Custom Basket Forwards

Equity exposures made simple

May 2023
Executive Summary

Custom Basket Forwards enables investors to create a forward contract on a customized equity basket selected from a European universe of stocks (adding U.S. stocks in a phase 2).

Nasdaq has developed Custom Basket Forwards to address an increasing demand for a simpler and more efficient way to handle equity exposures with standardized contracts on a regulated market.

With Custom Basket Forwards cost efficient equity exposures can easily be created without bilateral risk, dependency in liquidity provision and entering/maintaining ISDA agreements.

Create an equity basket from your choice

Gain tailored equity exposure with a single basket transaction

- Cost efficient and simple to use
- Benefit of CCP clearing
- Reliability of exchange trading on a regulated market
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Drivers and benefits

Global market exposures with simplified operations and execution in local currency.

Futurization of Equity Swaps

- Regulatory pressure – impact on capital and margin requirements for un-cleared OTC transactions
- Cost effective alternative to Total Return Swaps
- Overcome complexity and costs of ISDA based structures
- Reduce bilateral risk with CCP as counterparty

ETD status

- Competitive price discovery with multiple participants
- Simple and efficient pool of collateral at Nasdaq Clearing
- Custom Baskets are under the EU Benchmark administration (BMR)
- Margin offset (phase two)

Derivative supporting investments based on tailored ESG/climate strategies, thematic baskets, proprietary indexes, ETF replications, etc
Product overview
Custom Basket Forwards

Product Description

Standard Terms:
- Forward contract with cash settlement
- Quarterly Expiration
- Basket Methodology
- Corporate Action treatment

Custom Features:
- ETD or OTC
  - Public and private baskets
- Currency
  - SEK, DKK, NOK, USD, EUR, GBP
- Price-, Gross or Net return
  - Country specific withholding tax rates for Net
- Basket composition
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Stock universe and country coverage

Phase One: European Scope

Phase Two: Global Scope

- Based on member and client interest
- Subject to commitment of Close out providers

+1,700 stocks
15 countries
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Process description

1. **Basket Request**
   - Basket and Forward contract requested / submitted to Nasdaq by e-mail
   - Custom Basket calculation starts
   - Basket Forward contract listed in the trading and clearing system
   - Confirmation with basket ticker and contract name sent back to the requestor

2. **Trade reporting**
   - Forward contract available in Nasdaq trading and clearing system
   - Trade agreed and reported as a block transaction
   - Tailored equity exposure created!

✓ Exchange traded and CCP cleared contract
✓ Multilateral trading facility
✓ Single transaction, CCP, trading venue & currency
✓ Equity basket regulated under BMR
✓ Cost efficiency
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Quarterly cycle

New Basket Created:
1. Rebalance exposure, or
2. Roll contract into new expiry
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Transaction and expiration fees

**Transaction & Expiration Fee***
- Client accounts: **0.30 bps** of notional amount
  - Floor fee per transaction: 300 USD
- Principal accounts: **0.15 bps** of notional amount
  - Floor fee per transaction: 150 USD

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Contract notional: **50.000 SEK**
Number of contracts: **2.000**

100 MSEK

Trade Notional

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**Example of Transaction Fee**
- Client account transaction fee: **3.000 SEK**
  - 0.3 bps of 100 MSEK
  - 2.4 bps annually (two transactions per quarter)
- Principal account transaction fee: **1.500 SEK**
  - 0.15 bps of 100 MSEK
  - 1.2 bps annually (two transactions per quarter)

*) Discounted fees apply for intra-quarter re-balance transactions
Contact Details

Håkan Walden
Product Manager, Equity Derivatives
E-mail: hakan.walden@nasdaq.com
Phone: +46 8 405 71 70

Julian Butterworth
Head of European Sales
E-mail: julian.butterworth@nasdaq.com

Exchange Broker Desk
E-mail: eb.mps@nasdaq.com