

NASDAQ CLEARING

Capital Requirement Guideline

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Purpose

The objective of using a Capital requirement in the risk management and membership requirements at Nasdaq Clearing is to help to ensure that Account Holders have sufficient financial capacity to serve their positions in any market conditions without risking their operations. Nasdaq Clearing uses both a minimum Capital requirement in the membership requirements and a Capital-based Exposure Limit (*see Exposure Limit and Liquid Asset Guideline for more information*). The purpose of this guideline is to outline the minimum Capital requirement and to define Capital depending on the type of Account Holder as provided for in the Financial Derivatives Clearing Rules and the Commodities Derivatives Clearing Rules (respectively, the “FIN Rules” and “COM Rules” and together the “Rules”). Terms not defined in this guideline shall have the same meaning as in the FIN Rules and COM Rules, as applicable.

Definition of Capital

Capital is defined differently for different types of Account Holders. Note that government institution and municipalities are exempted from the Capital requirement, so there is no definition of eligible instruments for them. The Capital available to meet Capital requirements is defined as per the below table, where the sum of all eligible instruments is the Capital base for a specific member

Table 1: Capital definition

Type of member	Eligible instruments
Bank (regulated European banking entity)	<ul style="list-style-type: none"> • CRDIV Tier 1 capital • CRDIV Tier 2 capital
Corporate	<ul style="list-style-type: none"> • Subscribed capital • Capital reserves • Retained income less losses incurred during the year • Untaxed reserves (reduced by tax) approved by Nasdaq Clearing • Adjustment: Deduction of intangible assets* • Adjustment: Deduction of deferred taxes <p><i>Note: Each corporate's local accounting standards is being applied during the assessment of eligible instruments. However, Nasdaq Clearing has the right to request financial information according to international accounting standards from each Account Holder.</i></p>
Foundations	<ul style="list-style-type: none"> • Foundation wealth
Fund	<ul style="list-style-type: none"> • Fund wealth

*Norwegian power producer's intangible assets that is waterfall right does not need to be deducted.

Any Account Holder not falling into any of the categories above will be assessed on a case-by-case basis by Nasdaq Clearing.

Capital requirement

The below table outlines the specific Capital requirements valid for the respective membership category and clearing activity.

Table 2: Capital requirements across membership category and clearing services

Membership / activity	Financial Derivatives	Commodity Derivatives
General Clearing Member	SEK 200 million SEK 500 million for clearing of Generic Rates Instruments (OTC traded interest rate derivatives)	€ 20 million
Direct Clearing Member / Clearing Member	SEK 50 million SEK 500 million for clearing of Generic Rates Instruments (OTC traded interest rate derivatives)	€ 5 million
Direct Clearing Client	SEK 50 million SEK 500 million for clearing of Generic Rates Instruments (OTC traded interest rate derivatives)	€ 5 million
In case of PCG	SEK 10 million	€ 1 million

Parent Company Guarantees and bank guarantees

Account Holders can choose to use a Parent Company Guarantee (PCG) or Bank Guarantee (BG) to fulfil the Capital requirement or to increase the Capital Exposure Limit in accordance with the Exposure Limit Guideline, either by using a limited or an unlimited guarantee (for Capital Exposure Limit calculation, please see Exposure Limit and Liquid Asset Guideline). The guarantee needs to be submitted in accordance with the Nasdaq Clearing PCG or BG template and approved by Nasdaq Clearing Credit Committee. In addition, PCG can also be used in case the Account Holder itself is unable to provide Nasdaq Clearing with audited annual financial statements in accordance with the Rules.

When using a Parent Company guarantee or a Bank Guarantee the following requirements must be fulfilled:

Parent Company Guarantee:

- The guarantor should meet the minimum Capital requirements applicable for the Account Holder the guarantor is providing the PCG to.
- In respect of a limited PCG, the guaranteed amount cannot be higher than 25% of the Capital of the guarantor (unconsolidated Capital level less Capital attributable to the Account Holder) according to the applicable Capital definition as per the section above.
- The guarantor or the Account Holder should provide Nasdaq Clearing with sufficient information about the guarantor so that the Credit Score of the guarantor can be determined according to the Credit Score Guideline.

- In case of an unlimited guarantee, the Credit Score of the guarantor shall be used.
- In case of a limited guarantee, the Credit Score of the Account Holder is unchanged. In the Capital Exposure Limit calculation, the parent company guarantee amount should be discounted with the credit factor based on the score of the guarantor.

Bank Guarantee:

- The Account Holder should provide Nasdaq Clearing with sufficient information about the Guarantor so that the Credit Score of the guarantor can be determined.
- The bank guarantee amount cannot exceed 100% of the Account Holder's capital according to the applicable capital definition based on the latest audited annual report.
- Bank guarantee amounts are multiplied by a credit factor of 95% in the Capital Exposure Limit calculation.

Bank Guarantee issuer requirements:

- Credit institutions licensed in accordance with legislation implementing the Directive 2013/36/EU (Capital Requirements Directive).
- Internal Credit score of at least 4, and credit rating of at least A (S&P) or A2 (Moody's).
- Credit analysis on issuer's financial performance including liquidity, solidity and material risks.
- No findings from sanction screening.

Note that the Account Holder itself shall still fulfil the criteria of being fit and proper to conduct clearing operations in line with the Rules and the Operational Requirements Guideline. Note that even in the case of using a PCG or a BG to meet the minimum Capital requirement, the Account Holder needs to have a minimum Capital of € 1 million in respect of Commodities Derivatives and SEK 10 million in respect of Financial Derivatives.

Assessment and Consequences

All Account Holders will be assessed against the Capital requirement upon application for membership. Furthermore, Nasdaq Clearing will review the Capital position of its Account Holders at least on a quarterly basis. All Account Holders are required to provide Nasdaq Clearing with updated Capital information at least on a quarterly basis, or when requested by Nasdaq Clearing. Nasdaq Clearing has the right to request supporting proof of any of the financial information provided by an Account Holder. Sanctions and timeline to be used by Nasdaq Clearing in case the Account Holder is late to submit the requested data are set out in section 1.8.4 – 1.8.13 in the FIN Rules and section 3.12 in the COM Rules.

In case of a Capital Requirement breach, the Account Holder should resolve the breach within two business days. If the Account Holder fails to resolve the breach within two business days, Nasdaq Clearing will invoke Sanctions. Sanctions and timeline to be used by Nasdaq Clearing are set out in section 1.8.4 – 1.8.13 in the FIN Rules and section 3.12 in the COM Rules.

Contact Information

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