

CLEARING RULES
OF NASDAQ DERIVATIVES MARKETS

Appendix 17

Loss Sharing Rules

Application

1. These Loss Sharing Rules are part of the Clearing Rules and set forth terms and conditions for the establishment and maintenance of a Loss Sharing Pool applicable only for Clearing Members and Direct Clearing Clients who have entered into a Default Management Commitment with the Clearing House in order to participate in and be eligible for clearing of Generic Rates Instruments. The Default Management Commitment contains further terms and conditions for the participation in clearing of Generic Rates Instruments and the management of defaults involving such instruments.

2. The Loss Sharing Rules are supplemented by the Loss Sharing Custody Account Agreement, which each Loss Sharing Participant must enter into separately. If any provision of these Loss Sharing Rules is inconsistent with a provision of the Loss Sharing Custody Account Agreement, the latter shall prevail.

Interpretation

3. Capitalized terms herein shall have the meanings assigned to them below, in the Default Fund Rules and in the definition list to the Clearing Rules.

Cash Loss Sharing Requirement Bank Account Credit Institution	means an account designated in accordance with section 5. An undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account.
Currency Sub-Portfolio	All Fixed Income Contracts denominated in a certain currency within the Defaulted Fixed Income Portfolio.
Defaulted Fixed Income Portfolio	Any Fixed Income Contracts registered on the account(s) of a defaulting Loss Sharing Participant (whether house or client accounts) or a defaulting Direct Pledging Customer at the time of default, however for the avoidance of doubt including any Fixed Income Contracts entered into by the Clearing House following the default for the purposes of reducing the Clearing House's market risk in respect of the portfolio (through hedges) and excluding any Fixed Income Contracts transferred from such account(s) following the default. In order to

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qualify as a Defaulted Fixed Income Portfolio, the portfolio must include Generic Rates Instruments at the time of the default.

Fixed Income Contracts All Contracts indicated as a Fixed Income Contract in the respective contract specification, including, for the avoidance of doubt, Generic Rates Instruments.

Generic Rates Instruments All Contracts indicated as a Generic Rates Instrument in the respective contract specification.

Loss Sharing Contributed Assets All funds and assets contributed by a Loss Sharing Participant to the Loss Sharing Pool, whether in the form of cash amounts or securities or otherwise and whether or not Eligible Funds.

Loss Sharing Custody Account Has the meaning ascribed to it in the Loss Sharing Custody Account Agreement (as applicable in relation to each Loss Sharing Participant).

Loss Sharing Custody Account Agreement In respect of a Loss Sharing Participant, an agreement between the Clearing House and such Loss Sharing Participant stipulating terms for a Loss Sharing Custody Account to be opened by such Loss Sharing Participant with the Clearing House.

Loss Sharing Exempt Participant The Clearing House may on a case-by-case basis and from time to time decide that a person that is otherwise a Loss Sharing Participant shall be classified as a Loss Sharing Exempt Participant, provided that such person (i) provides the Clearing House with a drawing facility which provides the Clearing House direct drawing rights on a central bank and (ii) such central bank is owned by a government which has a AAA or AA+/Aa1 credit rating with all leading international credit rating agencies. A Loss Sharing Exempt Participant is not subject to the Loss Sharing Requirements.

Loss Sharing Exit Means a situation where a Default Fund Exit has occurred in respect of the relevant Loss Sharing Participant or where the Default Management Commitment entered into by the Loss Sharing Participant who is a Clearing Member has been terminated in accordance with its terms and conditions or where the Loss Sharing Participant who is a Direct Clearing Client has notified the Clearing House that it would like to exit the Loss Sharing Pool and has not been a party to any Generic Rates Instruments for a period of at least ten (10) Business Days.

Loss Sharing Participant Any and all Clearing Members and Direct Clearing Clients under these Clearing Rules who clear Generic Rates Instruments, except those who are Loss Sharing Exempt Participants.

Loss Sharing The sum of the Loss Sharing Contributed Assets at any time, excluding any

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Pool	funds and assets that have been released by the Clearing House pursuant to the Loss Sharing Rules (whether through a lower Loss Sharing Requirement or through Loss Sharing Exit, and whether or not actually returned to the relevant Loss Sharing Participant at the relevant time).
Loss Sharing Requirement	The requirement for the contribution to the Loss Sharing Pool calculated by the Clearing House and notified to the Loss Sharing Participants in accordance with sections 7 and 8. A Loss Sharing Requirement shall be deemed valid and effective from the time of its issue in accordance with these Loss Sharing Rules and until replaced by a new Loss Sharing Requirement, or until the relevant Loss Sharing Contributed Assets are released by the Clearing House on Loss Sharing Exit.
Maximum Loss Sharing Requirement	The maximum Loss Sharing Requirement that may apply to each Loss Sharing Participant, as further set out in section 9.
Minimum Loss Sharing Requirement	The minimum Loss Sharing Requirement applicable to each Loss Sharing Participant, as further set out in section 9.
Naked Initial Margin	Initial Margin disregarding any correlation.

Loss Sharing Contributions

4. Before participating in and being eligible for clearing Generic Rates Instruments, Clearing Members shall enter into a Default Management Commitment, open a Loss Sharing Custody Account and enter into a Loss Sharing Custody Account Agreement and make a contribution to the Loss Sharing Pool calculated by the Clearing House in accordance with section 7, however not less than the Minimum Loss Sharing Requirement and not more than the Maximum Loss Sharing Requirement.

Before participating in and being eligible for clearing Generic Rates Instruments, Direct Clearing Clients shall open a Loss Sharing Custody Account and enter into a Loss Sharing Custody Account Agreement and make a contribution to the Loss Sharing Pool calculated by the Clearing House in accordance with section 7, however not less than the Minimum Loss Sharing Requirement and not more than the Maximum Loss Sharing Requirement.

Direct Clearing Clients who clear Generic Rates Instruments may enter into a Default Management Commitment, provided that they meet the preconditions for clearing Generic Rates Instruments under the Default Management Commitment.

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Direct Clearing Clients who are Credit Institutions whose three-month average Initial Margin of the Fixed Income Contracts in respect of Generic Rates Instruments in the relevant currency is larger than ten (10) per cent of the total three-month average Initial Margin of the Fixed Income Contracts in respect of Generic Rates Instruments in the same currency at the time of the calculation of the Loss Sharing Requirement, must sign the Default Management Commitment within three (3) months from being notified thereof by the Clearing House.

- 5.
- (i) Loss Sharing Participants shall meet the most recently notified Loss Sharing Requirement not later than 10:30 a.m. (CET) on each Contribution Day as per section 7 in respect of ordinary Loss Sharing Requirement notifications, or 10:30 a.m. (CET) on the relevant Business Day as per section 8 in respect of additional Loss Sharing Requirement notifications.
 - (ii) For the avoidance of doubt, the Loss Sharing Participants are not required to replenish any Loss Sharing Pool contributions realized in respect of a default when making a contribution (in accordance with the foregoing paragraph) during the Interim Period applicable to such default. Such replenishment is made in accordance with section 15.
 - (iii) To the extent that a Loss Sharing Participant does not meet the Loss Sharing Requirement one hour prior to the deadlines set out in section 5(i), the Clearing House shall ensure that payments of the Loss Sharing Requirement, or part thereof as applicable, are made through the direct debit or credit facility as provided by each Loss Sharing Participant pursuant to section 5(iv). Each Loss Sharing Participant must ensure that there are sufficient funds in the relevant Cash Loss Sharing Requirement Bank Account(s) in order for such payments to be made.
 - (iv) Each Loss Sharing Participant shall designate a bank account in each relevant currency with an Approved Settlement Bank for the provision of the Loss Sharing Requirement in cash (the “**Cash Loss Sharing Requirement Bank Account**”).
 - (v) With respect to the Cash Loss Sharing Requirement Account(s) designated in accordance with section 5(iv), each Loss Sharing Fund Participant (i) authorizes the Clearing House to issue direct debit and/or credit (as applicable) instructions for any amounts due in accordance with the Clearing Rules and any fees due to the Clearing House (including accrued interest), to the Approved Settlement Bank, in respect of the Cash Loss Sharing Requirement Account; and (ii) shall

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execute a power of attorney to enable the Clearing House to issue direct debit and/or credit instructions for any amounts due in accordance with the Clearing Rules and any fees due to the Clearing House (including accrued interest), to the relevant Approved Settlement Bank with respect to the respective Cash Loss Sharing Requirement Account.

- (vi) Each Loss Sharing Participant shall immediately notify the Clearing House to the extent it (or the relevant account owner) wishes to revoke such authority provided and/or the power of attorney executed pursuant to section 5(v) above in respect of one or more Cash Loss Sharing Requirement Accounts. Notwithstanding anything to the contrary in the power of attorney or in a similar instrument, each Approved Settlement Bank is authorized to act in accordance with any communication or manual instruction (including, without limitation, by using email, fax or other authenticated electronic means) from the Clearing House, which may from time to time be used due to a SWIFT disruption or similar event (including, for the avoidance of doubt, an event related to the Clearing House's systems).

6. Sections 1.9A.14-19 of the Default Fund Rules regarding contribution, replacement and release of Eligible Funds, etc. shall apply *mutatis mutandis* under these Loss Sharing Rules, whereby:
- Default Fund shall refer to Loss Sharing Pool,
 - Default Fund Participant shall refer to Loss Sharing Participant,
 - Contributed Assets shall refer to Loss Sharing Contributed Assets,
 - Custody Account shall refer to Loss Sharing Custody Account,
 - Custody Account Agreement shall refer to Loss Sharing Custody Account Agreement, and
 - Fund Requirement shall refer to Loss Sharing Requirement.

Calculation and notification of Loss Sharing Requirements

7. The Loss Sharing Requirement shall correspond to three (3) percent of the three-month average Initial Margin of the Fixed Income Contracts recorded on the Loss Sharing Participant's accounts (whether house or client accounts) from time to time.

The Clearing House calculates and notifies the Loss Sharing Participant of the Loss Sharing Requirement not less than five (5) Business Days prior to each Contribution Day. If applicable, such notification will specify the allocation of the Loss Sharing contribution to cover losses allocated to a Currency Sub-Portfolio for the purposes of section 14 below. The allocation to cover losses in a specific Currency Sub-Portfolio is expressed as the proportion of the three-

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month average Naked Initial Margin of the Loss Sharing Participant's Fixed Income Contracts in the relevant currency relative to the sum of the three-month average Naked Initial Margin for all the Loss Sharing Participant's Fixed Income Contracts.

Information about the size of the Loss Sharing Pool shall be made available by the Clearing House in connection with the notifications.

8. In addition to the provisions of section 7, the Clearing House may, by applying the same model for calculation of Loss Sharing Requirements set out in that section, carry out additional calculations of Loss Sharing Requirements at any time between two Contribution Days. In such cases section 1.9A.21 of the Default Fund Rules shall apply *mutatis mutandis*.
9. Notwithstanding sections 7 and 8, the Minimum Loss Sharing Requirement per Loss Sharing Participant is SEK 3,000,000 (three million) and must always be fulfilled (see also section 4), and the Maximum Loss Sharing Requirement per Loss Sharing Participant is SEK 500,000,000 (five hundred million).

Allocation of Default Loss to the Defaulted Fixed Income Portfolio

10. Where a Loss Sharing Participant or Customer is clearing both Fixed Income Contracts and other Financial Instruments, then any Default Loss shall, for the purposes of sections 11 and 12, be allocated to the relevant Defaulted Fixed Income Portfolio with an amount equal to the sum of:
 - (a) the Realised Collateral Balance *multiplied by* the proportion of the Margin Requirement for the Defaulted Fixed Income Portfolio relative to the total Margin Requirement for Financial Instruments for the defaulting Loss Sharing Participant or Customer, and
 - (b) the Close-Out Balance for the Defaulted Fixed Income Portfolio, i.e. the deviation between the aggregate cost of closing out (including set-off) the Defaulted Fixed Income Portfolio and the Margin Requirement for the Defaulted Fixed Income Portfolio.

Triggering and realization of the Loss Sharing Pool

11. If, in relation to a Default Loss from the default of a Loss Sharing Participant, there are losses not covered when funds available under section 1.9A.26 (i) of the Default Fund Rules (i.e. the defaulting Loss Sharing Participant's Default Fund contribution) have been exhausted in accordance with the Default Fund Rules, then the following shall apply.

To the extent there is a Default Loss allocated to the Defaulted Fixed Income

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Portfolio (in accordance with section 10) in excess of:

funds available under section 1.9A.26 (i) of the Default Fund Rules *multiplied by* the proportion of the Initial Margin for the Defaulted Fixed Income Portfolio relative to the total Initial Margin for the defaulting Loss Sharing Participant or Customer,

then such excess loss shall be covered by the defaulting Loss Sharing Participant's Loss Sharing Contributed Assets (whether or not in excess of the Loss Sharing Requirement and whether or not pending release from the Clearing House at the relevant time) before applying funds available in accordance with section 1.9A.26 (ii) of the Default Fund Rules (i.e. the Clearing House's junior capital).

12. If, in relation to any Default Loss, there are losses not covered when funds available for Financial Instruments under section 1.9A.26 (ii) of the Default Fund Rules have been exhausted in accordance with the Default Fund Rules (and, for the avoidance of doubt, any funds available in accordance with section 11 above have been exhausted), then the following shall apply.

To the extent there is a Default Loss allocated to the Defaulted Fixed Income Portfolio (in accordance with section 10) in excess of the sum of:

- (a) funds available under section 1.9A.26 (i) of the Default Fund Rules *multiplied by* the proportion of the Initial Margin for the Defaulted Fixed Income Portfolio relative to the total Initial Margin for the defaulting Loss Sharing Participant or Customer,
- (b) funds available for Financial Instruments under section 1.9A.26 (ii) of the Default Fund Rules *multiplied by* the proportion of the Initial Margin for the Defaulted Fixed Income Portfolio relative to the total Initial Margin for Financial Instruments for the defaulting Loss Sharing Participant or Customer; and
- (c) if applicable, funds available under section 11 above,

then such excess loss shall be covered by the contributions to the Loss Sharing Pool by each non-defaulting Loss Sharing Participant in accordance with sections 13-14 below before applying funds available in accordance with section 1.9A.26 (iii) of the Default Fund Rules (i.e. the contributions by each non-defaulting Default Fund Participant to the Financial Default Fund).

If the default occurs during an Interim Period, any contributions to the Loss Sharing Pool already realised or to be realised to cover Default Losses in respect of previously occurred default(s) shall reduce the size of the Loss Sharing Pool by an amount equal to the amount realised or to be realised in previously

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occurred defaults when applying this section 12.

13. If the Defaulted Fixed Income Portfolio consists of one Currency Sub-Portfolio only, then the contributions to the Loss Sharing Pool by each non-defaulting Loss Sharing Participant allocated to such Currency Sub-Portfolio in accordance with section 7 above shall be applied on a pro rata basis relative to the aggregate contributions allocated to such Currency Sub-Portfolio made to the Loss Sharing Pool by all non-defaulting Loss Sharing Participants.
14. If the Defaulted Fixed Income Portfolio consists of more than one Currency Sub-Portfolio, then the Clearing House will at its sole discretion allocate the excess loss to the respective Currency Sub-Portfolios by following step 1-6 below and cover losses so allocated by applying the contributions to the Loss Sharing Pool by each non-defaulting Loss Sharing Participant allocated to each such Currency Sub-Portfolio in accordance with section 7 above on a pro rata basis relative to the aggregate contributions allocated to such Currency Sub-Portfolio made to the Loss Sharing Pool by all non-defaulting Loss Sharing Participants.
1. The Clearing House will at its sole discretion determine the net loss or net profit per Currency Sub-Portfolio.
 2. The Clearing House will determine the resources available to cover the losses in the Defaulted Fixed Income Portfolio as the sum of
 - a. Any net profit in any Currency Sub-Portfolio determined in accordance with step 1 above.
 - b. The Margin Requirement for the Defaulted Fixed Income Portfolio.
 - c. The Realised Collateral Balance (being a positive or negative value) *multiplied* by the proportion of the Margin Requirement for the Defaulted Fixed Income Portfolio relative to the total Margin Requirement for the defaulting Loss Sharing Participant or Customer.
 - d. Funds available under section 1.9A.26 (i) of the Default Fund Rules (i.e. the defaulting party's Default Fund contribution) *multiplied* by the proportion of the Initial Margin for the Defaulted Fixed Income Portfolio relative to the total Initial Margin for the defaulting Loss Sharing Participant or Customer.
 - e. Funds available under section 11 above, if applicable.
 - f. Funds available for Financial Instruments under section 1.9A.26 (ii) of the Default Fund Rules *multiplied* by the proportion of the Initial Margin for the Defaulted Fixed Income Portfolio relative to the total Initial Margin for

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Financial Instruments for the defaulting Loss Sharing Participant or Customer.

3. The net loss per Currency Sub-Portfolio will be reduced by the lower of
 - a. an amount corresponding to the resources available in accordance with step 2 above *multiplied* by the Naked Initial Margin of such Currency Sub-Portfolio divided by the sum of Naked Initial Margin in all Currency Sub-Portfolios with losses; and
 - b. an amount corresponding to the net loss for that Currency Sub-Portfolio.
4. The resources calculated in accordance with step 2 above will be reduced with an amount corresponding to the reduction in step 3 above.
5. If there are any resources remaining after reduction in accordance with step 4 above, then such remaining resources shall be applied in accordance with steps 3 and 4 *mutatis mutandis* repeatedly until such resources are exhausted, whereby a Currency Sub-Portfolio shall only be included in the calculation to the extent losses remain in such Currency Sub-Portfolio.
6. Any loss remaining in any Currency Sub-Portfolio when the resources available under step 2 above have been exhausted by applying steps 3-5 above shall be considered allocated to such Currency Sub-Portfolio for the purposes of this section 14.

Replenishment and redistribution

15. Any Loss Sharing Pool contributions realised in respect of a default shall be replenished by new contributions in Eligible Funds by each non-defaulting Loss Sharing Participant within two (2) Business Days following a replenishment request. Such request may be notified by the Clearing House at the earliest ten (10) Business Days before the expiry of the Interim Period applicable to such default.

A Loss Sharing Participant's obligations to replenish funds in accordance with this section 15 is limited per any 12 months' period to an amount corresponding to the Loss Sharing Requirement applicable at the time of the first default during such period.

Funds replenished following one or several defaults may not be used to cover subsequent Default Losses that have arisen in connection with the same default or defaults.

16. Sections 1.9A.34-37 of the Default Fund Rules regarding redistribution and

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assignment of claims shall apply *mutatis mutandis* in relation to Loss Sharing Participants whose Loss Sharing Contributed Assets have been realised to cover the applicable Default Loss allocated to the Defaulted Fixed Income Portfolio.

Loss Sharing Incentives

17. In connection with a default involving Generic Rates Instruments, the Loss Sharing Participant may be invited, as further specified in the Default Management Commitment, to enter into hedges and make bids in auctions for the whole or parts of the Defaulted Fixed Income Portfolio with a view to reduce the Clearing House's market risk in respect of such portfolio. In order to incentivize Loss Sharing Participants to participate in such activities, the following shall apply.

If the Loss Sharing Participant enters into one or several Contracts with the Clearing House in connection with hedging or auctions, its contribution to the Loss Sharing Pool available for the purposes of sections 12-14 will be reduced with an amount corresponding to the contribution *multiplied by* the proportion of the Initial Margin of the relevant Contract(s) at the time of execution relative to the Initial Margin of the Defaulted Fixed Income Portfolio at the time of the last applicable margin call made by the Clearing House prior to the default. If such Loss Sharing Participant's Loss Sharing contribution has been allocated in accordance with section 7 to cover losses in different Currency Sub-Portfolios, then any reduction made hereunder shall be made to the Loss Sharing contribution so allocated and available for losses in each Currency Sub-Portfolio on a pro-rata basis relative to such allocation.

Loss Sharing Exit

18. Following a Loss Sharing Exit, sections 1.9A.38-39 of the Default Fund Rules shall apply *mutatis mutandis* to the release of Loss Sharing Contributed Assets.