asserted by the investors?**

When the TCM secured structured product becomes due and payable, investors' claims against the collateral agent for payment of a pro-rata share of the net liquidation proceeds of the collateral arise automatically but can only be asserted by the collateral agent as their collateral agent.

The highest possible amount for each investor, depending on the specific liquidation, shall be his share of the pro-rata net liquidation proceeds that represents the last available current value of the TCM secured structured product. Should this value exceed the net liquidation proceeds, a payment of the

investors pro-rata shares of net liquidation proceeds will be made to each individual investor. Any excess proceeds arising from the liquidation of the collateral will be paid to the collateral provider.

Investors shall have no other claims against SIX SIS Ltd or any other persons or companies involved in the TCM set-up.

#### **How are the net realization proceeds paid to the investors?**

Payments of the pro-rata net liquidation proceeds to the investors are made via the banking system. The payment is made either in the trading currency of the structured product or in Swiss francs as determined by the collateral agent. Investors' claims shall not bear interest. Should the payment to the investors be delayed for any reason, the collateral provider, SIX SIS Ltd or any other persons or companies involved in the services provided by SIX group will be neither liable for default interest nor for any further damages.

#### **TCM secured structured products linked to third party products – what factors to consider in particular?**

A TCM secured structured product may be structured in such a way that, among other factors, repayment of the TCM secured structured product and preservation of its value are largely dependent on payments due from the obligor of a third party product (e.g. in case of bonds being underlying of the TCM secured structured product). Collateralization of the structured product only minimizes the issuer-related default risk, but has no influence on any default or repayment events in respect of the obligor of third party products or in respect of risks associated with the obligor of the third party product per se (e.g. the obligor being declared bankrupt or insolvent, payment default, restructuring, or early repayment of obligations in part or in full).

#### **Which risks are borne by the investor?**

Collateralization cannot eliminate all investment risks associated with a TCM secured structured product. In particular, the market risk arising from price fluctuations in the TCM secured structured product and the collateral as well as additional risks in connection with third party products remain fully with the investor.

Collateralization reduces the impact of the issuer default risk only to the extent that the net proceeds from the liquidation of collateral upon the occurrence of a realization event are able to meet the investors' claims. The investors bear the following risks, among others:

- the collateral provider is unable to provide the additionally required collateral if the value of the TCM secured structured product increases or the value of the collateral decreases;
- upon the occurrence of a realization event, the collateral cannot immediately be liquidated by the collateral provider because of factual hindrances, or because the collateral must be handed over to the executory authorities for liquidation;
- the payment to the investors becomes delayed for factual or legal reasons;
- the calculation of the current value of a TCM secured structured product proves to be incorrect, potentially resulting in insufficient collateralization of the TCM secured structured product;
- the market risk and the currency risks associated with the collateral results in insufficient liquidation proceeds, or in extreme circumstances, the collateral might lose its value entirely before the actual liquidation can take place;
- the collateralization is challenged under the rules governing debt enforcement and bankruptcy, so that the collateral cannot be liquidated to the benefit of investors in the structured product.

#### **Which rules govern the liability associated with the collateralization of structured products?**

The liability of SIX SIS Ltd and the collateral agent is limited according to the provisions of the TCM Security Agreement. In particular, SIX SIS Ltd and the collateral agent are only liable for acts of gross negligence and the willful violation of their obligations.

#### **What must investors bear in mind with regard to the judicial assessment of the collateralization?**

The investor's legal position regarding collateralization is determined by the provisions of the TCM Security Agreement. Investors are bound vis-à-vis the collateral agent and SIX SIS Ltd to the provisions of said agreement and in particular to the choice of Swiss law as well as the selection of the city of Zurich (Switzerland) as the sole legal venue for the legal adjudication of claims.

#### **How can investors obtain further information on the collateralization of structured products?**

The TCM Security Agreement, which is decisive with regard to the legal position of investors in TCM secured structured products, can be obtained from the issuer upon request free of charge. Additional (consolidated) information can be found in the respective product documentation of the TCM secured structured product (final termsheet and derivative programme) available from issuers website.

# Involved parties

## **SIX Securities Services**

### **SIX SIS Ltd**

SIX SIS Ltd is a wholly owned subsidiary of SIX Securities Services. SIX Securities Services specializes in post-trade activities. Its services are available both for the domestic Swiss market and international markets. These services include custody (domestic and international), CCP clearing, risk management, real-time settlement (including real-time realignment

of holdings), collateral management and share registration services. SIX Securities Services is a company of the SIX Group, which offers on a global scale comprehensive services in the areas of securities trading, clearing and settlement as well as financial information and payment transactions.

You can get more information on [www.six-securities-services.com](http://www.six-securities-services.com)

#### **SIX Disclaimer**

This information sheet does not contain a complete description of the investor's legal position, but instead provides a simplified overview of the collateralization of structured products without a listing on a regulated exchange (hereafter Products).

The legal position of an investor in the Products regarding collateralization is determined solely by the provisions of the TCM Security Agreement. In the event of contradictions between the provisions of the TCM Security Agreement and this information sheet, the TCM Security Agreement takes precedence.

Neither the conclusion of the TCM Security Agreement nor the collateralization of Products constitute a value judgment on the part of the SIX Group or its direct and indirect subsidiaries (hereafter: SIX) with regard to the issuer, the collateral provider or a Product. The distribution of Products is the responsibility of the issuer.

The content of this information sheet shall not be deemed to represent an offer or solicitation to buy or take any other action with regard to Products and does not serve as the basis for or component of any contract. This information sheet constitutes neither investment advice nor an investment recommendation with regard to Products. An investment decision on the part of the investor should be taken solely on the basis of an issuer's complete sales documentation. Furthermore, it is advisable to seek the assistance of a specialized financial consultant.

Products do not constitute collective investment schemes pursuant to the Federal Act on Collective Investment Schemes (CISA). They do not require authorization or supervision by the Swiss Financial Market Supervisory Authority FINMA.

This information sheet pertains only to Products that are collateralized within the scope of the service rendered by SIX.

None of the information contained herein constitutes an offer to buy or sell any financial instrument. SIX is liable neither for the completeness and accuracy of the information given, nor for any loss incurred as a result of action taken on the basis of information provided in this or any other SIX publication.

**Your contact:**

**SIX SIS Ltd**

Baslerstrasse 100  
CH-4600 Olten

Phone: +41 58 399 3111  
[tcm@six-group.com](mailto:tcm@six-group.com)