**WHAT IS OTC?**

**Non standardized**

- Instruments **not admitted** for exchange trading.
  - No trading rulebook exists
  - No orderbook exists

Trades **executed off-exchange**

- Non standardized
  - No contract specification
- Standardized
  - Contract specification set up by an exchange or by third party, eg ISDA

**Standardized**

- Instruments **admitted for exchange trading.** ("listed")
  - Trading rulebook exists
  - Orderbook exists
  - Contract specification set up by an exchange

Trades **executed off-exchange** (bi lateral/MTF)

- Will be cleared
WHAT IS CENTRAL COUNTERPARTY CLEARING
GENIUM RISK – THE FIRST INTEGRATED CLEARING PLATFORM FOR ALL ASSET CLASSES AS WELL AS OTC AND EXCHANGE EXECUTED DERIVATIVES

Different risk models for each asset class – CFM new model for fixed income
<table>
<thead>
<tr>
<th>Local knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local governance</td>
</tr>
<tr>
<td>We know our customers – and they know us!!</td>
</tr>
<tr>
<td>Customization</td>
</tr>
</tbody>
</table>
Different risk models for different asset classes and types of credit risks, eg CFM for fixed income, means more accurate risk measurement, and more efficient use of collaterals.

Optimizes use of member collaterals
- Cross margin between all OTC and exchange traded instruments within each asset class
- Offsets between different asset classes

Capital efficiency increases substantially

CLEARING OF OTC EXECUTED DERIVATIVES AT NASDAQ OMX CLEARING
### CLEARING OF OTC EXECUTED DERIVATIVES AT NASDAQ OMX CLEARING

Client member risk can be eliminated for clearing clients.

<table>
<thead>
<tr>
<th>Two clearing models</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Agent clearing model - direct relationship between CCP and clients</td>
</tr>
<tr>
<td>- Principal clearing model - no direct relationship between CCP and clients</td>
</tr>
</tbody>
</table>

Enables **Segregation**, i.e., separation of specific client positions and collaterals from clearing house positions and collaterals.

**Only platform that segregates collaterals!**

Enables **Portability** – all positions and collaterals with one client can be moved from one clearing member to another when a clearing member is in default.
## CLEARING OF OTC EXECUTED DERIVATIVES AT NASDAQ OMX CLEARING

### Operational efficiency increases

<table>
<thead>
<tr>
<th>Netting</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Position netting</td>
</tr>
<tr>
<td>– Cash settlement netting</td>
</tr>
<tr>
<td>– Securities settlement netting</td>
</tr>
</tbody>
</table>

**Straight Through Processing** – Clearing House processes are designed to enhance fast, seamless execution, from a Client, Member and Clearing House perspective.

**Easy access**

– Accepts trades from a number of execution venues as well as trades input directly in our systems or via member’s own systems.
– Interface designed to be as flexible as possible for most third party system developers.
NASDAQ OMX Clearing offers clearing of exchange executed and standardized OTC executed derivatives within Equities, Fixed income and Commodities.

**Fixed Income OTC:**
- FRA contracts
- Mortgage and government bonds
- Repos
- SWAPS

**Equity OTC:**
- Equity options and futures
- Index options and futures

**Commodities OTC:**
- Nordic Power derivatives
- UK Power derivatives
- German Power derivatives
- CO2 derivatives
<table>
<thead>
<tr>
<th>DEFAULT FUND</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASDAQ OMX Clearing will launch default fund March 1, 2012</td>
</tr>
<tr>
<td>The members and the clearing house will jointly finance the default fund, and share the risk</td>
</tr>
<tr>
<td>Aligning to international standard allows for launch of new products, eg interest swaps and FX products</td>
</tr>
<tr>
<td>Aligns the interest of members and the clearing house to maintain high quality in members, contracts and products</td>
</tr>
</tbody>
</table>
WHAT CAN YOU EXPECT FROM NASDAQ OMX CLEARING?

- Clear all type of Nordic contracts that might fall under the new regulation.
- Cross margining between standardised and OTC contracts
- Offset between asset classes
- Legal transparency
- Operational Straight through processing
- Easy access
- Independently governed company
WHAT’S THE BENEFITS OF CLEARING OTC AT A CCP?

Counterparty risk eliminated

Increased capital efficiency
  – cross margining and offsetting
  – recognized CCP criteria in BASEL III for lower capital requirements

Transparency - One single, pre-defined, set of rules compared to a number of individual ISDA agreements

Operational Efficiency
  – No need to negotiate new ISDA agreement when trading with new counterparty
  – Less need to continuously monitor bilateral counterparties
WHAT’S THE BENEFITS OF CLEARING AT NASDAQ OMX CLEARING?

NASDAQ OMX has world leading competencies, services and products in clearing and risk management.

Local presence and knowledge

Optimized capital efficiency and use of collaterals
– Integrated multi asset / OTC and exchange traded
– Customized risk model for each asset class

Increased operational efficiency

Client member risk can be eliminated by allowing segregation and portability of positions and collaterals

Most efficient and flexible risk management platform in Europe
**REGULATORY DRIVERS**

<table>
<thead>
<tr>
<th><strong>EMIR</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>– Mandatory clearing for OTC contracts</td>
</tr>
<tr>
<td>– Over the counter (OTC) derivatives’ means derivative contracts whose execution does not take place on a regulated market</td>
</tr>
<tr>
<td>– ESMA will decide which products are mandated for clearing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>BASEL III</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>– Substantially reduced capital requirement on market participants when a trade is cleared by a Clearing House compared to a trade which is cleared bilaterally between market participants (based on ISDA agreements)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>CPSS IOSCO</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>– Clearing houses will be assessed according to CPSS IOSCOs new standards (valid from 2012). Basel III refers to these standards.</td>
</tr>
</tbody>
</table>
THANK YOU!