

# NASDAQ OMX Stockholm AB – Regulatory Capital and Financial Resources



December 31, 2009

**NASDAQ OMX**<sup>SM</sup>

# Introduction

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**NASDAQ OMX Stockholm AB** is the central counterparty in all the financial instrument and commodity instruments cleared through the NASDAQ OMX Nordics and NASDAQ OMX Commodities. The NASDAQ OMX Stockholm AB has dedicated capital resources which are specifically designed to cover counterparty losses, i.e. to handle extreme situations where the defaulting member's pledged collateral and other resources are insufficient.

In total, **NASDAQ OMX Stockholm AB** has committed resources of SEK 2,270 million to cover potential counterparty losses. The resources are ring-fenced from the rest of the NASDAQ OMX Group, which means that the financial resources only can be used to cover losses in relation to the clearinghouse. The clearinghouse's resources also assure continued business or an orderly wind down process and cover potential losses due to operational risks.

**NASDAQ OMX Stockholm AB** has its own capital resources of SEK 251 million in share capital and restricted reserves. This capital and additional retained earnings of in total SEK 720 million are primarily invested in low risk government securities. The remaining SEK 1,550 million of the dedicated clearing capital is covered via an insurance policy provided by **OMX Capital Insurance AG**.

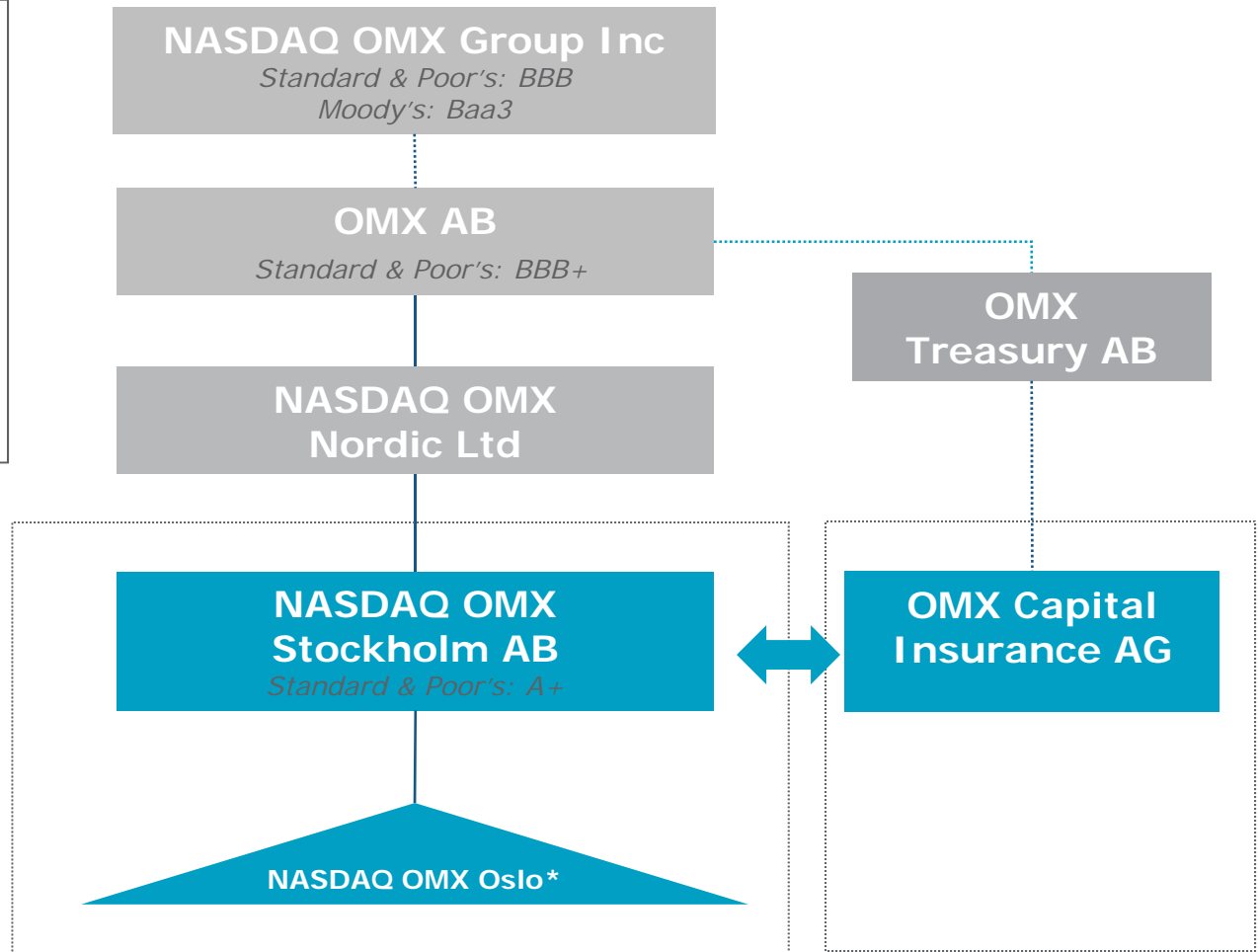
**OMX Capital Insurance AG**, authorized by the Swiss insurance regulator, is a wholly-owned insurance company within the NASDAQ OMX Group. OMX Capital Insurance AG has own financial resources of SEK 750 million invested in low risk government securities and dedicated for the clearing capital. These assets are fully financed by shareholder's equity. In addition, there is a financial guarantee of SEK 800 million which can be utilized in the event of counterparty defaults.

Additional capital within **NASDAQ OMX Stockholm AB** can be used to cover losses in excess of the size of the regulatory capital. Currently, NASDAQ OMX Stockholm AB has a total shareholders equity of SEK 3,763 million (of which SEK 2,126 million is goodwill and other intangibles), i.e. SEK 3,043 million in excess of the regulatory capital (please refer to separate slide). **NASDAQ OMX Group** also holds other financial resources which, if required, could be utilized to absorb greater losses than the size of the regulatory capital.

# The Clearinghouse's Organizational Structure, Regulators and External Credit Rating

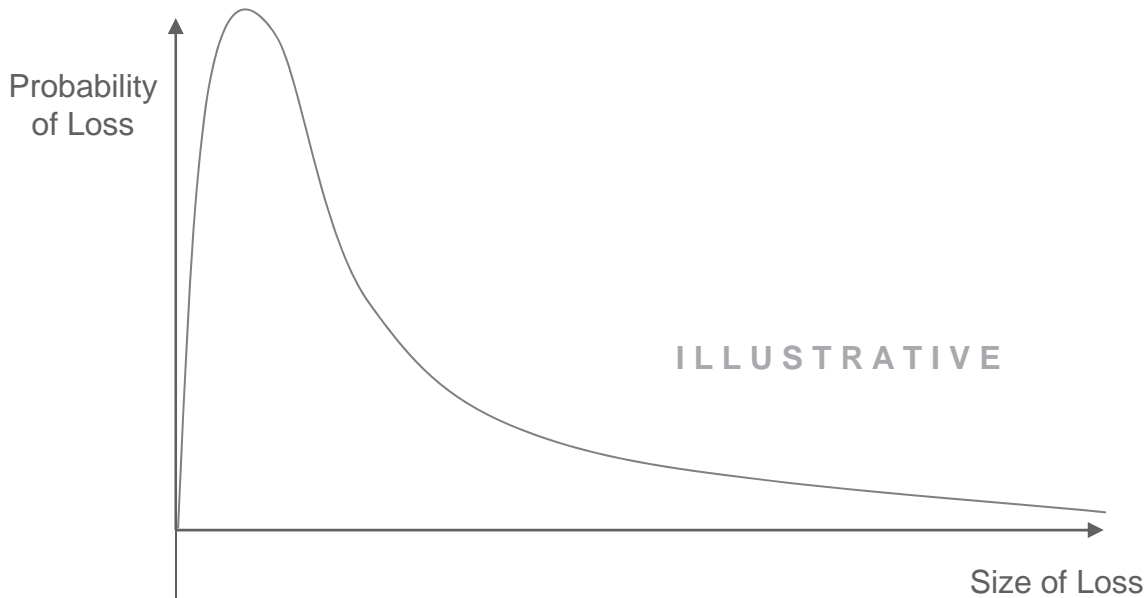
## Regulators

- NASDAQ OMX Stockholm AB: Authorized and supervised by Swedish Supervisory Financial Authority (SFSA)
- NASDAQ OMX Oslo (Branch) Supervised by SFSA and the Norwegian FSA
- OMX Capital Insurance AG Regulated by the Swiss Financial Supervisory Authority (FINMA)

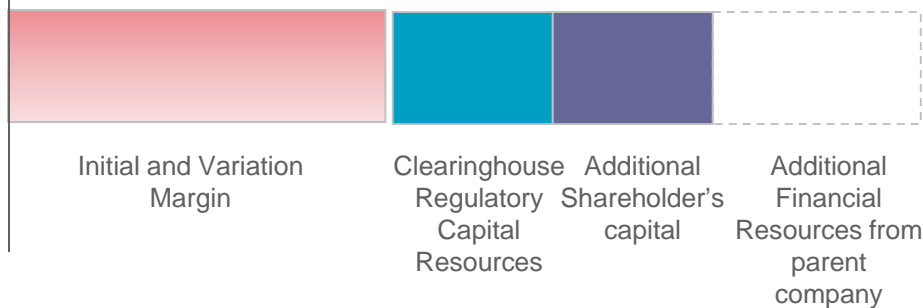


\* The NASDAQ OMX Oslo is a branch of NASDAQ OMX Stockholm AB, which means that they are the same legal entity.

# Clearinghouse Counterparty Credit Risk



## Example of Risk Capital



- In its role as central counterparty, NASDAQ OMX Stockholm AB assumes credit risk to its clearing participants
- To manage counterparty credit risk, NASDAQ OMX Stockholm AB holds risk capital (i.e. margin, regulatory capital, synthetic capital, additional financial capital, etc.)
- NASDAQ OMX Stockholm AB holds in total committed regulatory capital SEK 2,270 million (refer to next slides).

# Calculation of NASDAQ OMX Stockholm AB's Capital Requirement

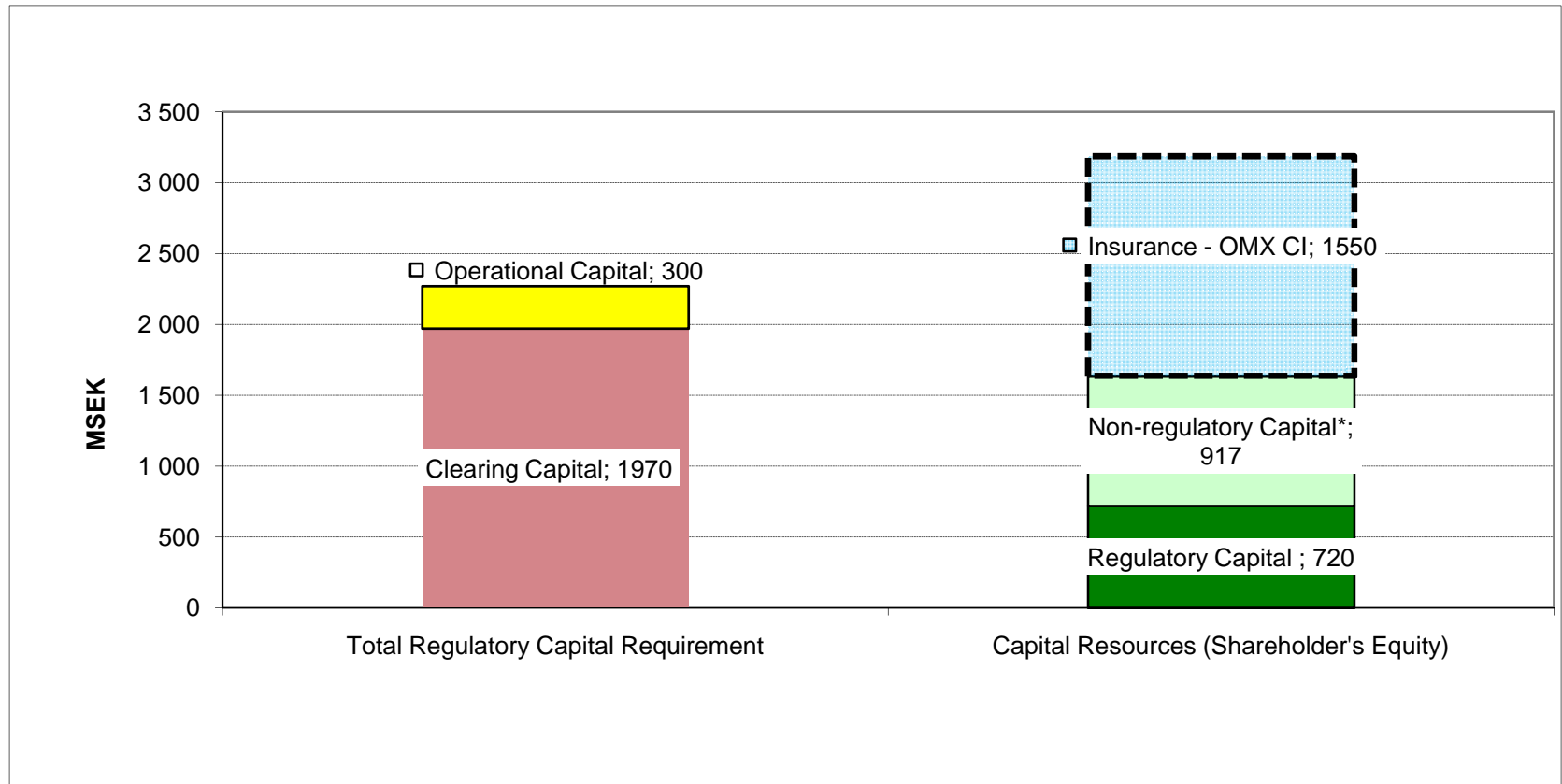
- The NASDAQ OMX Stockholm AB's total capital requirement is determined by aggregating the capital need to cover default risk (clearing capital) and the requirement to hold operational capital. Any risk transfer related to the clearing capital would lower the requirement of capital that must be held in NASDAQ OMX Stockholm AB.
- Clearing Capital:
  - CPSS/ISOSCOX as well as EECB/CESR standards for CCPs recommends that a clearinghouse hold capital to protect against the risk of a loss to its largest member.
  - The NASDAQ OMX Stockholm AB's methodology requires holding capital equal to the sum of its two largest members.
  - The methodology also requires clearing capital to include additional amounts equal to the sum of the risk weighted exposure of the clearinghouse's remaining member portfolio.
  - Finally, buffers are included in the clearing capital measure to guard against periods of heightened market volatility and economic stress

In total, the clearing capital is **1,970 MSEK**.

- Operational Capital:

According to the Swedish Security Act (2007:528), an regulated exchange as well as a clearinghouse should have sufficient capital in order to enable an orderly wind down of the exchange and cover operational risk. The operational capital requirement is assessed to be **300 MSEK** for NASDAQ OMX Stockholm AB.

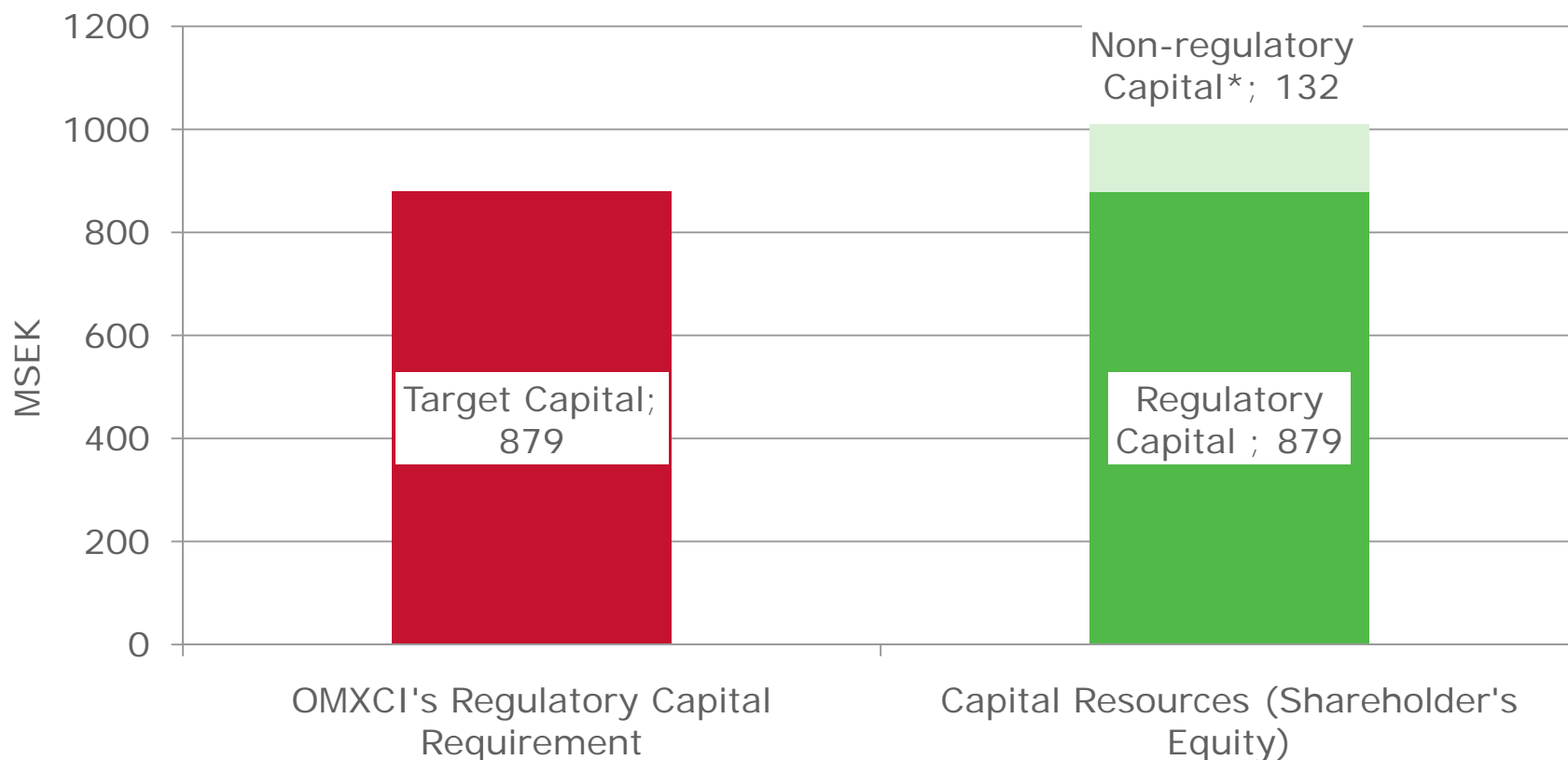
# NASDAQ OMX Stockholm AB's Regulatory Capital Requirement and Other Resources



Non Regulatory Capital is based upon Balance Sheet as of December 31, 2009 and is shareholder's equity in excess of what must be held in NASDAQ OMX Stockholm AB in order to fulfill the regulatory requirement and adjusted for intangibles including goodwill (of in total 2,126 MSEK).

Regulatory Capital includes restricted share capital, reserves and additional shareholder's equity which must be held NASDAQ OMX Stockholm AB in order to fulfill the capital requirement (regulatory capital).

# OMX Capital Insurance AG's Capital Requirements



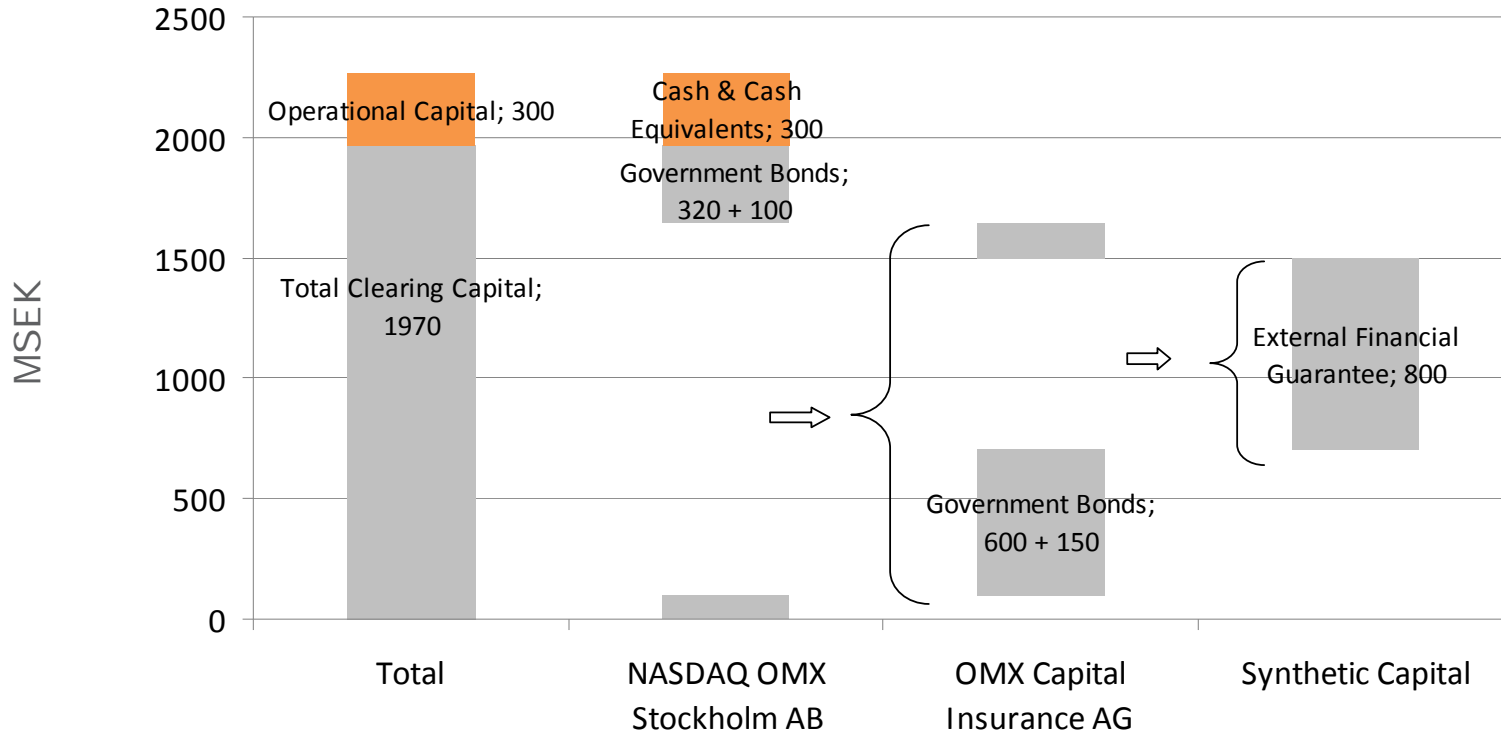
Target Capital is the risk bearing capital which an insurance company must hold in order to fulfill the regulatory capital requirement (Swiss Solvency 2), taken into account its obligations and risk in investments. Any risk-transfers (e.g. re-insurance or financial guarantees) reduces the level of Target Capital.

Non Regulatory Capital is based upon Balance Sheet as of Dec 31, 2009 and is shareholder's equity in excess of what must be held OMX Capital Insurance AG in order to fulfill the regulatory requirement.

Regulatory Capital includes restricted share capital, technical reserves and additional shareholder's equity which must be held in OMX Capital Insurance AG in order to fulfill the capital requirement.

# NASDAQ OMX Stockholm AB's Financial Resources Linked to Regulatory Capital

The graph below shows the financial resources linked to the Regulatory Capital. It also shows in which entity they are held or whether it is external synthetic capital, as well as in which order they would be used (starting from the bottom).



NASDAQ OMX Stockholm AB's and OMX Capital Insurance AG's government securities are held in ring-fenced escrow accounts (refer to information regarding ring-fencing of NASDAQ OMX Stockholm AB on separate slide)

The external financial guarantee is an on-demand guarantee which gives OMX Capital Insurance AG the right to draw up to 800 MSEK in the event of a counterparty default in NASDAQ OMX Stockholm AB in excess of 700 MSEK. The utilized amount will not incur any indebtedness in neither NASDAQ OMX Stockholm AB nor OMX Capital Insurance AG. The guarantee is collateralized by the issuing bank with government bonds.

# Additional Information Related to Financial Resources in NASDAQ OMX Stockholm AB

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- Regulatory capital

- All the financial resources dedicated to the clearing capital must be highly liquid and can be converted to liquid funds within a few days.
- The own assets held in NASDAQ OMX Stockholm AB and OMX Capital Insurance AG forms a part of the Clearing Capital that can only be invested in bonds with very high credit rating.
- The regulatory capital requirement can be fulfilled with own assets or synthetic capital (e.g. reinsurance, financial guarantees etc.). The total amount of synthetic capital held may not exceed 2/3 of the total capital.

- Additional financial resources

- NASDAQ OMX Stockholm AB holds dedicated credit facilities in excess of SEK 1,300 million, divided between three banks, to meet any temporary liquidity needs.

# NASDAQ OMX Stockholm AB – Balance Sheet (1)

<b>ASSETS</b>	Dec 31, 2009
<i>(SEK m)</i>	
Intangible fixed assets	2,126
<i>Of which GW</i>	1,440
Tangible fixed assets	5
Financial fixed assets	81
Deferred tax assets	104
<i>Total Fixed Assets</i>	<i>2,316</i>
Current receivables	265
Short tem investments	430
Cash and Cash Equivalent*	1,533
<i>Total Current Assets</i>	<i>2,228</i>
<b>Total Assets</b>	<b>4,544</b>

\* Including group internal cash pool accounts

## NASDAQ OMX Stockholm AB – Balance Sheet (2)

### Liabilities

(SEK m)

Dec 31, 2009

Share Capital	201
Restricted Reserves	50
Retained Earnings	2,916
Net Income	597
<i>Total Shareholder's Equity</i>	<i>3,763</i>
Long Term Debt	123
Deferred Tax Liability	183
Current Liabilities	478
<b>Total Liabilities</b>	<b>4,544</b>

# Ring-fencing of NASDAQ OMX Stockholm AB's Financial Resources Linked to Regulatory Capital

*To safeguard that the financial resources dedicated regulatory capital cannot be utilized in other parts of the NASDAQ OMX Group, the financial resources are ring-fenced through a **regulatory and legal protection** as well as an **operational protection**.*

## Regulatory & legal protection

### NASDAQ OMX Stockholm AB (NQX Sto) -

#### Amendment to articles of associations (A-o-A)

- NOMX Sto's A-o-A restricts distribution of assets to owners and prevents any form of lending from NQX Sto to other entity within the group if not sufficient regulatory capital is held within the entity.
- Amendments to the A-o-A must be approved by Swedish FSA

### OMX Capital Insurance AG -

#### Existing regulatory requirements

- Regulations applicable for OMXCI stipulates that tied assets (assets held in Switzerland) equal to ~90 MSEK must be held, and that sufficient capital to meet Swiss Solvency Test is held. Analysis conducted by OMXCI's independent actuary shows a requirement of risk bearing assets in OMXCI of minimum 879 MSEK.

## Operational protection

### Escrow Accounts

- Government Bonds held by NASDAQ OMX Stockholm AB and OMX Capital Insurance AG and which constitute a part of the financial resources linked to the Regulatory Capital are held in Escrow Accounts with a third party.
- The escrow account arrangement will ensure that these financial resources cannot be withdrawn from account except for two specific situations:
  - Member default in NQX Sto
  - Regulatory capital surplus
- The escrow arrangement cannot be terminated without notification to the Swedish FSA and the rating agencies and there is a termination period of 6 months.