NASDAQ TO INTRODUCE AMENDMENT TO COUPON INTEREST ON SWEDISH GOVERNMENT- AND MORTGAGE BOND FUTURES

The Nasdaq Government Bond Futures (SEK)[1] and Mortgage Bond Futures (SEK)[2] will be subject to the following change to take effect as of February 1st 2021 and fully implemented during Q2 2021:

> The coupon interest of the contract base, a synthetic bond, will be changed from 6% to 1% affecting both Government and Mortgage bond futures

BACKGROUND

There is a mutual agreement among the Swedish bank community[3] that measures are needed to reduce the large gap between the current generic coupon interest rate of 6%, applicable to all Government and Mortgage bond futures, and the prevailing low interest environment, as this gap entails a degree of settlement risk especially when nearing maturity. Hence Nasdaq has agreed to replace the 6% coupon with a new coupon interest of 1%. The relevant sections of the Derivatives Rules will be amended to reflect the change upon implementation date.

Please take the time to look through the below outlined timeline and calculation examples in order to prepare for the upcoming change.

Timeline and implementation

<u>Now</u>

- An external test system is available for voluntary testing of the 1% coupon interest. The test system will remain open as long as necessary to prepare for the implementation.

<u>February 2021</u>

- Mortgage bonds futures with expiry in June 2021, and Government bonds futures with expiry in September 2021 are listed with 1% coupon interest.

<u>March 2021</u>

- Expiration for March contracts. Hereafter all listed Mortgage bond futures will have a 1% coupon rate.

<u>May 2021</u>

- Government bonds futures with expiration in December 2021 are listed with 1% coupon rate.

<u>June 2021</u>

- Expiration for June contracts. Hereafter all listed Government bond futures will have a 1% coupon rate.

[1] SGB2Y, SGB5Y, SGB10Y: 2-, 5-, and 10- year futures in Swedish government bonds

[2] NDH2Y, NDH5Y, STH2Y, STH5Y, SWH2Y, SWH5Y: Futures in Swedish mortgage bonds

[3] Decision reached by representatives of banks that are primary dealers to the Swedish National Debt Office

The details

To be clear, the herein presented change will have both a legal impact (i.e. amending the contract specifications, part of the Derivatives rules) and a system impact (i.e. changing parameters on the underlying instrument in Genium Inet). It is the responsibility of each clearing member to verify internal readiness, both within their own organization and, if applicable, with any external service provider as well as their clients.

Lowering the generic coupon of the contract base

Changing the coupon interest rate of the contract base from 6 percent to 1 percent will have the benefit of reducing the settlement risk when nearing maturity of the futures contracts – this arises from the fact the 6 percent coupon rate is much higher than the actual coupon rate on the deliverable bonds.

Listing of new futures contracts are done quarterly. The current listing procedure mean that at any given time there will be at least one listed Mortgage bonds future contract for each futures listed issuer and for each term (2-/5-year) and at least two listed Government bond futures for each term (2-/5-/10-year) – meaning Mortgage bond futures have a series term of 3 months and Government bond futures a series term of 6 month.

The new lower coupon rate will be phased in gradually in conjunction with the quarterly listing of new futures contracts – already listed series will keep the 6% percent coupon rate until expiry. From this follows that during a transition period contracts we will have futures contracts listed with the “old” 6% coupon rate in parallel with the “new” 1% coupon rate. The timeline presented in this material suggest that as of May 2021 all newly listed mortgage and government bond futures will have a contract base, i.e. a synthetic bond, with a 1 percent coupon rate.

Below is an example of how the coupon change will start to be implemented from the listing done in February 2021 (newly listed series are indicated by *):

Mortgage bond futures

Contract	Expiration	Series	Coupon rate underlying
2-Y Stadshypotek Future	Mar 2021	STH2YH1	6%
2-Y Stadshypotek Future*	June 2021	STH2YM1	1%
5-Y Swedbank Hypotek Future	Mar 2021	SWH5YH1	6%
5-Y Swedbank Hypotek Future*	June 2021	SWH5YM1	1%

Government bond futures

Contract	Expiration	Series	Coupon rate underlying
2-Y Gov Bond Future	Mar 2021	SGB2YH1	6%
2-Y Gov Bond Future	June 2021	SGB2YM1	6%
2-Y Gov Bond Future*	September 2021	SGB2YU1	1%

Changing the coupon rate on the contract base from 6% to 1% will result in a slightly lower margin requirement for a bought/sold contract. All other conditions being equal it will also result in a slightly lower Mark-to-Market amount; i.e. buying/selling 1 contract with a 6% coupon rate on the underlying and buying/selling 1 contract with a 1% coupon rate on the underlying at the same transaction yield will produce a smaller MtM amount for the latter.

- ➔ Lower Margin Requirement
- ➔ Lower Mark-to-Market amount

If required, Nasdaq can provide an MtM calculator if any party should want to further explore the implications of a 1% coupon rate. As stated in the timeline, testing possibilities are available.

For further information concerning this document please contact FixedIncomeSweden@nasdaq.com