

QUATERLY NEWSLETTER Q1 / 2015

Introduction

Dear Repo Participant

We are glad to present the Q1 / 2015 edition of our SIX Repo Ltd. Quarterly Newsletter.

Below you will find the latest market data and economic news on repo trading.

Behind the scenes: get to know your counterparties, new joiners and the SIX Securities Finance team.

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Market Data

CH Repo & OTC Market: Daily Average Outstanding Volume Q4 in Bn CHF				
Overall	Interbank Market			
39.0	37.9			
	CHF	EUR	USD	GBP
	14.0	15.2	8.2	0.5



SIX Repo markets – opportunities unlocked

By SIX Repo AG

Negative interest rates drive Swiss Franc repo volumes

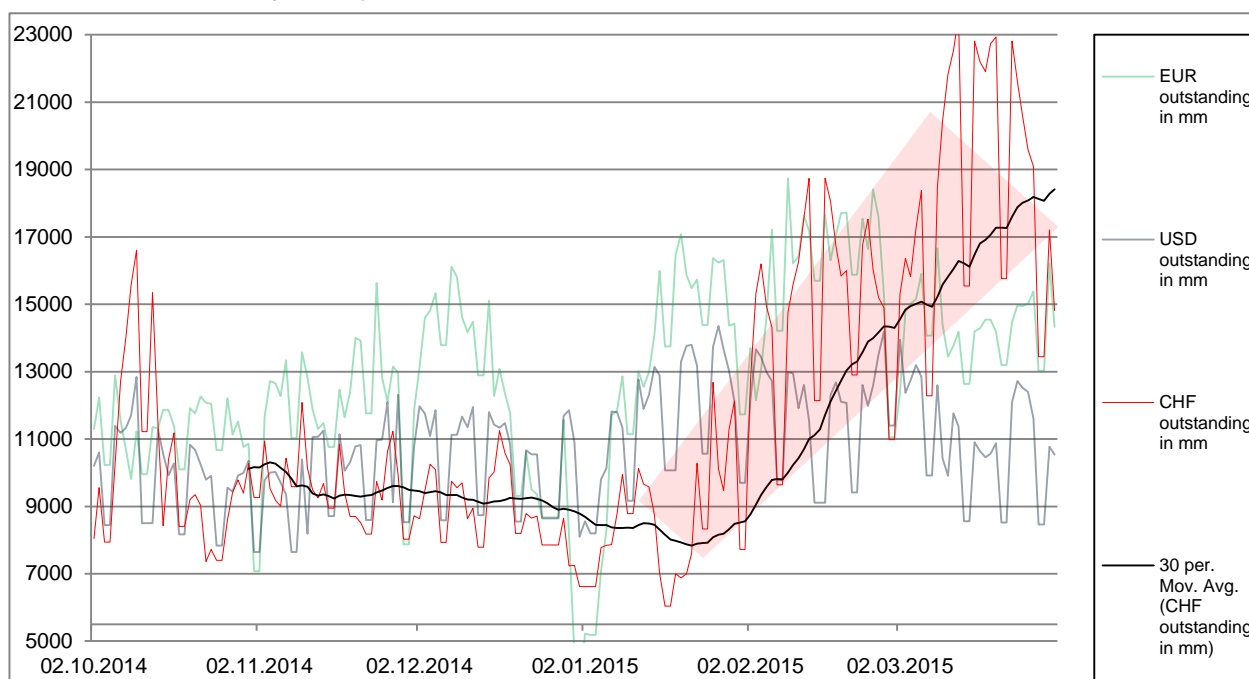
After the Swiss National Bank (SNB) introduced negative interest rates and removed the EUR fixing on 15th of January 2015, they re-affirmed that they would leave the target range of the three-month Libor unchanged at between -1.25% and -0.25% . The interest rate on sight deposits with the SNB remains at -0.75% and the exemption thresholds remain unchanged. The purpose of the negative interest rates is to make investments in Swiss francs less attractive. However, the value of the Swiss Franc seems to be affected by the market's perception of a "safe haven".

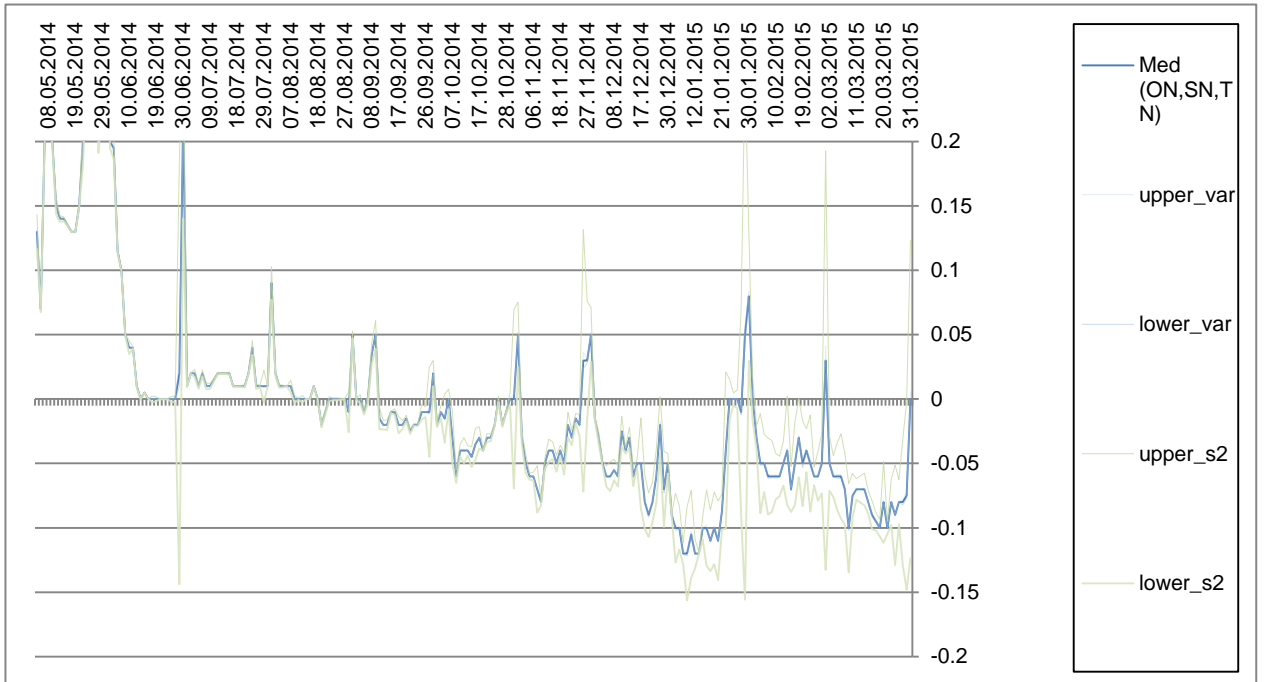
The CH repo markets have proven to be an important means for financial institutions to cope with these dramatic events. In the weeks after January 15th, a temporary shift of focus was observed, whereby participants who traditionally belong to the buy side (cash providers) switched sides and started to take in cash. As they were paid some 150 – 200

basis points by the cash provider, they could compensate the punitive effect of the -0.75% on their sight deposits. Meanwhile the typical (cross-border) cash takers found some opportunities in providing Swiss Francs due to the FX rate volatility and to use their holdings of Swiss Francs in their favor.

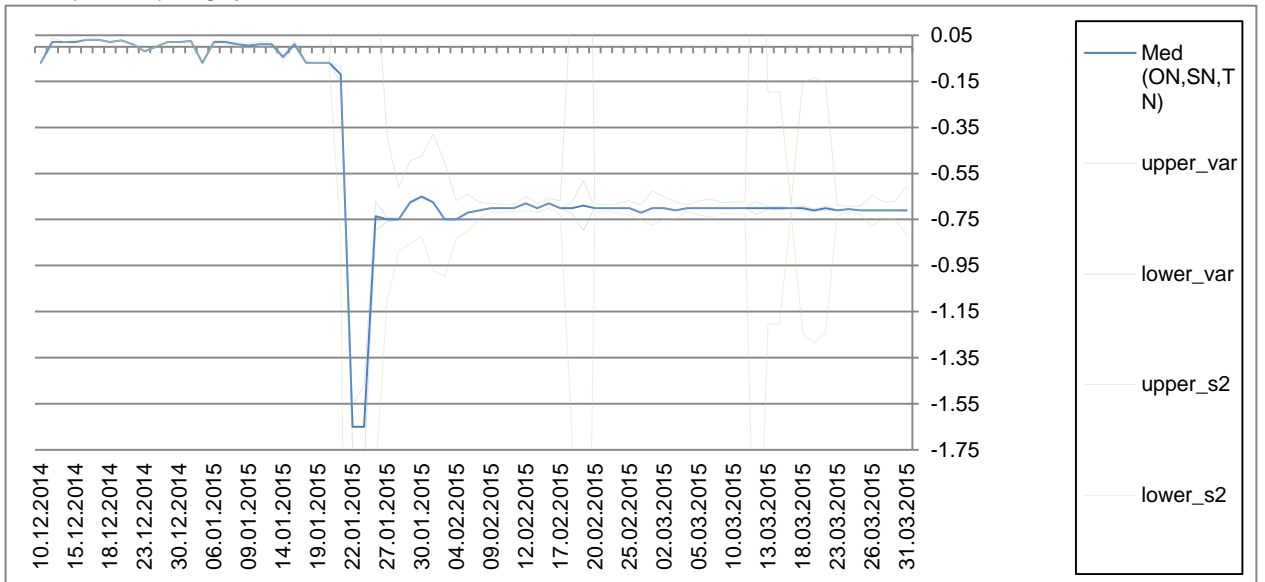
No doubt, the SNB will continue to take account of the exchange rate situation, and its impact on inflation and the economy. It is likely that the repo markets will continue to provide opportunities in the coming months as the global uncertainty is likely to create more volatility in favor of those who actively observe the market in the future.

In the short-term the SNB's conditional inflation forecast has been adjusted substantially to a more deflationary scenario.. The reasons given are the sharp decline of the oil price and the appreciation of the Swiss franc since the minimum exchange rate was discontinued. For 2015, the SNB has revised its inflation forecast downwards by 1 percentage point to -1.1 .





SIX Repo: As tapering by the ECB moves and concerns about Greece rise, variance of rates increases



SIX Repo: Opportunity: Spread to threshold more than 1%

Capital requirements – Is there still room for improvement?

Basel III has not yet prompted participants to start trading different collateral qualities within the SNB-eligible universe. The reason is obvious and was also

confirmed by several participants at the partner advisory group: Most financial institutions are still cash-rich and therefore LCR compliant. However, the need to fine tune their balance sheets, by focusing on better collateral quality, is becoming more and more important. Firstly, we know that the LCR minimal requirements are to be raised from the current 60% to 100% in 2019. Secondly, when

financial institutions experience a situation in which they reduce their cash holdings, the quality of collateral will be of increased importance in their trading activities. The SNB already classifies HQLA today and provides baskets of level 1 and 2 assets in the CH repo market. When participants become more driven by the quality of collateral, it is to be expected that we will see these baskets being traded more regularly, providing interesting price differentials in return.

Upside: Special Repos on-demand

Most recently, we have observed an increase in the trading of special repos. A number of participants have already used and benefitted from our intraday service offering in this area. If you wish to trade a specific security on our platform and it is currently not available please contact the repoinfodesk who will be able to activate almost any security for same day trading.

Securities Finance services as part of a future Swiss Value Chain

Alongside our repo activities we have adopted an approach towards integration of derivatives collateralization, collateral trading and OTC repos into our product range. We understand that collateral is becoming ever more important in your business and that it has become a new kind of “currency”. As we go forward, we will enable you to easily trade collateral and will work towards fully optimizing these requirements in future developments.



TCM – Triparty Collateral Management

Featuring real-time exposure coverage and collateral substitution, as well as full integration with our other securities financing products.

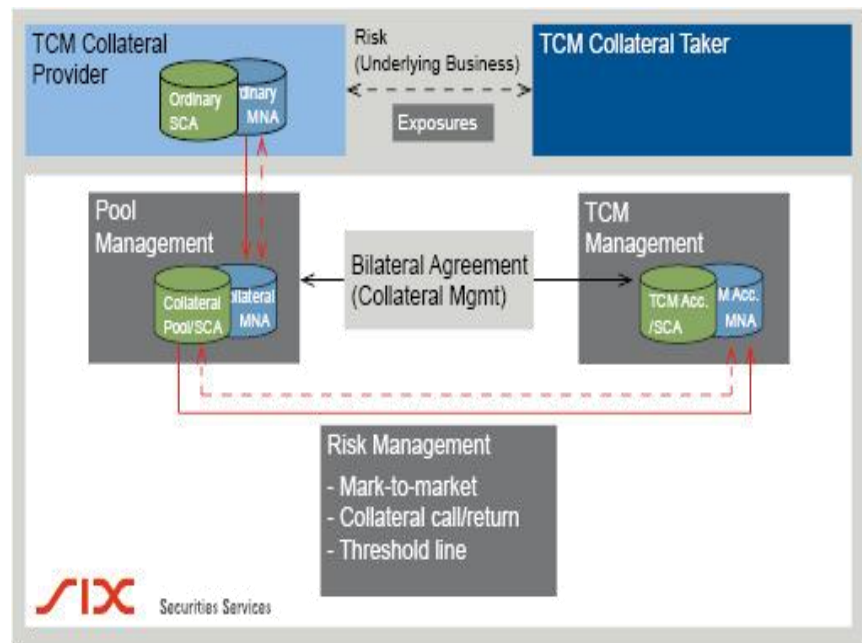
Triparty Collateral Management allows you to define a range of criteria for your specific collateral requirements (collateral schedule). Once defined, counterparty matching and exposure coverage are automated –and straight-through processed.

Administration of exposures (pledged assets) and their collateralisation is handled by SIX Securities Services.

SIX SIS Ltd, acts as the pledge holder for the trading parties and the exposure is constantly evaluated to ensure a maximal coverage with sufficient collateral.. If there happens to be a shortfall against the exposure, collateral is moved automatically from the pool account of the collateral provider and transferred to the TCM account. Excess coverage, collateral is booked back into the pool account. On one hand you optimize your collateral costs by meanwhile saving operational resources.

Interested? For further information on our TCM solution please contact our senior sales representative:

Michael Bühner, T +41 58 399 21 32
michael.buehrer@six-group.com



SIX Repo Advisory Board Meetings

In March 2015 two SIX Repo Advisory Boards were held in Zurich. The Aim of the Advisory Boards was to provide participants, SNB and SIX Repo AG a platform to discuss current topics, developments and exchange views and opinions. Below you will find a list of the topics that were discussed and some impressions from the events.

Topics:

- Overview of RTP2 platform layout
- Limit Management functionality
- Collateral Overview functionality
- Collateral handling in general
- New Evergreen contract-type
- New SNB Baskets and new Repo of SIX Basket
- Future TPA developments
- Inventory and cash forecasting tool
- New Swiss Master Agreement
- Technical discussions
- General economical discussions

Please contact us if you are interested in the minutes of the meeting or for any other SIX Repo Advisory Board related inquiries:

T +41 58 399 21 90, repointodesk@six-group.com

Impressions:





Participant Profile



Name: Thibaud Flammier

Company: Banque Cantonale Vaudoise

Job Title: Treasurer

What is your function at Banque Cantonale Vaudoise?

With my colleagues, we manage the liquidity and ensure the pricing for the different entities of the bank. In addition we ensure that sufficient and acceptable collateral is available on the different deposits belonging to the bank nearby our depositories.

What part of your job is the most challenging / interesting?

With the current fast moving environment, managing the liquidity through the new ratios or through the sudden regulatory announcement is really challenging. It implies a constant spirit adjustment to ensure that the bank complies with all these constraints.

The SIX REPO Team



Name: Toby Hasler

Company: SIX Repo AG

Job Title: Specialist Market Operations

What is your function at SIX Repo AG?

I supervise the trading activities, provide functional help, test the new trading platform and support new participants in order to ensure that the admittance procedure runs smoothly.

What part of your job is the most challenging / interesting?

It makes my day when our customers are happy with the service we provide. I really enjoy studying our markets and seeing how liquidity behaves and moves. We are also in contact with the developers and technicians who are currently building the new trading platform. Communicating with and learning from them broadens my horizon every day.

New participants joining SIX CH Repo & OTC Spot Market

- EIB, Luxembourg
- Bank Thalwil, Thalwil
- UBS, London
- Basler Versicherung, Basel

We welcome the new participants and wish them a successful start of trading on our platform.

Please find the current SIX Repo AG - List of participants for CHF Repo and OTC Spot [SIX Repo AG - List of Participants](#)

Tips & Tricks

Indication of Interest - IOI

Recently we have noticed that some participants have been using addressed offers that were sent to more than one potential counterparty in order to show their interest in doing a trade. To reach a set of addressees it is better practice to use an IOI. You can also define a distribution list which will save more time and effort. Another reason for using an IOI might be that price is a non-mandatory field. Therefore, you are able to gather information about where your counterparties see the repo rate and pick the best price (IOIs are non-binding).

If you send addressed offers to several counterparties at the same time to indicate interest in trading, there may be some financial risk involved. More than one counterparty could hit your offer and, as an addressed offer is legally binding you may not be able to agree on a cancellation.

Please consult our comprehensive Trading GUI Help manual for detailed steps on how to enter an Indication of Interest (IOI). The manual also provides detailed assistance on all other GUI-related activities.

To access the help function click on "help" in the trading GUI and then select "help" again. A new window (help page) will open. There you can find the "manual for traders in the repo market". Under the section 4.5 "How to Send an Indication of Interest" a detailed description of the IOI entry forms is provided.

Should you need any further assistance please do not hesitate to contact our Repo Infodesk:

+41 (0)58 399 2190
repointodesk@six-group.com



Market Rules

We would like to remind participants, that the maximum size of quotes and trade tickets must not exceed 100 million.

Why do we impose this limitation?

Quotes: The order of quotes in the quotes book is defined as follows: Firstly by the rate, followed by the size and the time. If market rules are not followed a new quote, with a quote size exceeding 100 million, will be listed before an existing quote that follows the market rules, although they have the same rate.

Trade tickets: In order to reduce operational risk the size of trade tickets is limited to CHF 100 million or equivalent in other currencies.

Market Operations screens the market on a regular basis and will report violation of the above mentioned rule to the relevant participant.

Service offered by Market Operations

If you have difficulty finding a matching counterparty, send your trade requirements (currency, term etc.) to repointodesk@six-group.com or call us on +41 58 399 21 90. We will search the market to locate a suitable trading party for you..

Upcoming Events / Conferences / Trainings

- SIX Repo Training & Exam, Zurich,
22 April 2015 (English)
- SIX Repo Training & Exam, Zurich,
13 May 2015 (German)
- Euroclear Collateral Conference, Brussel
18 May 2015
- IT Workshop, Zurich,
3 June 2015
- ICMA, Amsterdam
3 June 2015
- SIX Repo Training & Exam, Zurich,
10 June 2015 (English)
- ISLA, Lisbon
23 June 2015

If you are attending any of these conferences and would be interested in discussing your thoughts with us in person, please feel free to contact us in advance to arrange a personal appointment at the venue.

Contact

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