

NASDAQ CLEARING

Capital Requirement Guideline

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 (the “FIN Rules”).

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 entities 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 |

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 | Minimum Capital |
|-------------------------|---|
| General Clearing Member | SEK 200 million SEK 500 million for clearing of Generic Rates Instruments (OTC traded interest rate derivatives) |
| Direct Clearing Member | SEK 50 million SEK 500 million for clearing of Generic Rates Instruments (OTC traded interest rate derivatives) |
| Direct Clearing Client | SEK 50 million SEK 500 million for clearing of Generic Rates Instruments (OTC traded interest rate derivatives) |
| In case of PCG | SEK 10 million |

Parent Company Guarantees

Account Holders can choose to use a Parent Company Guarantee (PCG) 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 template and approved by Nasdaq Clearing Risk Committee. In addition, PCG can also be used if the Account Holder itself is unable to provide Nasdaq Clearing with audited annual financial statements in accordance with the Rules.

When using a PCG 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 PCG amount should be discounted with the credit factor based on the score of the guarantor.



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 to meet the minimum Capital requirement, the Account Holder must have a minimum Capital of 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.

In case of a Capital Requirement breach, Account Holder should resolve the breach within two business days. If 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.

Contact Information

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