

GUIDELINES ON STRESS MARGIN ADD-ONS

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PURPOSE AND OBJECTIVE OF STRESS MARGIN ADD-ON

The purpose of the stress margin add-on is to add a specific stress component to the Margin Requirement by incorporating a share of a portfolio’s tail risk to the Margin Requirement. This add-on provides Nasdaq Clearing the ability to lower the mutualization of a specific clearing participant’s tail risks among clearing participants by shifting part of the risk from the member collective to the individual account holder.

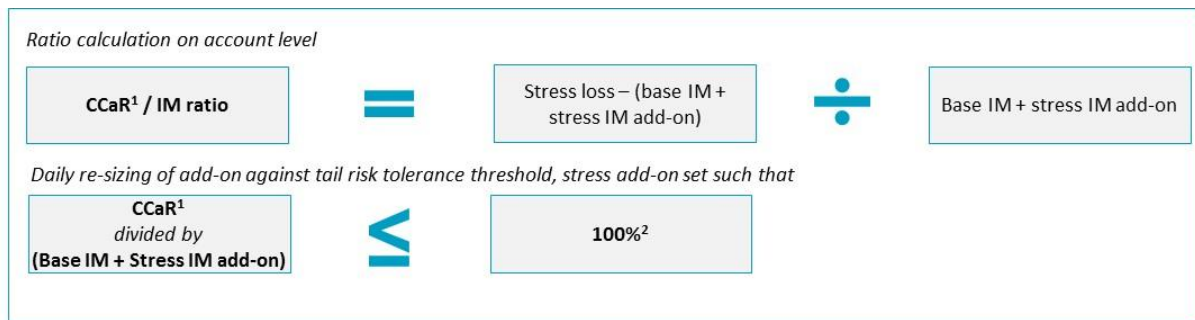
The stress margin add-on will increase the Margin Requirement for clearing participants with large stress losses in relation to initial margin (IM).

APPLICATION OF STRESS MARGIN ADD-ONS

Margin add-ons will be applied to clearing participants with large stress losses in relation to IM, where stress losses are calculated using Nasdaq Clearing’s stress test methodology (CCaR). As CCaR is also used for stress testing and default fund sizing, it provides a robust view of the account’s exposure to extreme market conditions. The methodology applies a high confidence level and incorporates conservative assumptions, including correlation breaks between product groups and adverse historical scenarios beyond the standard lookback period, to capture extreme tail events.

A CCaR/IM ratio is calculated on an account level on a daily basis for each clearing service. When the ratio exceeds a certain limit, a stress margin add-on will be applied to the relevant margin account.

Figure 1: Schematic overview of definition and calculation of the stress IM add-on.



1. CCaR is the uncovered stress loss, i.e. stress loss in excess of base IM and stress IM add-on, on margin requirement account level
 2. See next chapter for calibration of the threshold

The limit is calibrated to impact clearing participants with significantly large tail risk compared to other clearing participants. The assessment is based on the distribution of CCaR to IM ratios across all accounts relevant to the clearing service. The threshold for an acceptable ratio between CCaR and IM (stress tolerance threshold) is calibrated through an assessment of historical ratios of the overall population over a suitable lookback period.

The limits that currently apply are listed in the table below.

Clearing service	CCaR/IM ratio limit
Financial markets	85%

The limits applicable from time to time are stated in this policy. Changes to these limits are communicated by market notice.

For inquiries regarding the stress margin add-on, CCaR and drivers of the margin add-on requirement, please contact Risk Management using the information below.

CONTACT INFORMATION

Risk Management

Clearing.risk@nasdaq.com

Sweden: +46 8 405 7088