

Notice regarding amendments to Nasdaq Clearing's Commodity Derivatives Clearing Rules

As part of the Risk Management Enhancement Program, Nasdaq Clearing AB ("**Nasdaq**") will amend its Commodity Derivatives Clearing Rules (the "**Rules**"). The amendments seek to do the following:

- Enhance the incentives for competitive bidding at default auctions in the Commodities market; and
- Enhance the incentives to participate as a Close-Out Provider in the Commodities market.

The changes will be made to the Default Fund Rules (Appendix 9 to the Rules). A summary of the key changes below for ease of reference.

Defined terms in this note shall have the meaning given to them in the Rules.

Amendments will come into effect on **22 May 2020**, subject to regulatory approval.

Seniorisation and capital tranching in the Commodity Default Fund

- Seniorisation means allocating part of the Contributed Assets of non-defaulting Default Fund Participant to a more senior tranche, which is only exhausted when other Contributed Assets non-defaulting Default Fund Participant (which become junior) have been exhausted.
- Nasdaq Clearing will employ four capital tranches in the Commodity Default Fund in respect of the Contributed Assets of non-defaulting Default Fund Participant. The most senior tranche will be auction winner(s), followed by competitive bidders, less competitive bidders, and all other non-defaulting Default Fund Participant (incl. bidders being too far away from the winning bids)

Determining winning bidders and Contributed Assets to be seniorised

- Winning and competitive bidders will have their Contributed Assets seniorised in relation to the share of the defaulting portfolio they effectively taken over or share of risk that they aid in closing out through bidding in auctions/offering on hedge trades. For example, if a close-out provider wins the auction for 50% of the defaulting portfolio (measured in IM), 50% of their Contributed Assets will be placed in the most senior tranche.
- The senior tranche, "Winning bidder(s)", has been defined in the Rules to contain winners of either the whole auction portfolio or any sub-portfolio, including hedges.
- The second tranche, "Competitive bidder(s)", has been defined in the Rules to contain bidders which place their bids within 10% of the winning bid(s).
- The third tranche, "Less competitive bidder(s)", has been defined in the Rules as bidders which place their bids between 10-20% of the winning bid(s).
- The fourth tranche, "Others", has been defined in the Rules as un-competitive bidders and non-close-out providers.