NASDAQ OMX

Policy for clearing of Standardized- and Tailor Made Contracts

This document is intended to illustrate the frame work of how risk parameters are calculated for equities and index products. Instruments handled by the exchange are divided into:

- *Standardized instruments traded at the exchange*
- *Tailor-made (TM) contracts designed for individual clients*

The risk parameters for all underlying instruments that have contracts cleared at the exchange are reviewed quarterly.

Standardized contracts

Nasdaq OMX offer standardized derivatives contracts for equities, index and fixed income products. The instrument types are futures, forwards and options. Maximum contract length is up to 5 years.

Tailor Made contracts

A TM contract offers the possibility to customize the contract specifications for equity and index futures, forwards and options for the following parameters:

- Strike price
- Option type (vanilla or binary)
- Expiration day, month and year
- Exercise style (European or American)
- Settlement type (cash or physical delivery)
- Underlying security (from a broad range of equities and indices)

Each time TM clearing is requested for a new underlying, Risk Management Financial markets (RMF) performs a liquidity analysis on the underlying. If RMF deems the liquidity to be adequate, a risk parameter is calculated for the new underlying. The risk parameter is based on the underlying instrument's liquidity and volatility. All parameter calculations are based on one year of historical data.

Risk Parameter estimation

Equities

Equities are categorized in liquidity groups. The categorization is based on price history (volatility) and three liquidity measures:

- Days without trades
- Average bid-ask spread
- Median traded volume in relation to Free float volume[1]

---

[1] For some markets the number of outstanding shares categorized as free float more realistically reflects the number of outstanding shares. Thus using the free float value will provide a more accurate liquidity rating.

Given above liquidity values the equities are then categorized into a liquidity category.

Liquidity category
A
B
C
D

A TM contract with an underlying instrument already approved for standardized clearing will be categorized in liquidity category A[2]. In this case the parameter is available in the Parameter value list[3].

If the underlying equity is classified as D the requested TM contract will automatically receive a risk parameter of 40% or higher. Different criteria are applied on the different liquidity categories accordingly:

Liquidity category	Max length	Lead time	Liquidity buffer	Min parameter
A	2 years	2 days	-	10%
B	1 year	2 days	-	10%
C	6 months	2 days	10%	20%
D	6 months	3 days	10%	40%

Apart from the liquidity category specific limits, a number of general limits apply on all TM contracts:

- Max strike call options   Max 30% above ATM
- Min strike put options   Max 30% below ATM
- Min equity price   2 SEK (or equivalent in other currencies)
- Min average daily volume   10 000 shares

Index

A TM index is generally a basket of different equities. The liquidity of the underlying equities is evaluated and, if approved, a risk parameter on the index is calculated based on a three day lead-time. The limits that apply are:

- Max strike call options   Max 30% above ATM
- Min strike put options   Max 30% below ATM
- Min risk parameter   OMXS30 parameter

If any of the underlying equities in the TM index are categorized as C or D the number of lead days is raised to 4.

---

[2] Longer maturities than 2 years may be available, contact derivatives@nasdaqomx.com for more information.
[3] http://nordic.nasdaqomxtrader.com/Clearing/optionsfuturesclearing/Risk_Management/