

DEFAULT MANAGEMENT

Introduction

This document contains a description of key aspects of NASDAQ OMX STOCKHOLM AB ('NQOX') default management in N2EX, the UK physical market offering. The text is organized as follows: The first part gives an overview of circumstances leading to a default event. The second part contains a list of the main actions available for the Clearinghouse in the case of a default. The third part describes the decision-making process and authority. Finally, the default history of NQOX is outlined. Rules governing default and default procedures can be found in the Clearing Rulebook section 13 (please see: www.n2ex.com/digitalAssets/70/70116_clearingrules20100111.pdf).

Definition of default event

A Default Event means the occurrence at any time of any of the following events (section 13.1.1 in the Clearing Rulebook):

- (a) The Account Holder no longer meets the criteria applicable to it under Sections 3.1 or is no longer eligible as Counterparty under Section 3.2 of the Clearing Rulebook.
- (b) The Account Holder fails to meet a Collateral Call within the applicable time limit as set out in the Clearing Rules.
- (c) The Account Holder fails to meet its Cash Settlement or Delivery obligations under the Clearing Rules.
- (d) The Account Holder, its Collateral Provider or its Settlement bank is subject to an Insolvency Event.
- (e) The Account Holder is in breach of or omits to observe any other obligations towards the Clearinghouse or a Market Operator under the Clearing Rules or Applicable Law.
- (f) The Account Holder's Credit Rating is withdrawn or downgraded below the rating at the time used by the Clearinghouse when calculating the Collateral Call for the Account Holder, assuming such downgrade is relevant to the calculation of the Collateral Call.
- (g) The Account Holder causes or is subject to any event with respect to it which in the reasonable opinion of the Clearinghouse has an analogous effect to any of the events specified in letters (a) to (f) (inclusive) above.
- (h) The Account Holder takes any action in furtherance of, or indicating its consent to approval of, or acquiescence in, any of the events referred to in letters (a) to (g) (inclusive) above.
- (i) The Account Holder is in breach of any of its representations or warranties.

The following events constitute a Material Default Event:

- (a) Any Default Event under letters (a) and (b).

- (b) Any Default Event under letters (c) through (h) (inclusive), provided that the Default Event, in the reasonable opinion of the Clearinghouse, seriously affects the Account Holder's ability to fulfill its current or future obligations under the Clearing Rules, or clearly indicates that the Account Holder is unfit for further Clearing.
- (c) Any Default Event under letter (i), provided that the breach of the representation or warranty is material in the reasonable opinion of the Clearinghouse and has not been remedied within fifteen (15) calendar days following written notice from the Clearinghouse, or the breach of Representation clearly indicates that the Account Holder is unfit for further Clearing.

The default event may appear with respect to a clearing member, a clearing client or a client representative.

Actions available for the Clearinghouse in case of a default event

In case of a default event, the Clearinghouse may suspend a clearing member or a clearing client from clearing and a client representative from approval until the default event is remedied or ceased. A list of specific actions taken by the Clearinghouse under suspension is available in the margining documentation for N2EX market (please see www.n2ex.com/digitalAssets/66/66395_marginingsolution.pdf). In case of a material default event with respect to an Account Holder, the Clearinghouse may in its discretion take any one or more of the following steps (sections 13.2, 13.4, 13.5, 13.7, 13.8 in the Clearing rulebook):

- (a) Declare any or all claims of or against the defaulting Account Holder due on that date.
- (b) Take such action as it considers necessary or expedient to close-out Open Interest by entering into Close-Out Transactions or otherwise discharge and/or net the rights, obligations and positions of the defaulting Account Holder. These transactions are conducted by the Clearinghouse using reasonable endeavors to achieve the best price possible in the market at the time of close-out or other transactions.
- (c) Withhold any Cash Settlement Amount owed to the Account Holder.
- (d) Enforce, realize and apply its rights in the Collateral posted by or on behalf of the Account Holder by either; (i) drawing upon Bank Guarantees provided to the Clearinghouse by or on behalf of the Account Holder, (ii) enforcing its security in respect of and applying the balance of the Cash Collateral Accounts or (iii) enforcing, realizing and applying any other form of Collateral posted by or for the Account Holder.
- (e) Set off all claims owed by the Account Holder to the Clearinghouse and by the Clearinghouse to the Account Holder so as to produce a single net sum payable by or to the Account Holder. This right of set-off applies irrespective of whether the relevant claims are related to exchange transactions or physical market transactions registered in the same Clearing Accounts or not, or relate to different currencies, transactions or product series.
- (f) Terminate the clearing membership agreement or the clearing client agreement by giving 15 days notice and thereby exclude the Account Holder from clearing.

There are special rules regarding the default event involving a client representative. If the client representative is in default and it is suspended or terminated, a clearing client **may not** enter into any clearing transactions. Following the termination, the clearing client has the right to require the client representative immediately to request the Clearinghouse to re-register open positions to a clearing account established with another client representative which has agreed with the clearing client to act as such. The Clearinghouse may, following suspension or termination of the client representative, designate another client representative for the clearing clients. A regulation of default event involving a client representative is a subject to a section 13.3 of the Clearing rulebook.

Default process and authority

The NQOX Default Committee (DC) is the single decision-making authority within NQOX for evaluating default situations and events and deciding which actions to be taken depending on the default situation.

The NQOX Default Committee consists of:

- President of NASDAQ OMX STOCKHOLM AB
- Head of Clearing Risk Management – Europe
- Director(s) Clearing Risk Management
- Head of Clearing Operations
- Head of Legal
- Treasury Non-US

The President of NASDAQ OMX STOCKHOLM AB acts as the Chairman of the DC. The decisions in the DC are made in accordance with the vote of the Chairman and Head of Clearing Risk Management - Europe.

Every default situation is unique and the scope and choice of actions will be influenced by external factors and subjective evaluations.

Default history

Since NASDAQ OMX STOCKHOLM AB began its UK physical electricity clearing operations, none of clearing participants have experienced financial difficulties resulting in major default event and a forced close out by NQOX.