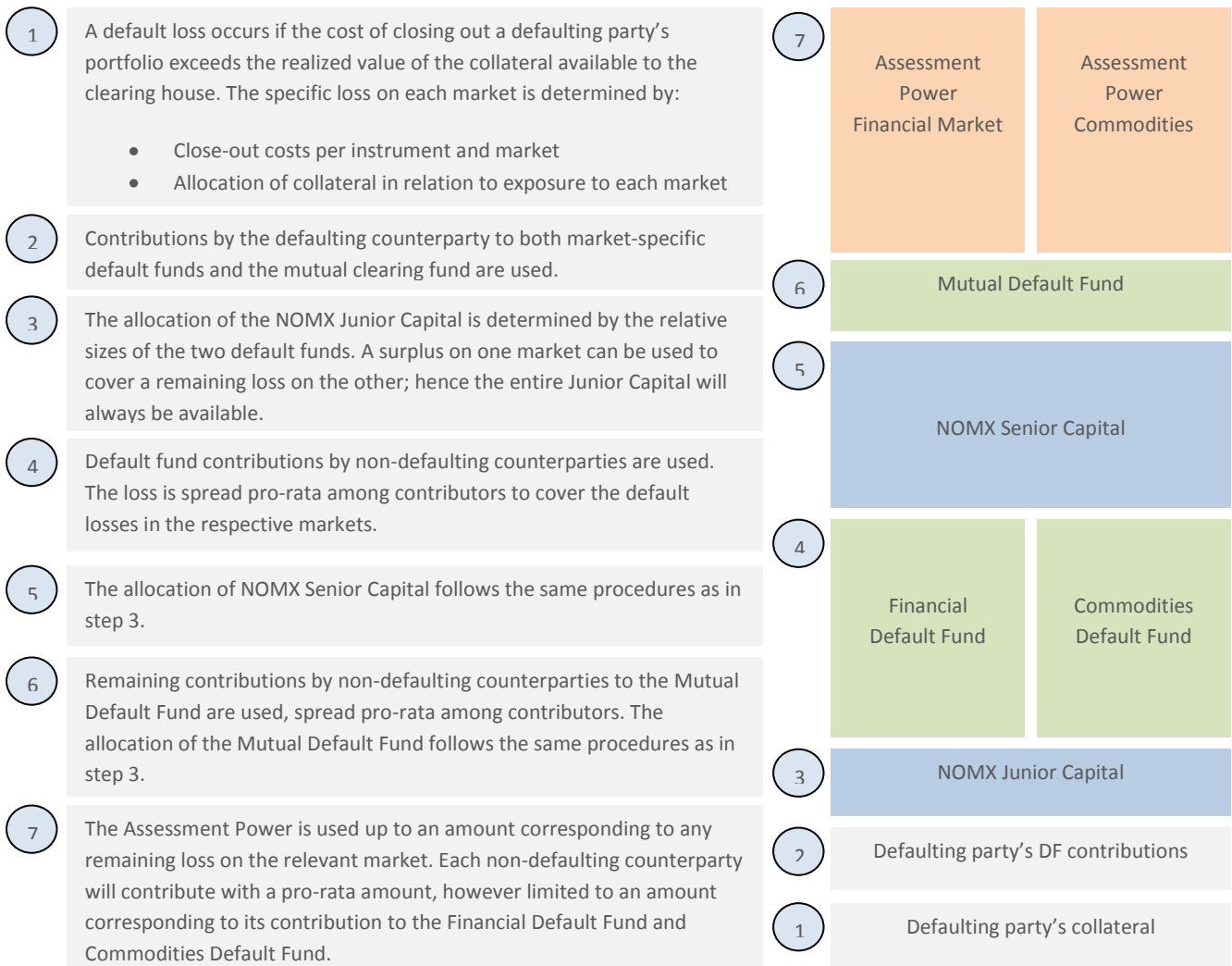


Date 2011-09-29
 Title Loss in both markets (Appendix 1)
 Reference NASDAQ OMX Default Fund Policy Paper

LOSS IN BOTH MARKETS - ALLOCATION OF LOSS WHEN A MEMBER IS ACTIVE IN BOTH MARKETS

A default loss occurs if the costs of closing out the portfolio exceed the available collateral. The allocation of losses to the two markets – Financial Market and Commodities Market – is simple when the two are separated. Margin requirements are calculated and collateral are provided and held separately, and total costs are easily allocated to the respective markets. Allocation of a default loss becomes more complex when a member is active in both markets, under one membership. In this case, margin requirements for both markets are combined and available collateral needs to be allocated in relation to exposures.

The allocation of default loss in the combined scenario is determined by comparing the close-out costs of the instruments on the different markets to the gross margin requirement of each market. If the realized value of the collateral does not match the netted margin requirement, the collateral surplus/deficit will be allocated in relation to the total margin requirement of each market.



WATERFALL EXAMPLE

DEFAULTING CLEARING MEMBER'S COLLATERAL AND ALLOCATION OF DEFAULT LOSS

The default loss equals the amount that the total close-out costs exceed the available collateral after realization. In the example below the default loss is 150 MSEK.

Total default loss

Close-out costs for Commodities Market	-270 MSEK
Close-out costs for Financial Market	-580 MSEK
Realized collateral	700 MSEK
Default loss	-150 MSEK

To properly allocate the default loss to each of the two markets for the purpose of the default fund waterfall, the default loss is broken down into the **close-out cost balance** and **realized collateral deficit/surplus**.

Close-out cost balance

The close-out cost balance corresponds to the amount that the aggregate cost of closing out the defaulting member's contracts deviates from the margin requirement. The total amount of close-out costs in this example is 50 MSEK. This amount is allocated to each market in the table below.

Market	Close-out costs	Margin requirement	Close-out cost balance
Commodities Market	-270	-200	-70 MSEK
Financial Market	-580	-600	+20 MSEK
Total	-850	-800	-50 MSEK

Realized collateral deficit/surplus

The value of the realized collateral is compared to the total margin requirement for both markets. Any surplus or deficit is allocated in relation to the individual margin requirements of each market. The realized collateral deficit in this example is 100 MSEK.

Value of collateral after realization	Total margin requirement	Collateral deficit
700	-800	-100 MSEK

The collateral deficit is allocated to each market using the relative size of the defaulting member's margin requirement of each market as seen in the table below.

Market	Margin requirement	% of total margin	Allocated collateral deficit
Commodities Market	-200	25%	-25 MSEK
Financial Market	-600	75%	-75 MSEK
Total	-800	100%	-100 MSEK

Note: In case the margin requirement is positive on one market the margin requirement is set to 0 when calculating the relative size of each market's margin requirement. As a result the entire collateral deficit/surplus will be allocated to the other market. If both margin requirements are positive, any collateral surplus will be shared equally by both markets.

Allocation of default loss

The close-out cost balance and the allocated collateral deficits are now summed to allocate the default loss on each market.

Market	Close-out cost balance	Realized collateral deficit	Default loss
Commodities Market	-70	-25	-95 MSEK
Financial Market	+20	-75	-55 MSEK
Total	-50	-100	-150 MSEK

The total default loss after realization of collateral is 150 MSEK, of which 95 MSEK is allocated to the Commodities Market and 55 MSEK to the Financial Market.

DEFAULTING CLEARING MEMBER'S DEFAULT FUND CONTRIBUTIONS TO ALL MARKETS

The next step is to cover the allocated default losses with the defaulting member's contributions to each of the market-specific default funds and the mutual clearing fund.

Market	Default loss	Default fund contributions	Remaining loss
Commodities Market	-95	5	-90 MSEK
Financial Market	-55	25	-30 MSEK
Total	-150	30	-120 MSEK

The remaining loss after the defaulting member's contributions have been used is 120 MSEK, of which 90 MSEK is allocated to the Commodities Market and 30 MSEK to the Financial Market.

NASDAQ OMX JUNIOR CAPITAL

The entire NASDAQ OMX Junior Capital of 100 MSEK is used to cover the remaining loss of 120 MSEK. The remaining loss after NASDAQ OMX's Junior Capital is 20 MSEK. The allocation within NASDAQ OMX's Junior Capital (JC) is determined by the relative size of each market-specific default fund. The Financial Default Fund and Commodities Default Fund respectively correspond to 48% and 52% of the total member contributed default fund given the current default fund size. Consequently, at least 48 and 52 MSEK will be available to cover for a loss in the Financial Market and Commodities Market respectively. A surplus on one of the markets' Junior Capital can be used to cover a loss on the other market; hence the entire NASDAQ OMX Junior Capital will always be available.

Market	Loss	Minimum available JC	Allocated JC	Remaining loss
Commodities Market	-90	52	70	-20 MSEK
Financial Market	-30	48	30	0 MSEK
Total	-120	100	100	-20 MSEK

A loss of 20 MSEK remains on the Commodities Market when NASDAQ OMX's Junior Capital has been used.

DEFAULT FUND CONTRIBUTIONS FROM NON-DEFAULTING COUNTERPARTIES

The remaining loss of 20 MSEK is allocated to the Commodities Default Fund. The loss is spread pro-rata among the non-defaulting contributors to the default fund in relation to their contributions.