

## Risk Analysis Guidelines for Remuneration

Nasdaq Stockholm AB  
 Nasdaq Broker Services AB  
 Nasdaq Clearing AB

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<sup>1</sup> This document is relevant for all Nasdaq Sweden entities and corrections can be suggested via all Nasdaq Sweden's Compliance Officers.

## 1. Introduction

Nasdaq Broker Services AB (“**Nasdaq Broker Services**”) is subject to Finansinspektionen’s binding regulations<sup>2</sup> on remuneration and the rules on remuneration in the Securities Markets Act (2007:528) as well as relevant EU regulation<sup>3</sup>, Nasdaq Stockholm AB (“**Nasdaq Stockholm**”) and Nasdaq Clearing AB (“**Nasdaq Clearing**”) are subject to Finansinspektionen’s general guidelines on remuneration<sup>4</sup>, Nasdaq Clearing is also subject to the European Market Infrastructure Regulations (“**EMIR**”) (together “**the Regulation**”). Nasdaq Stockholm, Nasdaq Broker Services and Nasdaq Clearing (together “**Nasdaq Sweden**”) are part of Nasdaq Group (“**Nasdaq Group**”). As part of a worldwide company, Nasdaq Sweden’s employees are eligible to participate in Nasdaq Group’s Total Rewards Programs. Each of the Nasdaq Sweden entities has established a Remuneration Policy reflecting their respective applicable regulatory requirements and internal procedures. The Remuneration Policies are approved by the Board of Directors of the companies, and for Nasdaq Clearing also by the Remuneration Committee. The objective of the policies is to ensure that Nasdaq Sweden can attract, retain and motivate competent associates and Senior Executives and to encourage long term perspective and low risk-taking.

In accordance with the Regulation, Nasdaq Sweden shall analyze the risks that are consistent with the companies’ Remuneration Policies.

## 2. Definitions

Control Function	Employees working within compliance, risk, internal audit, surveillance or similar Control Function that shall work independently from the business.
Risk Taker	Employee may be considered to have a significant influence of the company’s risk exposure, i.e. employee that can enter into agreements, take positions on company’s account or in any other relevant way influence the risk exposure as defined in section 5.1.

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<sup>2</sup> FFFS 2011:1 and FFFS 2014:22

<sup>3</sup> Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014. Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 (in particular art. 27) ), Regulation (EU) No 575/2013 the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No 648/2012 and EBA/GL/2015/22 Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 of 27 June 2016 (“EBA GL 22”). It shall be noted that the EBA GL22 has been implemented using the proportionality principle (Art. 92 (2) of Directive 2013/36/EU) in line with the size, internal organisation and the nature, scope and complexity of Broker Services’ activities.

<sup>4</sup> Finansinspektionens allmänna råd om ersättningspolicy i understödsföreningar, börser, och clearingorganisationer (FFFS 2016:21).

Senior Executive

Executive Vice President, Senior Vice President, and other employees that report directly to the Board of Directors.

### **3. Nasdaq Global Compensation Program**

Employees within Nasdaq Group are eligible to participate in the Total Rewards Program. The variable remuneration is set as a percentage of the fixed salary. The total variable remuneration consists of:

- The Nasdaq Group Incentive Plan (CIP): an annual performance-based cash award.
- The Nasdaq Long Term Incentive Program (LTI): an annual performance based equity grant.

#### **3.1 Fixed Salary**

The fixed salary is based on an employee's function and performance within the organization. External market data is used to ensure employee's pay is reflective of their individual performance and competitive market conditions.

#### **3.2 Group Corporate Incentive Plan (CIP)**

CIP is an annual performance-based cash award plan designed to reward participating employees for their contributions toward the achievement of Group, company and business unit financial measures as well as strategic measures including regulatory compliance. To be eligible to receive a CIP award, employees must be employed by one of Nasdaq's entities on the date the award is paid. Otherwise, the CIP award, (if any) is forfeited to the extent permitted by applicable law. An employee whose position is terminated as part of a reduction in force prior to the award being paid, but who is employed by Nasdaq through December 31 of the calendar performance year, will still be eligible to receive a CIP award for the calendar year (subject to the manager's scoring of CIP accomplishments). The Nasdaq Group Management Compensation Committee (see section 5), can determine the CIP payment for each employee should the company and or business unit not attain the targets for the Financial and Strategic goals set. All else being equal, a Risk Taker CIP will not be adversely impacted as a result of being designated a Risk Taker. Payment of a portion of such CIP awards, however, may be deferred to allow for the necessary percentage of variable compensation to meet any applicable deferral requirement. If a Risk Taker's employment with the company ends during such a deferral period, the employee will still be entitled to receive the deferred award according to the deferral schedule.

### 3.3 Long Term Incentive (LTI)

Employees who are at the Manager/Specialist career level and actively employed on December 31 and who have a performance rating of developing or higher are eligible to participate in the Equity Incentive Plan. Employees who are Senior Analyst career level and below must have more than one year of service on or before April 1 and have a performance rating of developing or higher are eligible to participate in the Equity Incentive Plan. Lastly, Senior Analyst career level and below with less than one year of service on or before April 1 are not eligible to participate in the Equity Incentive Plan. The Equity Incentive Plan consists of equity vehicles that reward long-term success and growth:

- Restricted Stock Units, which are awards granted in the form of units—each unit represents an actual share of Nasdaq stock—and become vested over time based on the terms and conditions of the plan.
- Performance Share Units (PSUs), which are awards granted in the form of units—each unit represents an actual share of Nasdaq stock—and are contingent upon achieving financial performance goals, as well as the terms and conditions of the plan.

Equity vehicles are awarded based on an employees' career level within the organization. All else being equal, a Risk Taker will not be adversely impacted as a result of being designated a Risk Taker. The vesting of such LTI awards, however, may be modified to allow for the necessary percentage of variable compensation to meet any applicable deferral requirement. As per the Nasdaq, Inc. Equity Incentive Plan as amended and restated April 24, 2018, if a Risk Taker's employment with the company terminates all future grant vestings will be forfeited. An Employee actively employed will continue with the vesting schedule in accordance with the terms and conditions of the Nasdaq, Inc. Equity Incentive Plan as amended and restated April 24, 2018.

## 4. Goal Setting and Control Functions

The Nasdaq Group's CIP is directly aligned to the Total Rewards Philosophy. CIP is the annual performance-based cash incentive plan, which rewards employees for their contributions toward the achievement of certain Company, Group, and Business Unit Financial and Strategic goals, including regulatory and compliance goals, aligned with the Company's risk profile. Payout is based the achievement of the following goal types:

- The Company and Business Unit Financial results;
- Nasdaq Group Financial results; and
- Strategic goals including regulatory and compliance.

Employees may have these types of financial goals:

- Company and Business Unit Operating Income, Revenue or Expense
- Group Operating Income and Group Revenue

It has been assessed that for certain employees' revenue goals must be limited and revenue related goals are only applicable where a company's contribution to Nasdaq's Group Revenue is less than 8%. The employees concerned by this are employees working within legal, surveillance, compliance, internal audit, and certain employees within risk.

EMIR and the binding regulation, and Finansinspektionen's general guidelines on remuneration stipulate that these employees must be remunerated in a manner that is independent of the business performance of the regulated entity. These employees fall under this "Control Function" grouping and include all staff engaged in functions of internal audit, risk management and/or compliance, and the surveillance function with regards to Nasdaq Stockholm. Company Revenue goals linked to the performance of Nasdaq Sweden entities have been removed for these Control Functions. Group Revenue remains as a goal for Nasdaq Sweden since their respective entity revenues represent less than 8 % of the Nasdaq Group Revenue, and the activities performed by the Control Functions have therefore been deemed to have no, or else very limited, influence on Nasdaq Group Revenue. Therefore, there is no direct link between the Group Revenue and the variable remuneration of the Control Functions.

In addition, all employees have strategic goals, including regulatory and compliance goals, aligned to the company and business unit they work within or support. Each CIP goal has set performance metrics, payout is then determined based on the achievement of set metrics for each employee based on the scoring and results of each goal. Individual and business unit performance is considered to determine if discretion should be applied to the final payout. Nasdaq Group could meet or exceed its set targets but that employees could receive greater or less than the result of the goal.

## **5. Risk Assessment**

A risk assessment according to section 5 shall be performed by the involved stakeholders each time before a variable remuneration to an employee is set. The People@Nasdaq and Global Rewards and Recognition department shall thereafter inform relevant employees in writing if they are to be regarded as Risk Takers and how the variable remuneration will be handled.

### **5.1 Identification of Risk Takers**

Based on the below questions, the objective of this process is to identify Nasdaq Sweden's Risk Takers. However, the below questions do not exclude additional employees from being regarded as Risk Takers based on subjective judgments from the Board of Directors if necessary. All Nasdaq Sweden entities are responsible for identifying and managing their own employees as according to the Remuneration Policy and risk assessment.

**The process of identifying risk takers is the following:**

Early in the second quarter of each year, there is a Board meeting for each Nasdaq Sweden company i.e. Nasdaq Broker Services, Nasdaq Stockholm and Nasdaq Clearing. These meetings identify the positions/roles which should be considered as risk-takers.

In the first quarter of the following year, another board meeting for each company is held where the employees of these positions/roles for the previous year are identified and confirmed by the Board as Risk Takers. Thereafter, the fixed and variable remuneration of these Risk Takers, and the possible deferrals of their variable remuneration, is decided by the respective Boards. After this meeting, the information of the Board's decision, incl. possible information on deferral of variable pay, is communicated to the identified Risk Takers by People@Nasdaq.

For Nasdaq Clearing only, the Board will in all remuneration cases be advised by the Remuneration Committee. The Board can deviate from this advice with good reason, however, this deviation shall be properly documented.

The People@Nasdaq and Global Rewards and Recognition department shall maintain and uphold the list of Risk Takers, which each Board of Directors should provide input to, based on the decisions of identified risk takers.

***Step 1***

If the answer to any of the below question is “yes”, the employee shall be regarded as Risk Taker if no exemption in “Step 2” is applicable.

1. Can the employee's remuneration influence the employee to make a decision that could significantly affect the company's risk exposure?
2. Is the employee a Senior Executive or similar and reports to the Board of Directors?
3. Is the employee an authorized signatory for the Swedish company or have the authority to authorize large payments or movement of financial resources?
4. Does the employee work within a Control Function?
5. Applies only to Nasdaq Broker Services: Does the employee have a total variable remuneration similar or exceeding the total variable remuneration payable to anyone in the Senior Executive management?
6. Applies only to Nasdaq Broker Services: Are any of the criteria in Appendix 1 fulfilled?

***Step 2 (Exemptions)***

Following “Step 1”, If the answer to any of the below question is “yes”, the employee shall not be regarded as Risk Taker.

1. Does the employee need their Swedish manager to sign off before making any decision that could significantly affect the company’s risk exposure?
2. Are the Senior Executive or similar, who reports to the Board of Directors, decisions limited so that the Senior Executive cannot make decisions that could significantly affect the company’s risk exposure?
3. Has the employee that works within a Control Function no authority to make decisions that could significantly affect the company’s risk exposure?
4. Applies only to Nasdaq Broker Services: Does the employee with a total variable remuneration similar or exceeding the total variable remuneration payable to anyone in Senior Executive management lack the authority to make a decision that could significantly affect the company’s risk exposure?

**5.2 Management of Risk Takers**

Nasdaq Sweden shall evaluate risks that may be attached to any variable remuneration payable to any employee. The identification of Risk Takers is the first step, and the management of Risk Takers and securing of the company’s long-term stability, the second step.

- *Managing Risk Takers*  
manage the risk that the remuneration structure may encourage, Nasdaq Sweden shall take the following actions:

**1. Deferral of Variable Remuneration**

The Variable Remuneration shall be deferred for a minimum of three years and a maximum of five years.

Nasdaq Stockholm: Risk Takers shall have their total variable remuneration (CIP and LTI) deferred by 35 % -70 %. This is a deviation from the Swedish Financial Supervisory Authority’s (“SFSA”) general guidelines, which has been disclosed and explained to the SFSA.

Nasdaq Clearing: Risk Takers shall have their total variable remuneration (CIP and LTI) deferred by 60 %, for minimum 3 years. This is in keeping with the principle of the SFSA guidance for exchanges and clearing houses.

Nasdaq Broker Services': executive management shall have their total variable remuneration (CIP and LTI) deferred by 60 %, for minimum 3 years, as well as senior managers whose total variable remuneration is in the same level as executive managements'. Nasdaq Broker Services' Board shall decide if an employee is regarded as having the same level of variable remuneration as the executive management. The Regulations also state that deferrals of 40 %, for a minimum of 3 year, of the total variable remuneration (CIP and LTI) shall should also be used for “staff whose professional activities have a material impact on an institution's risk profile” who’s annual variable remuneration equal to or exceeds 100,000 SEK.

2. Managing goal settings through “Grandfather Principle”

The individual goals shall be customized for the employee to minimize risk taking. Senior Executives shall have long-term revenue and business goals. Control Functions shall have goals connected to the Control Function and not to the revenue of the areas they control. The goals are set by the employee’s immediate manager and then reviewed and approved by the manager’s manager.

3. “Pilot” requirement

Nasdaq Group has Executive Stock Ownership Guidelines which are designed to align the interests of Nasdaq’s executives with the interests of the Group’s stockholders and to further promote Nasdaq’s longstanding commitment to sound Group governance. Stock ownership guidelines for Nasdaq executives are as follows:

<u>Value of Shares Owned</u>	
Executive Vice Presidents	3x base salary
Senior Vice Presidents	1x base salary

New executives, and executives who incur a material change in their responsibilities, are expected to meet the applicable level of ownership within four years of their start date or the date of the change in responsibilities.

However, for Nasdaq Broker Services, the maximum variable remuneration (CIP and LTI) for an Executive Vice President or Senior Vice President who is identified as a Risk Taker for the company shall in no event exceed 100 % of their fixed/base salary.

- *Cancellation of variable remuneration*

The Group’s Management Compensation Committee annually reviews goals and changes to the goals during the year. In addition, it reviews the performance-

based incentive compensation payout for the fiscal year payable to all eligible employees. Goals are scored based on performance and if the goal is not met a zero payout is payable. If Nasdaq Group does not meet the goals, no CIP will be payable to any employee. Each Nasdaq Sweden entity shall review and approve the payouts applicable with the CIP program and withdraw the employee's right to deferred payment, in part or in whole, if the company, the business unit or the employee, did not fulfill the performance criteria designated for it. In accordance with the Regulations, Nasdaq Sweden employees are not guaranteed any variable remuneration.

## **6. Remuneration Governance and Control**

As the Nasdaq Total Rewards Program and Total Rewards Philosophy depends on the Nasdaq Group's revenue performance, Nasdaq Group has designed and appointed the Group Management Compensation Committee to issue the Nasdaq Incentive Programs and Total Rewards Philosophy for the Group. The Total Rewards Program and Total Rewards Philosophy shall be approved by the Board of Directors of each company, and in the case of Nasdaq Clearing shall also be reviewed by the Remuneration Committee. Each of the Nasdaq Sweden entities has established a Remuneration Policy reflecting their respective applicable regulatory requirements and internal procedures. The Remuneration Policies are approved by the Board of Directors of the companies, and for Nasdaq Clearing also by the Remuneration Committee.

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### Definition of Nasdaq Broker Services Risk Takers

Staff belonging to such a personnel category in Nasdaq Broker Services who may, as part of his/her assignment, perform material influence on Nasdaq Broker Services' risk exposure are considered as Risk Takers. In addition, all the categories of staff identified by any criteria below are considered as staff whose professional activities have a material impact on an institution's risk profile.

#### Qualitative criteria

Staff shall be deemed to have a material impact on an institution's risk profile where any of the following qualitative criteria are met:

- (1) the staff member is a member of the management body in its management function;
- (2) the staff member is a member of the management body in its supervisory function;
- (3) the staff member is a member of the senior management;
- (4) the staff member is responsible and accountable to the management body for the activities of the independent risk management function, compliance function or internal audit function;
- (5) the staff member has overall responsibility for risk management within a business unit as defined in Article 142(1)(3) of Regulation (EU) No 575/2013<sup>5</sup> which has had internal capital distributed to it in accordance with Article 73 of Directive 2013/36/EU that represents at least 2 % of the internal capital of the institution (a 'material business unit');
- (6) the staff member heads a material business unit;
- (7) the staff member has managerial responsibility in one of the functions referred to in point (4) or in a material business unit and reports directly to a staff member identified pursuant to point (4) or (5);
- (8) the staff member has managerial responsibility in a material business unit and reports directly to the staff member who heads that unit;
- (9) the staff member heads a function responsible for legal affairs, finance including taxation and budgeting, People@Nasdaq, remuneration policy, information technology, or economic analysis;
- (10) the staff member is responsible for, or is a member of, a committee responsible for the management of a risk category provided for in Articles 79 to 87<sup>6</sup> of Directive 2013/36/EU other than credit risk and market risk;
- (11) with regard to credit risk exposures of a nominal amount per transaction which represents 0.5 % of the institution's Common Equity Tier 1 capital and is at least EUR 5 million, the staff member:

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<sup>5</sup> "business unit" means any separate organizational or legal entities, business lines, geographical locations.

<sup>6</sup> Credit and counterparty risk, Residual risk, Concentration risk, Securitization risk, Market risk, Interest risk arising from non-trading book activities, Operational risk, Liquidity risk and Risk of excessive leverage.

(a) is responsible for initiating credit proposals, or structuring credit products, which can result in such credit risk exposures; or

(b) has authority to take, approve or veto a decision on such credit risk exposures; or

(c) is a member of a committee which has authority to take the decisions referred to in point (a) or (b);

(12) in relation to an institution to which the derogation for small trading book business provided for in Article 94 of Regulation (EU) No 575/2013 does not apply, the staff member:

(a) has authority to take, approve or veto a decision on transactions on the trading book which in aggregate meet one of the following thresholds:

(i) where the standardized approach is used, an own funds requirement for market risks which represents 0.5 % or more of the institution's Common Equity Tier 1 capital; or

(ii) where an internal model-based approach is approved for regulatory purposes, 5 % or more of the institution's internal value-at-risk limit for trading book exposures at a 99th percentile (one-tailed confidence interval); or

(b) is a member of a committee which has authority to take decisions set out in point (a);

(13) the staff member has managerial responsibility for a group of staff members who have individual authorities to commit the institution to transactions and either of the following conditions is met:

(a) the sum of those authorities equals or exceeds a threshold set out in point 11(a), point 11(b) or point 12(a)(i);

(b) where an internal model-based approach is approved for regulatory purposes those authorities amount to 5 % or more of the institution's internal value-at-risk limit for trading book exposures at a 99th percentile (one-tailed confidence interval). Where the institution does not calculate a value-at-risk at the level of that staff member the value-at-risk limits of staff under the management of this staff member shall be added up;

(14) with regard to decisions to approve or veto the introduction of new products, the staff member:

(a) has the authority to take such decisions; or

(b) is a member of a committee which has authority to take such decisions;

(15) the staff member has managerial responsibility for a staff member who meets one of the criteria set out in points (1) to (14).

## Quantitative criteria

1. Subject to paragraphs 2 to 5, staff shall be deemed to have a material impact on an institution's risk profile where any of the following quantitative criteria are met:

(a) the staff member has been awarded total remuneration of EUR 500,000 or more in the preceding financial year;

(b) the staff member is within the 0.3 % of the number of staff, rounded up to the next integer, who has been awarded the highest total remuneration in the preceding financial year;

(c) the staff member was in the preceding financial year awarded total remuneration that is equal to or greater than the lowest total remuneration awarded in that financial year to a member of senior management or meets any of the criteria in points (1), (3), (5), (6), (8), (11), (12), (13) or (14) of the Qualitative criteria above.

2. A criterion set out in paragraph 1 shall not be deemed to be met where the institution determines that the professional activities of the staff member do not have a material impact on the institution's risk profile because the staff member, or the category of staff to which the staff member belongs:

(a) only carries out professional activities and has authorities in a business unit which is not a material business unit; or

(b) has no material impact on the risk profile of a material business unit through the professional activities carried out.

3. The condition set out in point (b) of paragraph 2 shall be assessed on the basis of objective criteria which take into account all relevant risk and performance indicators used by the institution to identify, manage and monitor risks in accordance with Article 74<sup>7</sup> of Directive 2013/36/EU and on the basis of the duties and authorities of the staff member or category of staff and their impact on the institution's risk profile when compared with the impact of the professional activities of staff members identified by the criteria set out in Article 3 of this Regulation.

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<sup>7</sup> Article 74 *Internal governance and recovery and resolution plans* states in sub-section 1 that "Institutions shall have robust governance arrangements, which include a clear organizational structure with well- defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks they are or might be exposed to, adequate internal control mechanisms, including sound administration and accounting procedures, and remuneration policies and practices that are consistent with and promote sound and effective risk management"