

## Default rules

Rules governing when an exchange member, clearing member or customer is considered to be in default are stated in section 1.9 in the Rules and Regulations of NASDAQ OMX Derivatives Markets and in section 8 in the General terms of the Clearing rules of NASDAQ OMX Commodity Derivatives Markets.

## General default management

If exchange members, clearing members or end-customers are in default, NASDAQ OMX Stockholm AB (NOMX) has the right to elect, at the expense of the defaulting party, to take one or more of the measures stated below. Unless otherwise specified, NOMX has the right to take such measures without consulting the defaulting party in advance:

- Withhold settlement or delivery due to the defaulting party.
- Set off all settlements or deliveries due to the defaulting party against settlements or deliveries due to NOMX.
- Refuse exchange transactions and registration, and also to settle contracts, in their entirety or in part, to the extent that is deemed necessary to avoid sustaining damage. (In this respect, NOMX has the right to buy or sell contracts on behalf of the defaulting clearing member or end-customer, and to forcibly settle the defaulting clearing member or end-customer's contracts in advance.)
- Seize and realize collateral provided
- Purchase deliverable instruments and also, where the covering purchase is caused by a delay or lack of delivery from a clearing member or end-customer or if, in NOMX judgment there exists a risk for delay or lack of delivery, to revoke the delivery and receive payment corresponding to the difference between NOMX costs for the covering purchase, together with the fees for the delay in or lack of delivery, and the exercise price or forward price of the contracts in question.
- Sell the contract base and, where a sale is caused by a delay in or lack of settlement by the clearing member or end-customer, or if, in NOMX judgment, there exists a risk of delay or lack of settlement, unless a matter of urgency exists, following consultation with the clearing member, NOMX may revoke the settlement and receive payment corresponding to the difference between the proceeds realized and the exercise price, futures price or equivalent cost for the relevant underlying instrument, together with the fees for default settlement.
- Exclude the exchange member, clearing member or end-customer from NOMX through the termination of their respective member or end-customer agreements. Upon termination of an exchange member or clearing member, NOMX shall forcibly settle those contracts into which the exchange member or clearing member has entered on his or her own behalf.
- Where a clearing member is in default, NOMX has the right to forcibly settle those contracts that were entered into or registered by the clearing member in question on behalf of an end-customer. In order to protect the end-customer as far as possible against damage, forcible settlement of such contracts is effected by re-registering the end-customer's contract with another clearing member. A clearing member in default is required (if requested by NOMX) to transfer the contracts and such collateral that the end-customer has provided with the clearing member to that new clearing member. If the re-registration of an end-customer's contract with another clearing member cannot be affected for any reason, NOMX has the right to forcibly settle the end-customer's contracts.

## Default process

The NASDAQ OMX Stockholm AB's Default Committee is the single decision-making authority within NOMX for evaluating defaults situations and events and deciding which actions to be taken as permitted under the Rules and Regulations of NOMX as well as any applicable legal agreements. The Chairperson (or approved alternate Chairperson) and Head of Risk Management is the sole decision makers in combination within the Default Committee. However, the Default Committee is made up of the following representatives in order to help ensure that all decision(s) made are well informed decisions.

### *Members of the Clearing Default Committee*

- President NASDAQ OMX Stockholm AB (Chairperson)
- Head of Risk Management European Clearing (veto)
- Head of Clearing Operations
- Head of Legal (or alternate legal representative if unavailable)
- Treasurer Non-US
- Representative from Global Risk Management
- Representative from Communications
  
- Any other person(s) deemed appropriate by the DC during a default situation

## Analysis of portfolio and risk

The DC has the mandate to act in every possible way to reduce the risk in the portfolio. This means that DC is authorized by the Boards to choose whatever solution adequate to reduce or eliminate the risk exposure. In this respect, there are different ways to reduce and eliminate the risk exposure:

- Open new trades/positions to create synthetic hedges (does not need to be a perfect hedge as long as it has a substantial risk reducing effect)
- Close out trades
- Hold risk neutral positions (RNP) unchanged
- Create new RNPs through open up new positions in overlapping products
- Neutralize exposure by making RNP look-alikes
- Prioritizing close out based on a risk assessment

The DC decides the progress in the close-out trades/risk reduction but the progress will be depending of internal and external factors.

The DC shall consider all possible ways to close down positions. All possible channels shall be considered;

- Close out trades through the OTC market via brokers
- Directly towards clearing members; open or closed "auction sale", collect binding bid/ask prices from clearing members

- Supervised close out, let the defaulting party do the close out trades itself
- Close out trades through the exchange, depending on liquidity and impacts on market prices

### **Default Strategy**

Head of Risk Management is responsible for at all times hold an updated pre-defined strategy on how to act and close out a defaulting position for each asset class cleared.

The default strategy should include instructions on:

- Risk assessment of the portfolio, including risk measures
- Hedging methods, including available instruments
- Means of execution (auction, orderbook, OTC, etc)
- Execution contact list

The default strategies shall be approved and reviewed by the Clearing Risk Committee.