

NASDAQ CLEARING

Financial Crime Risk Score Guideline

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Purpose

The Nasdaq Clearing Financial Crime Risk Score is a rating methodology used to assess and monitor the Account Holders risk of financial crime across clearing services and to calculate Financial Crime Risk Score to each Account Holder as provided in the Financial Derivatives Clearing Rules and the Commodities Derivatives Clearing Rules (respectively, the “FIN Rules” and “COM Rules” and together the “Rules”). The methodology uses a range of qualitative inputs to assign a Financial Crime Risk score from 1 to 4 for each Account Holder, where 1 represents the lowest financial crime risk and 4 the highest risk. Terms not defined in this guideline shall have the same meaning as in the FIN Rules and COM Rules, as applicable.

Financial Crime Risk Scoring Methodology

Nasdaq Clearing has applied a risk-based approach to set appropriate measures to assess the risk of financial crime. The methodology has been developed based on analysis of financial crime risks posed to Nasdaq Clearing and best market practices. The score model is using a set of risk factors to calculate the Financial Crime Risk Score:

- KYC, i.e., failed identification of ultimate beneficial owner, representative or incomplete information.
- Political Exposed Persons (PEP) and high-risk countries.
- Nature of the business, i.e., business model, size, and complexity of the company, as well as the products and markets the Account Holder operates in.
- Financial crime specific indicators, such as historical investigations, regulatory breaches, sanctions, etc.

Overrides

Despite the above-described financial crime related risk factors, Nasdaq Clearing holds the right to override the calculated Financial Crime Risk Score of any Account Holder at any given time. Overrides are based on aspects not included in the model and may comprise:

- Early warning indicators, i.e. signs that the Account Holder might be in distress which have not been sufficiently accounted for in the Financial Crime Risk Score (e.g. launched investigations, warnings, negative news, etc.)
- Any other reason that Nasdaq Clearing considers significant or important.

Usage of Financial Crime Risk Score

Financial Crime Risk Score is part of the overall risk profile assessment of Account Holders. It is used in several areas of the risk management practices at Nasdaq Clearing and such areas of application include:

- **Minimum membership requirement:** An Account Holder needs to have a score between 1-3 to become an Account Holder at Nasdaq Clearing. In addition, if an Account Holder during the

on-going monitoring receives a score of 4, the Account Holder considers to be in breach towards minimum requirements.

- **Risk profile assessment:** Assessment of aggregate risk profile at Nasdaq Clearing across Account Holders.

Assessment and Consequences

The Financial Crime Risk Score of all Account Holders is determined upon application for membership and is based on the information in the application form and from external sources. Once an applicant is admitted, the Financial Crime Risk Score is reviewed periodically or when triggering events occur. The input to the periodic review is collected in the yearly DDQ. The Account Holder is responsible to submit the DDQ within the given deadline. When refreshing the information used in the Financial Crime risk Score model, the need and rationale for any override is also assessed before the final score is assigned. When the Financial Crime Risk Score is updated for an Account Holder, the score is assessed against the minimum requirement.

In case of an Account Holder breaching the Financial Crime Risk Score requirement (i.e. Financial Crime Risk Score of >3), the Account Holder is asked to remediate the breach. If the Account Holder fails to remediate the breach within 20 business days, Nasdaq Clearing will evaluate the Account Holder for suspension, and if the breach remains after 2 months the Account Holder will be evaluated for termination, see further information in section 1.8.4 – 1.8.13 in the FIN Rules and section 3.12 in the COM Rules.

Contact Information

For confidentiality, legal and compliance as well as reputational reasons, Financial Crime Risk Score is not disclosed and will only be used internally by Nasdaq Clearing, but if there are any related questions, please reach out to Nasdaq Clearing Credit Risk team: credit@nasdaq.com