

Circular No. 3

Practice for the Listing of Derivatives

(Circular No. 3, CIR3)

Status on 4 April 2017
Basis Listing Rules, Additional Rules Derivatives, and implementing decrees

This Circular clarifies practice for the listing of derivatives, and provides additional detail. The Circular is amended and updated continually.

1. CONNEXOR Events

According to Art. 6 para. 1 Directive Debt Securities Specific Structures (DDSS), and Annex 3, point 2.03, issuers of derivatives with path-dependent structures are obliged to inform SIX Swiss Exchange immediately by telephone of changes to the price parameters of a derivative, or if certain thresholds (e.g. a knock-out level) are reached and, if necessary, to communicate the new data that is to be recorded.

Additionally, under Art. 6 para. 2 Directive Debt Securities Specific Structures (DDSS), and Annex 3, point 2.03, an Official Notice must be sent to zulassung@six-group.com. This Official Notice will be published by SIX Swiss Exchange.

Following the introduction of Internet Based Events, the two reporting obligations described above may now be fulfilled alternatively via CONNEXOR Events. If the event in question is reported via CONNEXOR Events, the system will automatically generate and publish an Official Notice on the basis of the data that has been submitted. In cases in which the derivative expires immediately, the system will also trigger the suspension of trading in that derivative, without the issuer needing to take any further action.

If the issuer uses CONNEXOR Events to fulfil its reporting obligation, it is no longer required either to submit an Official Notice to zulassung@six-group.com, or to notify Exchange Operations at SIX Swiss Exchange by telephone on +41 (0)58 399 24 75.

The foregoing is nonetheless conditional on the issuer having successfully completed the test phase associated with the use of CONNEXOR Events. SIX Swiss Exchange must be certain that reports are being transmitted via CONNEXOR Events before the issuer may change to this new method of reporting.

<i>2. Adjustments to barriers / exercise prices</i>	<p>In March 2004 the Regulatory Board (then the Admission Board) approved the listing of a dynamic derivative¹ with a roll-over effect for the first time. Listing was approved on the condition that, for technical reasons, the adjustments to the derivative – specifically the roll-over process itself – could take place no more than once a week. This practice was communicated in Admission Board Communiqué no. 9/2004, dated 30 August 2004.</p>	7
	<p>Following applicable SIX Exchange Regulation practices, to date the principle of weekly amendments only has also applied to periodic amendments to barriers and exercise prices for other dynamic product structures, such as open-end knock-out options.</p>	8
	<p>Market participants have increasingly been calling upon SIX Exchange Regulation to provide the facility to list on SIX Swiss Exchange derivatives that feature daily adjustments to barriers and exercise prices.</p>	9
	<p>This practice applies to all derivatives whose barriers or exercise prices are amended during their term in accordance with previously defined and objectively comprehensible criteria.</p>	10
	<p>With immediate effect, barriers (e.g. stop-loss / knock-out levels) and exercise prices for dynamic derivatives may be amended in accordance with their product terms on a daily basis, by means of the publication of an Official Notice.</p>	11
	<p>The following rules must be observed strictly when drawing up an Official Notice:</p> <ul style="list-style-type: none"> – Relevant information concerning all of the derivatives that are to be amended must be collated and sent to SIX Exchange Regulation in a single Official Notice; – The date of entry into force of the actual amendments to barriers and exercise prices must be stated explicitly; – When the Official Notice is sent, it must be accompanied by a specific note stating that it must be published before the start of trading; – The Official Notice must be sent to zulassung@six-group.com by 7.30 a.m. at the latest on the day on which it enters into force. 	
	<p>Issuers' obligations in connection with the listing and the maintenance of listing of such derivatives continue to apply in full even where daily adjustments are made.</p>	12

¹ Dynamic derivatives are derivatives whose underlying or product structure (e.g. setting of new exercise price, adjustments to thresholds in the case of products with path-dependent structures) may be changed or adapted during their term according to previously determined and objectively comprehensible rules (Art. 8 DDSS).

The most important provisions in this respect are given below (this list is not exhaustive):

- Directive Debt Securities Specific Structures (DDSS), specifically its provisions on the listing of derivatives with path-dependent structures (Art. 4 et seqq. DDSS);
- Reporting obligations in connection with an adjustment to the terms of the security, e.g. with regard to the exercise price (Annex 3, point 2.01, Reporting Obligations regarding the Maintenance of Listing);
- Reporting obligations upon the achievement of threshold values that could impact the price or valuation of the derivative (Annex 3, point 2.03).

3. Listing of Collateral Secured Instruments (COSI)

SIX Swiss Exchange Ltd offers a service for the collateralisation of structured products that are listed on SIX Swiss Exchange ("Collateral Secured Instruments"). To reduce investor risk, collateral for the instruments must be lodged in favour of SIX Swiss Exchange. Should a realisation event occur, the Collateral Secured Instruments will fall due for payment after the period defined in the "Framework Agreement for Collateral Secured Instruments" between SIX Swiss Exchange Ltd, SIX SIS Ltd, the issuer and the guarantor ("Framework Agreement"). This automatically gives rise to a claim on the part of the investors against SIX Swiss Exchange for payment of their pro-rata shares of the net proceeds from the realisation of collateral. 13

The way in which the collateralisation mechanism works is described in the SIX Swiss Exchange information sheet on Collateral Secured Instruments. The information sheet is available on the SIX Swiss Exchange website at (http://www.six-swiss-exchange.com/download/admission/cosi/investor_info_en.pdf). The Framework Agreement lays down the precise terms on which instruments are collateralised. 14

A Framework Agreement, as described under ref. no. 4 must be concluded before Collateral Secured Instruments may be admitted provisionally to trading or listed on the Exchange. 15

Applications for the provisional admission to trading of Collateral-Secured Instruments must be submitted via CONNEXOR Listing (IBT) only. 16

Investors must have access to the information that they need to make an informed assessment of the collateralisation arrangement. To this end, the listing prospectus must include a separate section that contains the text passage on the collateralisation of 17

instruments that is defined in the Framework Agreement. No amendments, deletions or additions may be made to this text passage.

Furthermore, the entire "Framework Agreement for Collateral Secured Instruments" forms an integral part of the listing prospectus under the rules on incorporation by reference, and a German original or English translation must be given out to prospective investors free of charge upon request. The listing prospectus must contain a reference to where prospective investors may obtain the Framework Agreement. 18

Further information on the collateralisation of instruments listed on SIX Swiss Exchange can be found on the SIX Swiss Exchange website at http://www.six-swiss-exchange.com/issuers/services/cosi_en.html. 19

4. Express charges for the registration and reissuance of derivatives programmes

In view of forthcoming reissues and registrations of issuance programmes for derivatives, SIX Exchange Regulation would like to remind that applications for the first-time registration or the re-issue of issuance programmes must be submitted 20 exchange days prior to the target registration date (Art. 23 para. 2 Additional Rules Derivatives, ARD). 20

If applications for the registration and reissue of issuance programmes for derivatives are not submitted by the set deadline SIX Exchange Regulation may, without prior notice, levy an express charge of a maximum of CHF 20,000 (List of Charges, Point 9.5). 21

The deadline of 20 exchange days is met with the submission of the application, including the draft issuance programme. 22

In line with common practice, to ensure that deadlines are met SIX Exchange Regulation will also accept submissions of applications for the registration and reissue of issuance programmes that are submitted by issuers or their representatives by e-mail. In such cases, please note that applications must always be sent to listing@six-group.com. The sender of the e-mail is responsible for ensuring that SIX Exchange Regulation has received the application, for example by requesting confirmation of receipt. The application, bearing the original signatures and appendices, must then be submitted on paper. 23