

NASDAQ CLEARING

Exposure Limit and Liquid Asset Guideline

Purpose

The Exposure Limit is set based on both Liquid Assets (defined in this guideline), Capital (as defined in the Capital Requirement Guideline) and Credit Score (as defined in the Credit Score Guideline). This guideline outlines the definition of the Exposure Limit and how it is monitored and the risk-reducing actions that can be taken by Nasdaq Clearing if and when an Exposure Limit is breached. Terms not defined in this guideline shall have the same meaning as in the FIN Rules, as applicable.

Definition of Exposure Limit

Each Account Holder shall not have a Required Initial Margin requirement (including Stress IM add-on and Concentration IM add-on) greater than the lower of the following measures:

- Liquid Asset implied limit: 50% of Liquid Assets after haircuts; and
- Capital implied limit: Capital multiplied by credit factor

Table 1: Credit Factor by Credit Score

Credit Score	1	2	3	4	5	6	7	8
Credit Factor	10%	20%	30%	35%	40%	40%	40%	40%

In the case of a limited Parent Company Guarantee (PCG), in the Capital Exposure Limit calculation, the PCG amount should be discounted with the credit factor based on the score of the parent company. In case of an unlimited PCG, the Credit Score of the guarantor shall be used.

Liquid Assets are defined below, and Capital is as defined as in the Capital Requirement Guideline. The credit factor is based on the Account Holder's Credit Score as defined in the Credit Score Guideline and follows the relationship in the table below.

Definition of Liquid Assets

Account Holder's total Liquid Assets consist of the sum of the following eligible instruments:

- Total cash balance and/or available cash via eligible cash pools
- Eligible non-cash instruments such as "cash like" instruments, eligible credit lines, eligible bonds and eligible shares
- Positive required margin (automatic sourced data)
- High Quality Liquid Assets for banks

See the Appendix for further details on liquid asset classification and haircuts.

Rationale for Exposure Limit

The Exposure Limit is used to ensure that an Account Holder has sufficient financial capacity to serve its positions, also during extended periods of stress. The Liquid Asset implied limit ensures that longer margin periods of risk than assumed in Nasdaq Clearing's Initial Margin methodology could be withstood by the Account Holder through its Liquid Assets, whereas the Capital implied limit ensures a capacity to withstand losses from its clearing operations without risking its solvency.

Reporting Requirements and Consequences

All Account Holders are required to provide Nasdaq Clearing with updated Liquid Asset information at least on a monthly basis and 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. The 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 1.8.14-15 in the FIN Rules.

Nasdaq Clearing monitors an Account Holder's Exposure Limit utilization daily and applies risk mitigating actions when exceeding the early warning threshold as well as during an Exposure Limit breach. The actions and threshold are defined as follows:

- **Exposure Limit early warning threshold:** Required Initial Margin/Exposure Limit > 85%

In case of exceeding early warning threshold, Nasdaq Clearing will, on a best-effort basis, contact the Account Holder to inform that it is close to breaching the Exposure Limit and ask the Account Holder to be restrictive in increasing its limit utilization unless more Liquid Assets or Capital is provided in a way so that the Exposure Limit is increased.

- **Exposure Limit breach:** Required Initial Margin/Exposure Limit > 100%

In case of an Exposure Limit breach, the Account Holder is asked to provide additional Liquid Assets or Capital within two business days so that the Exposure Limit is increased. If Account Holder fails to provide the additional financial resources within two business days, Nasdaq Clearing may invoke Sanctions. Sanctions and timeline to be used by Nasdaq Clearing are set out in section 1.8.4 – 1.8.15 in the FIN Rules.

Contact Information

Nasdaq Clearing Credit Risk team: credit@nasdaq.com

Appendix

Table 4: *Liquid Assets eligibility criteria and haircuts*

Liquid Asset	Eligibility criteria	Haircut
Cash	N/A	0%
Cash like instruments	Government bonds/bills rated AA- (S&P) / Aa3 (Moody's) with 3m contractual maturity or less (e.g. T-bills)	0%
Cash pools	- Cash pool granted to the Account Holder with ability to be drawn within 3 business day - In the case of Group cash pools shared between subsidiaries, pro-rata based on total assets of the Account Holder versus Group	0%
Credit lines	- Committed credit line with the ability to be drawn within 3 business day - In the case of Group credit lines that is shared, pro-rata based on total assets of the Account Holder versus Group	0%
Unencumbered bonds	- Ready to be delivered to Nasdaq Clearing at short notice; and belonging to any of the following categories: - Government or similar bonds/bills rated AA- (S&P) / Aa3 (Moody's) with more than 3m contractual maturity - Covered bonds rated AAA (S&P) / Aaa (Moody's) - Kommuninvest bonds AA+ (S&P) /Aa1 (Moody's)	5%
Unencumbered shares	- Ready to be delivered to the Clearinghouse at short notice; and belonging to any of the following categories: - Large cap shares from the main Nordic indices (OMXS30, OMXC20, OMXH25, OBX25) - Nasdaq listed ETFs, approved on an ISIN by ISIN basis	25%
Non-base currency haircut	- Cash and other eligible assets in non-base market currencies - Base currency by Clearing Service: - Financial Market: SEK - Commodity Market: EUR	5%
Positive margin requirement	Positive margin requirement as reported in the clearing reports	0%
Net IM including add-ons	The sum of net IM per Account Holder, including stress margin add-on and concentration margin add-on	N/A
HQLA	Level 1, Level 2A and Level 2B as per CRR	0%