

# Nasdaq Clearing AB

## Risk Disclosure Document

# 1. Introduction

This document describes the levels of protection, risks and the costs associated with the different accounts and levels of segregation offered by and in accounts at Nasdaq Clearing AB (“Nasdaq Clearing” and the “CCP”) and in accounts at the level of the CSDs and/or Sub-custodians<sup>1</sup>. This document also considers some of the risks that are associated with the process of clearing transactions through Nasdaq Clearing based on the Clearing Rules of Nasdaq Derivatives Market and the Clearing Rules of Nasdaq Commodity Derivatives (together, the “Rules”).

This document covers risks that might arise for a Clearing Member (as defined below) or a client through its relationships with, among others, Nasdaq Clearing and, as regards a client, with its Clearing Member, under the various clearing alternatives that Nasdaq Clearing offers. This document does not deal with other kinds of risks that are related to trading in derivatives, such as market risk, leverage risk and political risk.

The analysis and descriptions of the risk scenarios included in this document are based on Swedish law. Please note that other jurisdictions’ laws and regulations may apply in a particular case, which could alter the analysis and outcomes described herein. The purpose of this document is only to provide Clearing Members, as well as their end-clients, additional information in relation to risks which are connected to the clearing process. This document does not form part of the contractual documentation between Nasdaq Clearing and its counterparties. Although this document has been prepared on the basis of the best information available at the moment of preparation, Nasdaq Clearing accepts no liability for any decision taken on the basis of any information contained in this document. Clearing Members and their clients cannot rely on the information given herein but should seek independent legal advice in relation to their clearing activities.

Capitalised terms not defined in this document shall have the meaning given to them in the Rules.

For a fuller description of the various clearing offerings, account types, collateral management, default and risk management, operations etc. please refer to Nasdaq Clearing’s website<sup>2</sup>.

## 2. Background

Nasdaq Clearing offers clearing of equity and fixed-income derivative instruments, such as options, forwards, futures and swaps with mainly Nordic underlying assets (“Financial Derivatives”), as well as certain commodity instruments (“Commodity Derivatives”). While both Financial Derivatives and Commodity Derivatives are cleared through Nasdaq

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<sup>1</sup> This document is a disclosure document under Article 39 of Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (“EMIR”) and Article 38 of Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 (“CSDR”).

<sup>2</sup> <https://www.nasdaq.com/solutions/nasdaq-clearing-offering>

Clearing, there are separate rulebooks, one governing the clearing of Financial Derivatives (the “Financial Rulebook”), and one governing the clearing of Commodity Derivatives (the “Commodities Rulebook”). A clearing participant can either be a clearing member under the Financial Rulebook and/or under the Commodities Rulebook. There are three types of clearing members:

1. **General Clearing Members**, who may subject to applicable licensing and other requirements register Clearing Transactions in their own name and act as counterparty to the CCP, either for itself or on behalf of its Clients, including Non-Clearing Members;
2. **Direct Clearing Members**<sup>3</sup>, who may subject to applicable licensing and other requirements register Clearing Transactions in their own name and act as counterparty to the CCP, either for itself or on behalf of its Clients (but not including Non-Clearing Members); and
3. **Direct Clearing Clients**, who may subject to applicable licensing and other requirements register Clearing Transactions in their own name and act as counterparty to the CCP, either for itself or on behalf of its Clients, but only with a General Clearing Member, Direct Clearing Member or, in certain circumstances, a Non-Clearing Member, acting in the capacity as a Direct Clearing Agent (note that a Direct Clearing Client is also referred to as a ‘Customer’ under the Financial Rulebook);

together referred to as “Clearing Members”.

General Clearing Members and Direct Clearing Members may clear transactions on their own behalf by opening and registering such transactions on a **House Account** (see paragraph 7 below), while Direct Clearing Clients may clear transactions on their own behalf by opening and registering (via its Direct Clearing Agent) such transactions on a **Direct Clearing Account** (see paragraph 6 below).

Nasdaq Clearing acts as central counterparty in respect of transactions entered into between two parties outside of Nasdaq Clearing in instruments which the CCP accepts for clearing. For the purposes of this document, such transactions entered into outside (either OTC or on exchange, as applicable) Nasdaq Clearing are referred to as “Transactions”. On acceptance of any such Transaction for clearing and upon registration of such Transaction, Nasdaq Clearing becomes the seller to every buyer and a buyer to every seller of the original Transaction (the new transactions between Nasdaq Clearing and the original parties being referred to as “Clearing Transactions”<sup>4</sup>).

For persons who are not Clearing Members, there are a number of options on how to access Nasdaq Clearing’s clearing services via the accounts described below. However, each such person (the “client”) must have clearing arrangements in place with a Clearing Member, who acts and clears on behalf of each client vis-à-vis the CCP. There are three types of client accounts which, indirectly, can be utilised by clients for principal-to-principal clearing:

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<sup>3</sup> Referred to as ‘Clearing Members’ under the Commodities Rulebook.

<sup>4</sup> In the Financial Rulebook, ‘Clearing Transactions’ are referred to as ‘Contracts’.

1. Omnibus Account (see paragraph 3 below);
2. Single Client Account (see paragraph 4 below); and
3. Individual Client Segregated Account (see paragraph 5 below).

The clearing arrangement between the client and Clearing Member is largely a matter between the client and its Clearing Member and does not form part of the contractual framework applicable to the CCP. However, on a very high level, the client clearing arrangement generally contains two main elements: (i) the scope of the Clearing Member's undertaking to clear the client's transactions at the CCP, and (ii) the collection and provision of collateral in respect of the client's transactions. The terms and conditions and potential risks of a client and/or Clearing Member pursuant to the arrangements between the client and Clearing Member are not further considered in this note.

It should be noted that Nasdaq Clearing also offers Indirect Clearing Accounts (NOSAs and GOSAs) to facilitate Indirect Clearing Arrangements. These arrangements, or the risks and costs related hereto, are not further addressed in this note.

### 2.1. Nasdaq Clearing's capital, close-out netting in Nasdaq Clearing default and applicable Insolvency Law

Nasdaq Clearing has a Default Fund into which Clearing Members have to contribute funds. Where a Clearing Member (or its clients) is clearing Generic Rates Instruments (under the Financial Rulebook) it also have to contribute to a so-called Loss Sharing Pool, which is designed to create an additional level of protection in case of defaults and losses attributable to such instruments on a loss-mutualisation basis. The details of the Loss Sharing Pool is not further considered in this note.

The Default Fund is intended to contain sufficient assets to enable Nasdaq Clearing to withstand, under extreme but plausible market conditions, losses in respect of either the default of the largest counterparty or of the second and third largest counterparty combined (if this sum of combined exposure is larger). In addition, Nasdaq Clearing holds its own regulatory capital which secures uninterrupted business activity or an orderly winding down process while covering potential losses due to operational risks. The aim of this capital structure is to mitigate the risk of an insolvency of Nasdaq Clearing and, to the extent the capital is included in the default waterfall structure, limit potential losses of non-defaulting Clearing Members in the event of another Clearing Member's default.

In summary, in the event of insolvency liquidation of Nasdaq Clearing, all outstanding Clearing Transactions held by a counterparty are automatically terminated. The value of the terminated transaction shall be calculated on the basis of the latest listed price for the relevant series at the time of termination, if available. Such values are aggregated and netted to provide one or more close-out amounts for all relevant transactions, taking into account relevant segregation requirements (the "Termination Amount(s)"). Once a Termination Amount has been calculated, it will be paid between the counterparty and Nasdaq Clearing.

Cash collateral (margin or default fund contributions) is provided to Nasdaq Clearing on a title transfer basis, while securities collateral is pledged in favour of Nasdaq Clearing. As a result, in case of the insolvency liquidation of Nasdaq Clearing, cash collateral is likely to form part of Nasdaq Clearing's insolvency estate and the Clearing Member would be an unsecured creditor in respect of such cash collateral. As regards securities collateral (margin or default fund contributions) on the other hand, the title remains with the Clearing Member and should not be included in the insolvency estate of Nasdaq Clearing. Please refer to the Rules for a more detailed and up to date account of actions and procedures applicable in the event of Nasdaq Clearing's insolvency and to paragraph 9 below for further details in relation to insolvency risks.

The insolvency proceedings of Nasdaq Clearing is likely to be governed by Swedish law.

Finally, it should also be noted that specific rules apply in case Nasdaq Clearing is subject to recovery or resolution pursuant to the CCP Recovery and Resolution Regulation (Regulation (EU) 2021/23 of 16 December 2020 on a framework for the recovery and resolution of central counterparties). See in particular section 1.24 of the Financial Rulebook and section 17.7 of the Commodities Rulebook. Riksgälden, the Swedish National Debt Office, is the resolution authority for Nasdaq Clearing.

## 3. Omnibus Account

### 3.1 Basic Features

An Omnibus Account is held and administered by a Clearing Member for clearing of Transactions on behalf of a group of clients that have opted for an omnibus account. The Omnibus Account evidences all Clearing Transactions registered on such account attributable to such group of clients. A Clearing Member may operate more than one Omnibus Account.

#### 3.1.1 Margin/Collateral

Nasdaq Clearing will open a Margin Requirement Account for the margin calculation with respect to each Omnibus Account. A Clearing Member must open a Collateral Custody Account for the provision of collateral in respect of each Margin Requirement Account it holds.

Each Omnibus Account must be fully collateralised (by the relevant Clearing Member) by reference to the Margin Requirement of the outstanding Clearing Transactions on such Omnibus Account.

The collateral provided in respect of one Omnibus Account cannot be used to collateralise or meet the losses attributable to any other Omnibus Account (or any other account) or meet the losses attributable to another client (except clients in the same Omnibus Account), Clearing Member or Nasdaq Clearing.

The Clearing Member is fully liable to provide collateral in respect of an Omnibus Account. Cash collateral is provided to Nasdaq Clearing on a title transfer basis, while securities

collateral is pledged in favour of Nasdaq Clearing. The type of collateral held for each Clearing Member in respect of each Omnibus Account's Collateral Custody Account is specifically recorded by Nasdaq Clearing, by way of entry in a Collateral Custody Account held in the name of the Clearing Member and associated with the Omnibus Account. However, Nasdaq Clearing will not recognise the interests of any particular client within that Omnibus Account to any particular assets. This account is regarded as an omnibus segregated account for the purposes of EMIR.

Please see paragraph 8 below for a description of the accounts and segregation levels on the CSDs and Sub-custodians used by Nasdaq Clearing as regards securities collateral and default fund and loss sharing pool contributions.

### 3.1.1 Default Fund Contributions

The Clearing Member contributes to the Default Fund (and where relevant, the Loss Sharing Pool) in respect of the Omnibus Account(s) it holds in accordance with the Default Fund Rules. A Clearing Member must open a Default Fund Custody Account for the provision of default fund contributions. Default Fund contributions in the form of cash is provided to Nasdaq Clearing on a title transfer basis, while contributions in the form of securities are pledged in favour of Nasdaq Clearing. It should be noted that Nasdaq Clearing does not segregate default fund contributions provided in respect of client positions specifically.

Please see paragraph 8 below for a description of the accounts and segregation levels on the CSDs and Sub-custodians used by Nasdaq Clearing as regards securities collateral and default fund and loss sharing pool contributions.

### 3.1.3 Porting

If clients whose positions are represented in an Omnibus Account have entered into arrangements with a back-up clearing member, it may be possible for an omnibus account (together with related collateral) to be ported to such back-up clearing member in the event of the original Clearing Member's default. The terms of and procedure for such default porting is further detailed in the Rules<sup>5</sup>.

## 3.2 Risks

The main risk for a client who has opted for an Omnibus Account is the default of the relevant Clearing Member<sup>6</sup>.

Whether or not the above processes will be respected on the insolvency of the relevant Clearing Member will depend on the insolvency laws in the jurisdiction of the relevant Clearing Member. In the event of such a default, the following process will be followed:

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<sup>5</sup> For further details in relation to default porting, see Appendix 19 (*Supplement default rules for Contracts Recorded on Client Accounts*) to the Financial Rulebook and Appendix 12 (*Supplemental default rules - Client Clearing Accounts*) to the Commodities Rulebook.

<sup>6</sup> Depending on the client's arrangements with the Clearing Member, the client may also face risks due to a default by Nasdaq Clearing and a CSD/Sub-custodian.

1. Nasdaq Clearing will try to port the Omnibus Account to a new back-up Clearing Member. However, this will only be possible where agreement has been reached between all the clients represented in the Omnibus Account and the new Clearing Member. There is a risk that it will not be possible for such agreement to be reached in the necessary time frame, and as such clients and clearing members are encouraged to pre-arrange back-up client clearing arrangements;
2. Where the Omnibus Account cannot be ported to a new Clearing Member, Nasdaq Clearing will close out the Clearing Member's Clearing Transactions (including those held in an Omnibus Account) and realise collateral, all in accordance with Nasdaq Clearing's default management processes. In connection with this process, a positive balance on an Omnibus Account may not be netted or set-off against a negative balance on the Clearing Member's House Account or any other account. Any positive balance on the Omnibus Account will be returned to the Clearing Member (or its bankruptcy estate, if relevant) for the account of the relevant clients. Any loss arising on the Omnibus Account is mutualised across all the clients represented therein.

Whether or not the above processes will be respected on the insolvency of the relevant Clearing Member will depend on the insolvency law in the jurisdiction of the relevant Clearing Member.

### 3.3 Fees

Nasdaq Clearing applies fees per registered transaction. Different fees may apply to different types of transactions. Fees also apply to different types of custody accounts and segregation levels. All fees are set out in the fee lists available at Nasdaq Clearing's website<sup>7</sup> (fee types and levels may be subject to change).

## 4. Single Client Account ("SCA")

### 4.1 Basic Features

This account is only available for clearing under the Financial Rulebook.

An SCA is an integrated trading and clearing account administered by a Clearing Member as account holder for such Clearing Member's clearing of Transactions on behalf of an individual client that has opted for such account. An SCA is regarded as a sub-account of an Omnibus Account. The SCA evidences all Clearing Transactions registered on such account and reflects the outstanding Clearing Transactions attributable to such individual client. A Clearing Member must operate one separate SCA for each client that has opted for such account. In the event that a client has more than one SCA, whether or not with different Clearing Members, Nasdaq Clearing shall not be entitled to combine or consolidate the balances on such SCAs (or on any other account). Nasdaq Clearing

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<sup>7</sup> For further details in relation to the fee lists, see Nasdaq Derivatives market [Rules and Regulations website](#) for the fee lists related to Financial Derivatives and Commodities Rulebook Appendix 7 (*Fee list (joint Clearing and Trading Rules)*) for the fee list related to Commodity Derivatives.

applies fees per registered transaction. Different fees may apply to different types of transactions.

#### 4.1.1 Margin/Collateral

An SCA shall be regarded as a sub-account of an Omnibus Account. Nasdaq Clearing will therefore open a Margin Requirement Account for margin calculation with respect to the relevant Omnibus Account, including the SCA.

Each SCA must be fully collateralised by reference to the Margin Requirement of the open positions on such SCA, which shall be calculated on a net aggregate position basis across all Clearing Transactions credited to the SCA (which will be for a single client only), but on a gross basis vis-à-vis the connected Omnibus Account.

As the SCA is regarded as a sub-account of an Omnibus Account, the collateral provided in respect of one SCA cannot be used to collateralise or meet the losses attributable to a different Omnibus Account (or any other account) or meet the losses attributable to another client (except clients in the same Omnibus Account), Clearing Member or Nasdaq Clearing. However, Collateral provided in respect of an SCA may be used to cover losses of clients within the Omnibus Account as a whole.

The Clearing Member is fully liable to provide collateral in respect of an SCA (and Omnibus Account). Cash collateral is provided to Nasdaq Clearing on a title transfer basis, while securities collateral is pledged in favour of Nasdaq Clearing. The type of collateral held for each Clearing Member in respect of each Omnibus Account's Collateral Custody Account is specifically recorded by Nasdaq Clearing, by way of entry in a Collateral Custody Account held in the name of the Clearing Member and associated with the Omnibus Account. However, Nasdaq Clearing will not recognise the interests of any particular client within that Omnibus Account to any particular assets. This account is regarded as an omnibus segregated account for the purposes of EMIR.

Please see paragraph 8 below for a description of the accounts and segregation levels on the CSDs and Sub-custodians used by Nasdaq Clearing as regards securities collateral and default fund and loss sharing pool contributions.

#### 4.1.2 Default Fund Contributions

As an SCA is regarded as a sub-account of an Omnibus Account for the purposes of the Rules, please refer to the provisions in respect of Default Fund contributions for Omnibus Accounts under paragraph 3.1.2 above.

#### 4.1.3 Porting

As an SCA is regarded as a sub-account of an Omnibus Account for the purposes of the Rules, please refer to the provisions in respect of porting of Omnibus Accounts under paragraph 3.1.3 above<sup>8</sup>.

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<sup>8</sup> For further details in relation to default porting, see Appendix 19 (*Supplement default rules for Contracts Recorded on Client Accounts*) to the Financial Rulebook and Appendix 12 (*Supplemental default rules - Client Clearing Accounts*) to the Commodities Rulebook.

## 4.2 Risks

As an SCA is regarded as a sub-account of an Omnibus Account for the purposes of the Rules, please refer to the provisions in respect of risks in relation to Omnibus Accounts under paragraph 3.2 above.

## 4.3 Fees

Nasdaq Clearing applies fees per registered transaction. Different fees may apply to different types of transactions. Fees also apply to different types of custody accounts and segregation levels. All fees are set out in the fee lists available at Nasdaq Clearing's website (fee types and levels may be subject to change).

# 5. Individual Client Segregated Account (“ICA”)

## 5.1 Basic Features

An ICA<sup>9</sup> is held and administered by a Clearing Member for clearing of Transactions on behalf of an individual client that has opted for such account. The ICA evidences all Clearing Transactions registered on such account, attributable to such individual client. A Clearing Member must hold and administer one separate ICA for each client that has opted for such account. In the event that a client has more than one ICA, whether or not with different Clearing Members, Nasdaq Clearing shall not be entitled to combine or consolidate the balances on such ICAs (or on any other account).

### 5.1.1 Margin/Collateral

Nasdaq Clearing will open a Margin Requirement Account for the margin calculation with respect to each Individual Client Account and the Clearing Member will open a Collateral Custody Account for the provision of collateral in respect of each Margin Requirement Account opened for it, i.e. one Collateral Custody Account for each ICA.

Each ICA must be fully collateralised by reference to the Margin Requirement of the outstanding Clearing Transactions on such account, which shall be calculated on a net aggregate position basis across all Clearing Transactions credited to the ICA (which will be for a single client only).

The specific collateral provided in respect of one ICA shall not be used to collateralise or to meet the losses attributable to any other ICA (or any other account) or to meet the losses attributable to another client, Clearing Member or Nasdaq Clearing.

The Clearing Member is fully liable to provide collateral in respect of an ICA. Cash collateral is provided to Nasdaq Clearing on a title transfer basis, while securities collateral is pledged in favour of Nasdaq Clearing. The type of collateral held for the Clearing Member on behalf of each client holding an ICA is specifically recorded by Nasdaq

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<sup>9</sup> Please note that on the market and at other clearinghouses this account type is generally referred to as an “ISA”, i.e. individually segregated account.

Clearing in its books and records, by way of entry on a Collateral Custody Account that is held in the name of the Clearing Member and associated with such ICA. Accordingly, this account is regarded as an individual segregated account for the purposes of EMIR.

Please see paragraph 8 below for a description of the accounts and segregation levels on the CSDs and Sub-custodians used by Nasdaq Clearing as regards securities collateral and default fund and loss sharing pool contributions. An SCA shall be regarded as a sub-account of an Omnibus Account. Nasdaq Clearing will therefore open a Margin Requirement Account for margin calculation with respect to the relevant Omnibus Account, including the SCA.

### 5.1.2 Default Fund Contributions

The Clearing Member contributes to the Default Fund in respect of the ICA(s) it holds in accordance with the Default Fund rules. A Clearing Member must open a Default Fund Custody Account for the provision of default fund contributions. Default Fund contributions in the form of cash is provided to Nasdaq Clearing on a title transfer basis, while contributions in the form of securities are pledged in favour of Nasdaq Clearing. It should be noted that Nasdaq Clearing does not segregate default fund contributions provided in respect of client positions specifically.

Please see paragraph 8 below for a description of the accounts and segregation levels on the CSDs and Sub-custodians used by Nasdaq Clearing as regards securities collateral and default fund and loss sharing pool contributions.

### 5.1.3 Porting

The client can appoint a back-up clearing member in the account agreements when the ICA is initially opened (or at a later date). The intention is that, in the event of the original Clearing Member's default, the positions and collateral connected to an ICA can be ported to such back-up clearing member as described further below<sup>10</sup>.

## 5.2 Risks

The main risk for a client who has opted for an ICA is the default of the relevant Clearing Member<sup>11</sup>.

In the event of such a default, the following process will be followed:

1. Nasdaq Clearing will try to port the ICA to a new back-up Clearing Member. This will only be possible where agreement has been reached between the client and the back-up Clearing Member. There is a risk that it will not be possible for such agreement to be reached within the necessary time frame, and as such clients and clearing members are encouraged to pre-arrange back-up client clearing

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<sup>10</sup> For further details in relation to default porting, see Appendix 19 (*Supplement default rules for Contracts Recorded on Client Accounts*) to the Financial Rulebook and Appendix 12 (*Supplemental default rules - Client Clearing Accounts*) to the Commodities Rulebook.

<sup>11</sup> Depending on the client's arrangements with the Clearing Member, the client may also face risks due to a default by Nasdaq Clearing and a CSD/Sub-custodian.

arrangements. As only one client is involved in this process it is more likely that porting will be available in respect of an ICA than in respect of an Omnibus Account;

2. Where the ICA cannot be ported to a back-up Clearing Member, Nasdaq Clearing will close out the defaulting Clearing Member's Clearing Transactions (including those held in an ICA) and realise collateral, all in accordance with Nasdaq Clearing's default management processes. In connection with this process, a positive balance on an ICA may not be netted or set-off against a negative balance on the Clearing Member's other accounts. Any positive balance on the ICA will be returned directly to the client. In the unlikely event that Nasdaq Clearing does not know the identity of the client, this balance will be returned to the Clearing Member (or its bankruptcy estate, if relevant) for the account of the client. This means that the client will not share in any losses incurred by the Clearing Member on any other account.

Whether or not the above processes will be respected on the insolvency of the relevant Clearing Member will depend on the insolvency law in the jurisdiction of the relevant Clearing Member.

### 5.3 Fees

Nasdaq Clearing applies fees per registered transaction. Different fees may apply to different types of transactions. Fees also apply to different types of custody accounts and segregation levels. All fees are set out in the fee lists available at Nasdaq Clearing's website (fee types and levels may be subject to change).

## 6. Direct Clearing Account ("DCA")

### 6.1 Basic Features

A Direct Clearing Client is a type of Clearing Member that needs an arrangement in place with a General Clearing Member or Direct Clearing Member, or in some circumstances a Non-Clearing Member, to act as a Direct Clearing Agent for the Direct Clearing Client. In order to achieve this, the Direct Clearing Client, the Direct Clearing Agent and the CCP need to enter into a Direct Client Clearing Agreement.

The Direct Clearing Client may register Clearing Transactions in its own name and on behalf of a client (in the latter case, on the client accounts described above), but only through its Direct Clearing Agent. The Direct Clearing Account ("DCA") is an account that is held by the Direct Clearing Client as account holder in the name of the Direct Clearing Client, under a tri-partite agreement between the Direct Clearing Client, a Direct Clearing Agent and Nasdaq Clearing. A Direct Clearing Client is, without any limitations, entitled under and responsible as Counterparty to the CCP in respect of all Clearing Transactions registered on its Direct Clearing Account(s). In the event that a Direct Clearing Client has more than one DCA, whether or not with different Direct Clearing Agents, Nasdaq Clearing shall not be entitled to combine or consolidate the balances on such DCAs (or on any other account).

### 6.1.1 Margin/Collateral

Nasdaq Clearing shall open a Margin Requirement Account for margin calculation with respect to each DCA. A Direct Clearing Client must open a Collateral Custody Account for provision of collateral in respect of each Margin Requirement Account opened for it.

A DCA must be fully collateralised by reference to the Margin Requirement of the outstanding Clearing Transactions on such account, which shall be calculated on a net aggregate position basis across all Clearing Transactions credited to the DCA (which will be for a single Direct Clearing Client only).

The Direct Clearing Client shall at all times provide collateral directly to Nasdaq Clearing in respect of its DCAs.

The collateral provided in respect of one DCA shall not be used to collateralise or meet the losses attributable to another DCA (or any other account) or to meet the losses attributable to another client, Clearing Member or Nasdaq Clearing.

Cash collateral is provided to Nasdaq Clearing on a title transfer basis, while securities collateral is pledged in favour of Nasdaq Clearing. The type of collateral held for the Direct Clearing Client is specifically recorded by Nasdaq Clearing in its books and records, by way of entry in a Collateral Custody Account in such Direct Clearing Client's name.

Please see paragraph 8 below for a description of the accounts and segregation levels on the CSDs and Sub-custodians used by Nasdaq Clearing as regards securities collateral and default fund and loss sharing pool contributions.

### 6.1.2 Default Fund Contributions

The Direct Clearing Client contributes to the Default Fund in respect of the DCA(s) it holds in accordance with the Default Fund rules. A Direct Clearing Client must open a Default Fund Custody Account for the provision of default fund contributions. Default Fund contributions in the form of cash is provided to Nasdaq Clearing on a title transfer basis, while contributions in the form of securities are pledged in favour of Nasdaq Clearing.

Please see paragraph 8 below for a description of the accounts and segregation levels on the CSDs and Sub-custodians used by Nasdaq Clearing as regards securities collateral and default fund and loss sharing pool contributions.

### 6.1.3 Porting

The Direct Clearing Client can appoint a back-up Direct Clearing Agent. The intention is that, in the event of the original Direct Clearing Agent's default, the administrative obligations connected to a DCA can be "ported" to such back-up Clearing Agent. Note however, as the Direct Clearing Client is counterparty to the cleared transactions and provides collateral to the CCP and fully liable under the Rules, default porting of positions and collateral in the traditional sense would not be relevant. The key is instead that the Direct Clearing Client arranges for a non-defaulted General or Direct Clearing Member (or, where relevant a Non-Clearing Member) to become its Direct Clearing Agent.

## 6.2 Risks

The main risks for a Direct Clearing Client are the same as those described below in respect of Clearing Members generally. In addition, a Direct Clearing Client is subject to the additional risk of the default of its Direct Clearing Agent, as briefly described under paragraph 6.1.3 above. Please refer to the Rules for an account of the default management procedure applicable to the Direct Clearing Client and the DCA in case the Direct Clearing Agent defaults<sup>12</sup>.

## 6.3 Fees

Nasdaq Clearing applies fees per registered transaction. Different fees may apply to different types of transactions. Fees also apply to different types of custody accounts and segregation levels. All fees are set out in the fee lists available at Nasdaq Clearing's website (fee types and levels may be subject to change).

# 7. House Account

## 7.1 Basic Features

A House Account is an account held by a Clearing Member as account holder, intended for clearing of transactions entered into by such Clearing Member on its own behalf. A Clearing Member shall without limitations and at all times be liable to the CCP for obligations relating to Clearing Transactions recorded on the Clearing Member's House Accounts (and any Client Accounts).

### 7.1.1 Margin/Collateral

Nasdaq Clearing shall open at least one Margin Requirement Account for margin calculation with respect to the Clearing Member's House Accounts. A Clearing Member shall at all times provide collateral directly to Nasdaq Clearing in respect of its House Accounts (and also its Client Accounts, as described above).

Cash collateral is provided to Nasdaq Clearing on a title transfer basis, while securities collateral is pledged in favour of Nasdaq Clearing. Collateral provided to Nasdaq Clearing by a Clearing Member in respect of its House Accounts shall be recorded by asset in the Collateral Custody Account, meaning that Nasdaq Clearing will record on a Collateral Custody Account the particular asset transferred in respect of that account.

Please see paragraph 8 below for a description of the accounts and segregation levels on the CSDs and Sub-custodians used by Nasdaq Clearing as regards securities collateral and default fund and loss sharing pool contributions.

### 7.1.2 Default Fund Contributions

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<sup>12</sup> For further details in relation to default porting, see Appendix 19 (*Supplement default rules for Contracts Recorded on Client Accounts*) to the Financial Rulebook and Appendix 12 (*Supplemental default rules - Client Clearing Accounts*) to the Commodities Rulebook.

The Clearing Member contributes to the Default Fund (and Loss Sharing Pool where applicable) in respect of the House Account(s) it holds in accordance with the Default Fund rules. A Clearing Member must open a Default Fund Custody Account for the provision of default fund contributions. Default Fund contributions in the form of cash is provided to Nasdaq Clearing on a title transfer basis, while contributions in the form of securities are pledged in favour of Nasdaq Clearing.

Please see paragraph 8 below for a description of the accounts and segregation levels on the CSDs and Sub-custodians used by Nasdaq Clearing as regards securities collateral and default fund and loss sharing pool contributions.

## 7.2 Risks

The Clearing Member is fully liable towards the CCP under the Rules and is bound to follow the Rules and related agreements (both in respect of House Accounts, Client Accounts and Customer Accounts, where applicable).

For details and aspects of risks and default management processes generally applicable to Clearing Members, please refer to Nasdaq Clearing's default management website<sup>13</sup> and for information about risks relating to the default fund and loss sharing pool, please refer to Nasdaq Clearing's default fund and waterfall website<sup>14</sup>.

## 7.3 Fees

Nasdaq Clearing applies fees per registered transaction. Different fees may apply to different types of transactions. Fees also apply to different types of custody accounts and segregation levels. All fees are set out in the fee lists available at Nasdaq Clearing's website (fee types and levels may be subject to change).

# 8. Securities Accounts at CSDs and Sub-custodians

## 8.1 Basic Features

The securities that are registered in the Securities Account(s) at the level of the CSD or Sub-custodian, as applicable, are reflected and registered on the Custody Account held with and pledged in favour of Nasdaq Clearing.

A 'Securities Account' is a securities account with a CSD or Sub-custodian opened in the name of Nasdaq Clearing in its capacity as nominee and/or otherwise on behalf of clients<sup>15</sup>, and designated by Nasdaq Clearing for the purpose of depositing and registering securities for Clearing Members' (and underlying clients) margin, default fund

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<sup>13</sup> <https://www.nasdaq.com/solutions/nasdaq-clearing-default-management>

<sup>14</sup> <https://www.nasdaq.com/solutions/default-fund-and-clearing-capital>

<sup>15</sup> Note that the custody arrangement with DNB Bank ASA and Euronext Securities Oslo is slightly different. This custody arrangement is only available to Norwegian members

and/or loss sharing pool contributions, as applicable. For the avoidance of doubt, please note that the Securities Accounts do not include or indicate the level of segregation that may apply in accounts with central securities depositories, international central securities depositories, custodians or sub-custodians that the CSD or Sub-custodian, as applicable, may engage, appoint or link up to, as applicable.

Securities in the Securities Accounts may not be pooled and comingled with Nasdaq Clearing's own assets or with the assets of Nasdaq Clearing's appointed Sub-custodians or CSDs, as applicable. A Clearing Member may opt for omnibus or individually segregated Securities Accounts at the level of the CSD or Sub-custodian:

1. Omnibus Securities Account: The Clearing Member's securities will be pooled and comingled with assets of other Clearing Members.
2. Individually segregated Securities Account: The Clearing Member's securities will not be pooled and comingled with assets of other Clearing Members but kept in an individual account.

The CSDs and Sub-custodians used by Nasdaq Clearing varies over time. Currently, a Clearing Member may provide securities to Nasdaq Clearing via the following CSDs and Sub-custodians:

- Euroclear Sweden
- Euroclear Bank (Belgium)
- Euronext Securities Copenhagen

Please contact Nasdaq Clearing for further information about the current CSD and Sub-custodians.

## 8.2 Risks

The main risks in relation to Securities Accounts are the insolvency of Nasdaq Clearing or of the relevant CSD/Sub-custodian (or any underlying linked CSD/sub-custodian) and shortfall of securities on the Securities Accounts.

Please be reminded that the information contained in this document, including the descriptions of the risks below, are based on our general understanding of the laws and arrangements currently applicable. This document does not constitute advice and shall not be relied upon as such. Nasdaq Clearing accepts no liability, neither as to the correctness of the information contained herein, nor for any decision taken on the basis of the information in this document.

Please note that this document may not contain all the information a Clearing Member or client may need in order to determine which account types, CSDs or Sub-custodian that are most suitable for it to use. It is the responsibility of each Clearing Member and client to review and conduct their own due diligence in relation to the account types, CSDs and Sub-custodians and is encouraged to seek independent legal advice in relation hereto.

Each CSD and Sub-custodian must publish its own risk disclosure document under, and in accordance with, Article 38 of CSDR. Please contact the relevant CSD and Sub-custodian directly for this.

### 8.2.1 Insolvency of Nasdaq Clearing

Please refer to paragraph 2.1 above for a general account of processes under the Rules in case Nasdaq Clearing would be subject to insolvency liquidation.

Generally, all securities held on Securities Accounts at the CSD or Sub-custodian, as applicable, and as reflected and registered on a Custody Account, would not form part of the insolvency estate of Nasdaq Clearing. Following the insolvency proceedings under Swedish law, each Clearing Member should be entitled to receive its securities accordingly (subject to the right of Nasdaq Clearing, in insolvent liquidation, to utilise any such securities and/or set-off any obligations and liabilities of a Clearing Member under the Rules, related agreements or under applicable law). In addition, please note the shortfall risk described below.

### 8.2.2 Insolvency of a CSD/Sub-custodian

In case a CSD or Sub-custodian (or any underlying linked CSD/sub-custodian) becomes subject to insolvency proceedings, the laws and insolvency proceedings of the relevant jurisdiction need to be examined in order to determine to what extent the securities are protected. On a general note, however, as the securities in a Securities Account will not be comingled with assets of the CSD or Sub-custodian, as applicable, these should not be included in the insolvency estate of the CSD or Sub-custodian, as applicable. Please refer to the respective CSD's or Sub-custodian's risk disclosure document for further details.

### 8.2.3 Shortfall of securities

If there was a shortfall between the number of securities that Nasdaq Clearing is obliged to deliver to Clearing Members (as recorded in Nasdaq Clearing's books and records) and the number of securities that Nasdaq Clearing holds on behalf of Clearing Members in accounts at the CSDs or Sub-custodians, as applicable, then this could result in fewer securities than a Clearing Member is entitled to being returned to it upon insolvency of Nasdaq Clearing or a CSD/Sub-custodian, as applicable. Such a shortfall in the number of securities that Nasdaq Clearing holds for Clearing Members, while highly unlikely, could arise for a number of reasons, for example an administrative error. Please refer to the respective CSD's or Sub-custodian's disclosure document for further details in respect of shortfall risks.

### Treatment of shortfalls generally

Where the shortfall arises in relation to securities collateral held in an individually segregated Securities Account, the whole of such shortfall will be attributable to the Clearing Member (and its relevant clearing account) for whom the Securities Account is held and will not be shared with other Clearing Members for whom Nasdaq Clearing holds securities collateral. Similarly, a Clearing Member providing securities via an individually segregated Securities Account will not be exposed to a shortfall on an account held for another Clearing Member or Clearing Members.<sup>16</sup>

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<sup>16</sup> Please note that while this note does not explore the laws of other jurisdictions than Sweden, we would like to draw the reader's attention to treatment of shortfalls in relation to Euroclear Bank. Under Belgian law it does not seem to make a difference whether a participant of Euroclear Bank holds its securities in an individually segregated Securities

Where the shortfall arises in relation to securities collateral held in an omnibus Securities Account, the shortfall is shared among the Clearing Members with an interest in that type of securities collateral held in such omnibus Securities Account.

### 8.3 Fees

Different fees apply to different types of Securities Accounts. The fee levels depend on (i) which CSD or Sub-custodian the Clearing Member chooses to use, and (ii) the segregation level opted for, i.e. depending on whether the Securities Account used is an omnibus or individually segregated account. All current fees are set out in the fee lists available at Nasdaq Clearing's website.

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Account or in an omnibus segregated Securities Account. The reason for this is that the participant and the underlying clients are granted, by operation of the law, an intangible co-ownership right over the pool of book-entry securities of the same category Euroclear Bank holds on behalf of all their participants. In the event of Euroclear Bank's insolvency, a participant may bring a claim for recovery against the pool of securities of that category of securities held with Euroclear Bank (or with a Sub-CSD, as defined below) on behalf of the participants. If the pool is insufficient to allow complete restitution of all due securities held on account, it will be allocated among the participants in proportion to their rights, as represented by the registrations on their accounts – as such the level of segregation on the accounts does not matter. It should also be noted that Euroclear Bank, in its capacity as ICSD, is linked up to and holds securities in local "sub"-CSDs and custodians ("Sub-CSDs"). The segregation levels at and consequences of potential insolvency proceedings pursuant to laws of the jurisdiction(s) of any Sub-CSDs are not further considered in this note. For further details in relation to protections of assets at Euroclear Bank and under Belgian law, please refer to documents published by Euroclear Bank which describes the segregation levels, Sub-CSD arrangements and protection of assets in more detail.