

FrontLine SIX x-clear Ltd

General Information

FSB Continuity of Access to FMIs for Systemically Important Banks in Resolution

1.0 Overview

On 14 August 2020, the Financial Stability Board (an international body that monitors and makes recommendations about the global financial system, short FSB) published a template for gathering information about continuity of access to financial market infrastructures (FMIs) for firms in resolution, based on the FSB Guidance on Continuity of Access to FMIs of 2017*. The aim is for this template to serve as an industry standard for disclosures by FMIs to their service users regarding information on possible actions that FMIs can take in case of resolution of a service user. The template takes the form of a questionnaire that all FMIs are encouraged to complete. The FSB recommends publishing the results from the questionnaire to firms using the FMI's services in order to help them in their resolution planning.

*The FSB Guidance on Continuity of Access to FMIs of 2017 sets out arrangements and safeguards to facilitate continuity of access to FMIs for a firm in resolution. Authorities and firms face similar information needs when developing resolution plans and engaging with FMIs on arrangements and safeguards to address continuity of access in resolution issues. The FSB template complements the FSB Guidance.

With the publication of this abstract, SIX x-clear Ltd (SIX x-clear) is following the recommendation by the FSB to publish the results of the questionnaire. The main focus lies on systemically important banks (SIBs), both domestic (i.e. Swiss) and global, which, given their importance for the stability of the financial market, need to carry out preparatory work for their regulatory-approved recovery and resolution Plans. As part of this work, SIBs are asked to declare how they will maintain access to critical FMIs.

SIX x-clear is classified as a provider of a critical FMI service. As such, SIX x-clear aims to assist SIBs and their resolution authorities in implementing necessary measures and fulfilling their recovery and resolution obligations by hereby publishing a summary of all the relevant information from SIX x-clear's perspective, based on the FSB template.

2.0 Legal Entity Information

SIX x-clear Ltd is a wholly-owned subsidiary of SIX Securities Services Ltd, which is in turn fully owned by SIX Group Ltd., most of whose shareholders are Swiss banks. As a Central Counterparty (CCP), it offers a high-quality and comprehensive range of clearing services underpinned by strong real-time risk management and operational efficiency across multiple trading platforms and markets.

SIX x-clear is active and authorized in three separate jurisdictions: Switzerland, the European Union (EU) and the United Kingdom (UK). In Switzerland, SIX x-clear is licensed under the Swiss Financial Markets Infrastructure Act (FMIA) and supervised by the Swiss Financial Market Supervisory Authority (FINMA) and, due to its classification as a systemically important FMI, by the Swiss National Bank (SNB). In the EU, SIX x-clear

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is recognized as a third-country CCP according to Article 25 EMIR by the European Securities and Markets Authority (ESMA) based on a settlement finality designation by the Bundesbank in Germany. In the UK, SIX x-clear has applied for third-country recognition under the corresponding UK legislation based on a settlement finality designation by the Bank of England. It is currently recognized by the Bank of England under the temporary permissions and recognition regime.

3.0 General Contract Information

All relevant contracts with the service users of SIX x-clear are governed by either

- Swiss law for Members incorporated in Switzerland;
- UK law for Members incorporated in the UK; or
- German / European law (i.e. EMIR) for Members incorporated in the EU / EEA.
- A minority of Scandinavian Members have a contractual relationship in place (probably until mid-2021) which is governed by UK and Norwegian law.

SIX x-clear treats all service users equally and fairly – both in the regular course of business (“business as usual”) and in times of distress, suspension, default or even termination.

4.0 Rulebook/ Contractual Provisions regarding Default

The worsening of the creditworthiness of an FMI service user (e.g. due to a stress event) can endanger not only the FMI’s stability but also the stability of other service users (domino effect) and ultimately the stability of a financial market as a whole.

In order to prevent knock-on effects and in compliance with current contractual arrangements, SIX x-clear has the right to set a service user in default (see chapter 19 Rulebook) either automatically in compulsory defaults or voluntarily in the case of discretionary defaults:

- Compulsory: e.g. in case of insolvency or withdrawal of supervisory license of the service user; or
- Discretionary: e.g. in cases of gross violation of duties vis-à-vis a company of SIX Group, reasonable doubts regarding the continuance business viability of the service user, financial stress or resolution.

Consequences of setting a service user into default is either a suspension or a termination of the clearing contract with that service user. Trades accepted by SIX x-clear’s system before termination or suspension of the membership will be settled. No

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new transactions may be instructed after termination or suspension of the membership (chapter 4 ff. in the Rulebook of SIX x-clear).

In case of a SIB entering resolution, there is a trade-off for the FMI between initiating a discretionary suspension/termination of the services offered (hence protecting the FMI against potential losses) and supporting the continuity of access for the SIB. In such a scenario, an arrangement is needed between the SIB and the FMI to reduce uncertainty on the potential FMI reaction in case of resolution and to agree upon additional requirements. SIX is currently working on a standardized solution for such an arrangement which is open to all SIBs and is effective upon bilateral exchange between SIX and the SIB. The arrangement aims to create full transparency over SIX's requirements towards a SIB which enters resolution, in order to maintain access to the critical services. Additional requirements are meant to cover additional risk arising from the deterioration of the creditworthiness of the SIB and hence protect the FMI. The information contained in the arrangement should enable the SIB to plan the financial resources required and, as a result, prevent any disruption in the continuity of FMI access.

That having being said, financial stress or a resolution event of a service user do not represent automatic initiation for termination. SIX x-clear reserves the right to terminate services in case the requirements foreseen by the contractual arrangements are not fulfilled.

5.0 Prior to resolution and during signs of distress at the service user

SIX x-clear has an established monitoring system and counterparty review procedure in its usual business processes to detect stress signals (both idiosyncratic or market wide) and to identify a potential financial distress of an FMI service user.

SIX x-clear's internal processes use market data and internal and external ratings to monitor the financial health of its post trading counterparties. In addition, official press releases of the relevant supervisory authorities and the constant information exchange with other FMIs and other business units within SIX is used to detect any situations that could cause damage to the FMI. Furthermore, SIX x-clear has standardized means of communication with all its service users to gain first-hand information.

With regard to SIBs, enhanced communication between the FMI and SIB is essential to gather information and support the assessment of the SIB's situation. To this aim, an updated contact list needs to be provided by the SIB for the continuity of access. Communication with the markets and regulators will continue to be handled by the SIB in order to avoid adverse market signaling.

The increased risk of a counterparty is addressed by means of increased risk parameters and hence financial requirements (e.g. additional collateral), which are

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upgraded dynamically in line with the observed monitoring outcome. The business-as-usual financial requirements are calculated daily and are based on financial models developed by SIX x-clear at its own discretion.

On top of the already foreseen financial requirements of SIX x-clear towards its service users (which are calibrated to take into account a deterioration of the Member's situation), SIBs may enter into an agreement with SIX x-clear in order to define additional requirements (e.g. maximum possible enforced requirement in the worst case scenario) and reduce uncertainty on the potential risk mitigation measures SIX x-clear might apply in case of a resolution event of a SIB.

The envisaged risk mitigation measures of SIX x-clear include both increased financial requirements as well as additional information requirements.

Financial requirements are intended as an additional layer on top of the already foreseen requirements in order to facilitate and accelerate the implementation of additional measures to ensure continuity of access. To achieve the goal of transparency between FMI and SIB, the aforementioned agreement describes in details such additional requirement as a cap, i.e. maximum possible enforced requirement in the worst case scenario. This enables a SIB to assess the potential additional requirements in the worst case scenario at any time and put aside a prudential buffer to safeguard the FMI access.

The additional information requirements are intended as an information exchange with the SIBs to support the FMI's evaluation of the bank's status. The faster and more reliable this information exchange is, the less uncertainty SIX x-clear will have to deal with and the better an adequate solution can be found for the member. If a comprehensive exchange of information cannot be achieved, SIX x-clear may make conservative assumptions about the financial health of the SIB, i.e. applying the maximum requirement foreseen in the agreement.

This setup via a written agreement between the SIB and the FMI would help the FMI to have a prompt mitigation for the increased risks related to a SIB distress, but at the same time help the SIB to remove uncertainty on the FMI's reaction and to plan accordingly its financials for the purpose of continuity of access.

6.0 During and after resolution

A resolution event represents an extreme deterioration of the SIB's condition (prior to the declaration of default), i.e. crossing the point of non-viability. The daily monitoring activities of the first and second line of defense at SIX x-clear, together with the escalation and competence order and in extreme cases the default management procedure, facilitate the prompt decision regarding a potential default at any time. In order to safeguard the financial stability of SIX x-clear, the deterioration of the

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conditions of a SIB would cause internal reassessments, leading to applying the aforementioned additional requirements (described in the separate agreement for SIBs) in order to maintain access to services of SIX x-clear.

SIX x-clear can assess and re-calibrate internal risk models at its own discretion in order to protect its stability. As already described, for SIBs an additional legally binding agreement is available and can be established in order to reduce uncertainty on the potential mitigating actions of SIX x-clear toward a SIB.

Should the SIB not be able to fulfill its financial and information requirements (standard and additional), SIX x-clear will promptly escalate to the SIB, the regulatory authorities and financial supervisory authorities.

As a private company and as a CCP actively engaged in the stability of the financial market, in order to safeguard its own survival, SIX x-clear reserves the right to terminate access according to regular default procedures. In such a scenario, SIX x-clear shall inform, within the framework of its contractual obligations, the SNB and FINMA as well as trading venues, recognized clearing houses and CSDs with which SIX x-clear cooperates.

7.0 Additional considerations

Contractual relations between SIX x-clear and a SIB are set at the legal entity level. Should the SIB wish to set up a bridge institution to maintain access, this bridge institution must be a member of SIX x-clear prior to the SIB entering resolution to ensure a transfer of functions and assets. Additional requirements apply to the bridge institution according to the counterparty risk of this institution towards SIX x-clear. The transfer of contracts, segregated assets or operational connections from one Member to another must be set up beforehand, independently of a resolution event (e.g. in case of a merger, see "porting arrangements", chapter 20 Rulebook).

Since SIX x-clear offers segregated accounts to all its Members, a service user may also transfer assets to another CCPs in case of resolution.

Please note that SIX x-clear uses software to enable reliable and secure processing. Members are already using these products on an ongoing basis and there will be no introduction of new products if a Member enters resolution.

Upon request, SIX x-clear can disclose to the SIBs the full version of the FSB Questionnaire as well as further insights on the aforementioned bilateral agreement. The applicability of the agreement is subject to a bilateral exchange between the SIB and the FMI. For any further questions, please contact your Relationship Manager.

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For further reference, please see [the published FMI disclosure template under the Disclosure Framework for Financial Market Infrastructures](#) and the [Rulebook of SIX x-clear](#).

8.0 Contact

If you have any further questions, please contact your Relationship Manager. The contact details are mentioned in the list of SIX SIS contacts published at www.six-group.com > Login > Securities Services Private > Contacts > SIX SIS > List of SIX SIS contacts.

In this context, SIX x-clear Ltd draws the Members' attention to **clause 7.1, chapter 17.0 and clause 24.1** of the General Terms and Conditions of SIX x-clear Ltd stipulating that the Member is responsible for compliance with the applicable laws (in particular domestic and foreign tax, foreign exchange and stock market regulations as well as with company law and articles of association) with respect to the Clearing services obtained from SIX x-clear Ltd.