

## NASDAQ CLEARING

# Operational Requirements Guideline

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### Purpose

The purpose of assessing Account Holders adherence to the Operational requirements is to ensure that the Account Holder at all times has the operational capacity to fulfill its obligations as a counterparty to Nasdaq Clearing in accordance with the Financial Derivatives Clearing Rules and the Commodities Derivatives Clearing Rules (respectively, the “FIN Rules” and “COM Rules” and together the “Rules”). A risk-based assessment considering operational requirements, covering organizational requirements, risk management routines and system capabilities, is made to ascertain an Account Holder’s fulfilment of Nasdaq Clearing’s operational requirements, as these are critical for an Account Holder’s ability to meet its obligations towards Nasdaq Clearing. The operational requirements, accounted for below, have to be fulfilled to achieve satisfactory adherence with the membership requirements in accordance with the FIN Rules and COM Rules.

Terms not defined in this guideline shall have the same meaning as in the FIN Rules and COM Rules, as applicable.

### Overview of operational requirements

Table 1 below provides an overview of operational requirements on Account Holders assessed by Nasdaq Clearing. These requirements are further specified in the corresponding sections set out herein. Nasdaq Clearing applies a risk-based approach when assessing an Account Holder’s fulfilment of operational requirements.

Table 1. Overview of operational requirements

Category	Account Holders shall:
<b>A suitable organization:</b> Staffing and competencies	Ensure appropriate staffing to carry out clearing related tasks, incl. e.g. <ul style="list-style-type: none"> <li>• Sufficient staffing and backup to manage clearing relates tasks</li> <li>• Staff involved in clearing relates activities has adequate competencies such as knowledge on derivative products cleared, clearing related systems and applications and backoffice staff knowledge of Nasdaq Clearing self-study materials on clearing related activities</li> </ul>
<b>A suitable organization:</b> Segregation of roles	<ul style="list-style-type: none"> <li>• Have an independent risk management department or risk management officer with authority to take appropriate actions</li> <li>• Have clear segregation of responsibilities between Back Office, Front Office and Risk Management</li> </ul>
<b>Risk Management routines</b>	<ul style="list-style-type: none"> <li>• Have a risk management department or risk officer, responsible for Managing and controlling risks</li> <li>• Assessing the Account Holder’s level of risk in relation to its clearing activities</li> <li>• Monitor financial capacity and risk limits</li> </ul>

	<ul style="list-style-type: none"> <li>• Taking appropriate actions in case of risk limits or margin requirement breaches</li> </ul>
<b>Technical systems</b>	<ul style="list-style-type: none"> <li>• Possess appropriate technical systems to perform its clearing related activities and ensure business continuity</li> </ul>

Where an Account Holder is a Direct Clearing Client, the operational requirements set out in this Guideline and in COM Rules Appendix 8, Sections 2.1.1, 2.1.7 – 2.1.11 and 2.1.13 – 2.1.14 may be met by the Direct Clearing Client together with such Direct Clearing Client's Direct Clearing Agent.

Notwithstanding the foregoing, any Direct Clearing Client remains responsible to meet all membership requirements at all times and any failure by its Direct Clearing Agent to meet any such requirements as set by the Clearinghouse pursuant to the Clearing Rules shall be a failure by the Direct Clearing Agent and its respective Account Holder on whose behalf it is acting as a Direct Clearing Agent.

### **A suitable organization**

A suitable organization refers to an Account Holder's workforce in regard to number of staff, the competence of staff and segregation of roles within the organization. Account Holders need to continuously fulfil the organizational rules and requirements established by Nasdaq Clearing as outlined below and confirm the fulfilment through an annual Due Diligence.

### ***Adequate staffing and competencies***

Account Holders shall ensure appropriate staffing within the entity clearing at Nasdaq Clearing or its group, including necessary backups in case of absence, in order to carry out clearing related tasks on an intraday basis. Front Office shall be staffed to the capacity of managing intraday exposure. Back Office shall be staffed to the capacity of performing daily allocations, reconciliations, settlements and management of margin calls in terms of collateral payments. Risk management shall be staffed to ensure capacity of performing follow-ups of risk exposure, act on breaches of risk limits and ensure sufficient financial resources/liquidity to cover margin calls, settlements and other commitments.

Third-party agreements of outsourcing of certain operational activities relating, for example, to the relationship between Direct Clearing Clients and Direct Clearing Agents, shall be disclosed to Nasdaq Clearing along with the scope of such an agreement.

Account Holders shall also ensure adequate competence of staff. Nasdaq Clearing's assessment of staff competence is generally based on educational level of staff, years of experience in the industry and experience in relevant tasks associated with the clearing related activities.

An Account Holder can also demonstrate adequate competence by attendance of relevant staff at courses/seminars at Nasdaq Clearing, Nord Pool or at other relevant exchanges.

In addition, to the requirements stated above, Back Office personnel:

- Must have studied and understood the back-office self-study material provided by Nasdaq Clearing; and

- Are up to date with the latest information provided by Nasdaq Clearing on back-office operations
- Possess general knowledge in derivative products of the Clearing House and are able to perform all the required functions in relation to clearing, including reconciliations, settlements and actioning margin calls

### ***Segregation of roles***

Roles shall be separated to ensure:

- Segregation of Front Office and Back Office in terms of division of staffing and management; and
- Segregation of Front Office and Risk Management in terms of division of staffing and management.

A Direct Clearing Client that is not engaged in client clearing is exempt from this requirement if it has outsourced clearing related activities to its Direct Clearing Agent/internally within its group of companies and; conditioned on that the DCC provides NC with written proof of its understanding and consent of such arrangement and scope of services outsourced; and conditioned on the service provider provide a description of services offered.

### **Risk management routines**

Account Holders shall have a risk management department or risk management officer responsible for:

- Managing and controlling material financial and non-financial risks (e.g. operational risks);
- Assessing the Account Holder's level of risk in relation to its clearing activities, and monitoring the Account Holder's financial capacity and risk limits; and
- Taking appropriate actions in case of limit or margin requirement breaches.

These criteria are assessed through review of documentation of risk management routines that have been approved by the relevant senior bodies within the Account Holder's organization.

### **Technical systems**

An Account Holder shall possess appropriate technical systems that are commensurate with the complexity of the Account Holder's operations and enable the Account Holder to accomplish their tasks and commitments towards Nasdaq Clearing. The distribution of competence across staff with respect to the usage of such systems should enable the Account Holder to fulfill requirements on clearing related tasks on an intraday basis. Furthermore, a business continuity plan (BCP) should be in place for clearing related activities (e.g. fulfill record keeping, risk measurement and time critical operational tasks, such as intraday margin calls and trade allocation).



These criteria are assessed through review of documentation of technical systems and BCPs that have been approved by the relevant senior bodies within the Account Holder's organization.

#### **Reporting Requirements, Assessment and Consequences**

All Account Holders will be assessed against the operational requirements upon application for membership. Furthermore, Nasdaq Clearing will do a comprehensive review of compliance with the operational requirements of its Account Holders at least on an annual basis.

All Account Holders shall ensure that Nasdaq Clearing receives a completed Due Diligence Questionnaire with accurate and up-to-date information at least annually. The information submitted will be used to assess compliance with e.g. operational requirements. The Sanctions and timeline to be used by Nasdaq Clearing in case the Account Holder is late to submit the requested data or in case the Account Holder is in breach of the operational requirement 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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