

**VIA CFTC PORTAL**

25 June 2024

Mr Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street NW  
Washington, DC 20581

**Re: Proposed Amendments to the LCH SA Board and Board Sub-Committee Terms of Reference**

Dear Mr. Kirkpatrick,

Pursuant to CFTC regulation §40.6(a), LCH SA (“**LCH SA**”), a derivatives clearing organization (“**DCO**”) registered with the Commodity Futures Trading Commission (the “**CFTC**”), is submitting for self-certification the proposed amendment to certain of its governance documents, including the Terms of Reference (“**ToR**”) of: (a) the Technology, Security and Resilience Committee; (b) the Audit Committee; (c) the Risk Committee; and (d) the Board of Directors (“**Board**”). LCH SA is also proposing minor conforming amendments to the ToR of the Nomination Committee of the Board (collectively, the “**Proposed Rule Change**”).

The implementation of the Proposed Rule Change will be contingent on LCH SA’s receipt of all necessary regulatory approvals. The Proposed Rule Change is expected to be effective from 10 July 2024 however, in no event, will either be implemented earlier than 10 business days after the proposed changes are filed with the CFTC.

The text of the Proposed Rule Change is attached hereto as **Appendices I-V**.

**Part I: Explanation and Analysis**

The Proposed Rule Change is being adopted primarily in response to a request from its French regulatory authority, the Autorité de Contrôle Prudentiel et de Résolution (“**ACPR**”), that LCH SA: (a) more clearly define the role of the Technology, Security and Resilience Committee by focusing its areas of expertise on technical subjects related to information systems, technology and cyber security; (b) more clearly define the role of the Audit Committee in areas relating to operational and resilience risk management; and (c) strengthen the Risk Committee’s supervision of certain information technology and resilience risk matters. The

ToR of the Board is also being amended as part of the Proposed Rule Change, to remove the requirement to translate minutes into French prior to Board meetings and to clarify that the Board is responsible for approving the Wind-Down Plan (“WDP”).

Other changes are being made to conform the ToRs with LCH Group terminology, including replacing the term “Chairman” throughout the ToR of the Technology, Security and Resilience Committee, the Audit Committee and the Risk Committee with the term “Chair”, clarifying that “Group” means “LCH Group” in the ToR of the Technology Security and Resilience Committee (renamed Operational Resilience Committee, as discussed below) (article 5.1) and the Risk Committee (articles 1.1 and 2.5), and replacing the term “Group” with “LCH” in articles 14.1 and 16.4 of the Risk Committee ToR.

LCH SA is also making a number of non-substantive clarifying changes to the various documents included as an Exhibit 5 to this filing. Importantly, there will be no change in the proportion of independent directors or the number of directors representing members and participants.

## **Part II: Description of Rule Changes**

LCH SA is proposing the following changes to the Board and Board Sub-Committee ToRs:

### ***The Technology, Security and Resilience Committee***

The Technology, Security and Resilience Committee has been renamed the Operational Resilience Committee. In addition, Articles 15 and 20 of the ToR of the Board and Section 3.3.8 of the ToR of the Audit Committee have been amended to reflect this change in the name of the Operational Resilience Committee. This change has been made to better clarify the scope of the committee’s responsibility. As noted above, the committee will focus its areas of expertise on technical subjects related to information systems, technology and cyber security.

To effect this change in focus, Section 1.2 of Article 1, Purpose, will be amended by replacing reference to “technical, security, operational resilience and cyber risks” with “operational resilience” to reflect that the committee shall determine whether management has put in place adequate strategies and plans, which include appropriate management of operational resilience. Section 1.1. will also be amended to state that the Committee shall represent the interests of the Board in the sound management of Operational Resilience to ensure that technology security, cyber security and operational resilience strategies, investments and outcomes support the mission, values, and strategic goals of LCH SA. Section 1.2 will also be amended to clarify that the committee will provide assurance that the company operates within the risk appetite “set by the Board”, as per current practice, the Board is responsible for setting the risk appetite. Finally, Section 1.2 will be amended by adding a new sentence stating the committee will receive a regular assessment of operational resilience risks to reflect current practice.

Article 1 of the ToR, Purpose, will also be amended by adding a new Article 1.3 to describe how the committee will contribute to the review of certain operational resilience policies. The

proposed rule change is adding this because the committee will be the forum for discussion on resilience risk matters and will be the advisor to the Risk Committee with regard to these matters. For the purposes of this addition of Article 1.3, “resilience risk,” “operational resilience” and “operational resilience risk” all pertain to operational resilience risk matters for which the committee will be the forum for discussion.<sup>1</sup> Furthermore, Article 1.3 will specify that the committee will review, prior to presentation to the Risk Committee for review and recommendation to the Board, the following Operational Resilience policies: (a) Technology Risk; (b) Business Continuity Risk; (c) Information Security and Cyber Risk; (d) Operational Risk; (e) Third Party (Outsourcing) Risk; and (f) Physical Security Risk. Article 1.3 also provides that the committee will be notified by the owner of the policies of any breaches or waivers.

Further, a new Article 1.4.4 will be added to provide that the committee will also review LCH SA’s ongoing outsourcing and third-party risk management arrangements because these arrangements fall under the ambit of the Operational Resilience Committee as redefined.<sup>2</sup> Finally, renumbered Article 1.5 will be amended to provide that the committee must keep itself informed of changes in guidance from London Stock Exchange Group as well as from LCH Group. This amendment reflects the current required practice that the committee keep informed of changes in guidance from both LCH Group and London Stock Exchange Group.

Consistent with the committee’s responsibility to focus its areas of expertise on technical subjects related to information systems, technology and cyber security, Article 2 of the ToR, Structure and Membership, will be amended to revise Article 2.1.2 to provide that members of the committee must have the relevant expertise required for the committee to function properly as well as recent and relevant experience in the operations of LCH Group. Article 2.1.2 currently only provides that members of the committee “shall ideally have significant, recent and relevant experience of the operations of LCH and its dependence on technology[.]”. Article 2.1.3 will also be revised to specify that, as considered appropriate by the committee, experts in information technology, security, resilience matters and more generally on operational resilience matters may attend committee meetings in a non-voting capacity.

Article 4 of the ToR, Authority and Responsibilities, will be amended to remove current Article 4.2.10, which provides that the committee will review and receive reports, as appropriate, on operations and agreed metrics in conjunction with the Audit Committee, in order to avoid any duplication and overlap with the Audit Committee. In addition, current Article 4.2.10 is redundant with Article 4.2.9 with respect to the committee’s responsibility to receive reports from the Audit Committee with respect to reviews and assessment of LCH SA’s operations and technology functions. Furthermore, LCH SA determined there is no equivalent provision

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<sup>1</sup> As stated in the Risk Governance Framework (“RGF”), the operational resilience risks are the risks associated with the ability of LCH to prevent, adapt, respond to, recover and learn from operational disruptions. This includes risks associated with maintaining the security of LCH from a cyber and a physical perspective, Data Management and Third-Party Risks as well as resilient Operational Processes.

<sup>2</sup> The remaining provisions in Article 1 will be renumbered to accommodate these additions. Technical amendments have also been made throughout the Operational Resilience Terms of Reference to reflect the change in the name of the committee and its revised focus.

to current Article 4.2.10 in the Audit Committee TOR. In the event of audit findings in the area of operational resilience, the committee would likely monitor progress against these actions noting that the Chair of the committee is also a member of the Risk Committee. Current Article 4.2.11 will be renumbered to new Article 4.2.10 and revised to state the committee will review and receive reports “in relation to ongoing” technology outsourcing. LCH SA is proposing to remove reference to “on” to clarify the types of reports the committee receives. Moreover, new Articles 4.2.13, 4.2.14 and 4.2.15 will be added to reflect the current practices comprising the committee’s overall mandate for the review of operational resilience matters.<sup>3</sup> Specifically:

- Article 4.2.13 will confirm the committee’s responsibility to provide advice to the Risk Committee on specific operational resilience risk-related matters as deemed appropriate, including in cases of potential member impact;
- Article 4.2.14 will provide that the committee will be responsible for reviewing or recommending for approval to the Risk Committee, Detailed Operational Risk Assessments (“**DORA**”)<sup>4</sup> with significant elements relating to Technology, Cyber or other Operational Resilience, in accordance with the Operational Risk Policy;<sup>5</sup> and
- Article 4.2.15 will provide that the committee will receive reports of Operational Risk Assessments related to cloud initiatives sent by the applicable risk team.

In addition, Article 4.4 of the ToR will be amended to provide that the Chair of the committee will be a standing member of the Risk Committee as well as the Audit Committee. Current Article 4.4 provides that the Chair of the committee will be a standing member of the Audit Committee but not the Risk Committee. Rather, the Chair of the committee may be invited to attend meetings of the Risk Committee only in a non-voting capacity. This change is being made to enhance the role of the committee as an advisor to the Risk Committee.<sup>6</sup>

Finally, Article 7.3 of the ToR, which provides that the committee may report any disagreements between the committee and the Board that cannot be resolved at the Board level to the shareholders through LCH SA’s annual report, will be removed. The Board determined that this Article is applicable only to the Audit Committee ToR.

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<sup>3</sup> The remaining provisions in Article 4.2 will be renumbered to accommodate these additions.

<sup>4</sup> DORAs are produced by the relevant business/function (first line of defense) and reviewed by the LCH Group Risk Function (second line of defense). The assessment is required ahead of implementing new product initiatives, strategic projects or significant changes presenting operational risks that are novel or could have the potential to impact the current operational risk appetite assessment or platform resiliency.

<sup>5</sup> Annex E of the Operational Risk Policy provides that the committee will recommend the DORA to the Risk Committee for its approval, after which the Board will be notified. As discussed below, Article 11.3 of the Risk Committee ToR will also be amended to note this point.

<sup>6</sup> Consistent with the amendment to Article 4.4, a new Article 1.1.2 of the Risk Committee ToR will be added to provide that one of the independent non-executive directors of the Risk Committee must be the Chair of the Operational Resilience Committee.

### *The Audit Committee*

Consistent with the amendments to the Operational Resilience Committee ToR described above, the Audit Committee ToR will be amended to define more clearly the responsibilities of the Audit Committee. In this regard, Article 1 of the ToR, Purpose, will be amended as follows:

- Article 1.3.5 will be revised to provide that the committee will assist the Board in fulfilling its responsibilities relating to reviewing LCH SA's Resilience and Enterprise Risk Management reports. The Enterprise Risk Management reports are currently provided to the committee and have since been enhanced to provide additional detail for the committee to review as part of its responsibility to assist the Board in fulfilling its responsibilities;
- Article 1.3.6 will be revised to remove the committee's current responsibility to review Resilience Risk matters, since this activity is now the responsibility of the Operational Resilience Committee. The committee will retain responsibility of reviewing LCH SA's internal control environment;
- Article 1.4 will be revised to clarify that the committee shall keep informed of changes in the law and regulations applicable to the specific matters for which the committee is responsible. Specific reference to the Audit Policy is being removed, as the committee's responsibility to keep information of changes in the law and regulations applicable to the specific matters for which the committee is responsible includes the Audit Policy; and
- Article 1.5 will be revised to provide that nothing in the ToR will diminish the responsibility of the Board to maintain ongoing review of the matters described in the ToR rather than LCH SA's audit policy more broadly. As noted in the changes to Article 1.4, the Board's responsibility to maintain ongoing review of the matters listed in Article 1 includes the Audit Policy.
- Article 2.3.2 will be removed to align with Article 2.2.2 of the ToR of the Audit Committee for LCH Ltd. because that article already specifies that the same person can be the chair of both committees.

In addition, Article 3 of the ToR, Authority and Responsibilities, will be amended as follows:

- A new Article 3.3.4(a) will be added to provide that the committee will approve the Compliance policies and be informed of any breaches. This addition reflects an existing process by the committee and is being added for transparency;<sup>7</sup>
- Current Article 3.3.4(e), which requires the committee to review the performance of LCH SA's Chief Compliance Officer will be removed, because this responsibility is now assumed by the Remuneration Committee;
- Article 3.3.5(b) will be revised to add that the committee will be notified of outside appetite financial and resilience risks in addition to reviewing breaches of LCH SA's

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<sup>7</sup> The remaining provisions in Article 3.3.4 will be renumbered to accommodate these additions.

Risk Governance Framework. This addition will provide greater transparency to the committee regarding outside appetite financial and resilience risks;

- Article 3.3.6(a)(iii) will be revised to remove the requirement that the committee receive annually reports required by Articles 258 to 266 of the Order of 3 November 2014 on the internal control of banking sector companies, payment services and investment services and will require, instead, that the committee receive annually reports as required by law from time to time. This revision ensures the committee receives reports as required by all applicable laws and regulations, rather than a subset; and
- Current Article 3.3.6(a)(iv), requiring the committee to review at least annually the provisions for business continuity and disaster recovery and the assessment of the effectiveness of the arrangements in place will be removed, since this activity is now the responsibility of the Operational Resilience Committee and is reflected in the Operational Resilience Committee ToR as a recurrent responsibility, as required under EMIR.<sup>8</sup>

### *The Risk Committee*

As noted above, the ToR of the Risk Committee will be amended to strengthen the committee's supervision of certain information technology and resilience risk matters. Other amendments are intended to conform the Risk Committee ToR to LCH Group requirements. In this latter regard, Article 1 of the ToR, Composition, will be amended (a) to add a new Article 1.1.2 to provide that one of the non-executive directors of the Risk Committee must be the Chair of the Operational Resilience Committee, (b) to revise the proviso to Article 1.1 to clarify that no User or Client representative of the Risk Committee may be an employee of LCH Group or its subsidiaries and (c) to add operational risk management as one of the areas of expertise and experience in Article 1.1.3 with respect to Users, as such term is defined in the committee ToR. In addition, the term "Group" is being replaced by "LCH" in Articles 14.1 and 16.4 to clarify the entity being referred to.

In addition, Article 1.2 of the ToR, which identifies the individuals who may be invited to attend committee meetings in a non-voting capacity, will be amended to: (a) remove Article 1.2.4, which provides that the Chief Risk Officer of LCH Group may attend committee meetings, because that position has been retired;<sup>9</sup> (b) remove Article 1.2.5, which provides that the Chief Executive Officer of LCH Group may attend committee meetings, because the Chief Executive Officer of LCH SA is already listed as the appropriate ex officio non-voting party under Article 1.2.2; (c) revise renumbered Article 1.2.4 to provide that LSEG's Chief Risk

<sup>8</sup> In addition, Article 2.3, Committee Chair, will be amended to remove Article 2.3.2, which provides that the Chair may also be appointed the Chair of the Audit Committee of LCH Limited. This change is being made to conform the Audit Committee ToR to LCH Group requirements.

<sup>9</sup> Because the LCH Group Chief Risk Officer position has been retired, Article 2 of the ToR of the Nomination Committee, Board, will be revised to amend Article 2.3 to provide that the term "Executive Directors" will no longer include the Chief Risk Officer of LCH Group. The Chief Risk Officer of LSEG, or such other LCH or LSEG executive as proposed by the LCH Group Chief Executive Officer, may also serve on the Board but will not be defined as an "Executive Director".

Officer (or nominee) may attend committee meetings, so as to ensure that the Risk Committee has appropriate oversight of all risks pursuant to the committee's ToR; and (d) revise renumbered Article 1.2.6 to provide that such other employees of LCH SA, rather than LCH Group, may attend committee meetings, as considered appropriate by the Committee Chair. This revision reflects that LCH SA employees will likely have the relevant background and expertise to participate in meetings for which LCH SA risk matters are discussed. LCH SA is also clarifying that the Committee Chair rather than the entire Committee shall determine the appropriateness of including LCH SA employees in attendance, considering LCH SA employees will only attend from time to time at a given meeting in a non-voting capacity for a particular agenda item(s) which may be relevant to them.

Where expertise other than the specialty of external members is required, Article 1.6 of the ToR currently permits external members of the Risk Committee to consult internally prior to Risk Committee Meetings. Article 1.6 of the ToR will be amended to clarify that external members may only consult other members within their respective firms in a manner consistent with the restrictions set out in the confidentiality provisions signed by such external member.

Further, Article 2 of the ToR, Conduct of Meetings, will be amended to remove reference to the LCH Group Board in Article 2.9 and to remove Article 2.10 in its entirety, which provides that LCH SA's Chief Risk Officer will report to the Board of LCH Group on the discussions, decisions and recommendations of the committee. These revisions are being made to clarify that the committee reports discussions, decisions and recommendations of the committee to the LCH SA Board, as the Board of LCH Group ordinarily does not consider such matters. Likewise, the Committee Secretary will make minutes available to the LCH SA Board and Audit Committee Chair. Finally, Article 10 of the ToR, Payment and Money Settlement Arrangements, Bank Exposures, Liquidity Risk and Collateral, will be revised to amend renumbered Article 10.7.4, which currently provides that breaches of LCH SA's Collateral Risk Policy or Investment Risk Policy must be (a) notified to LCH SA's Chief Risk Officer and Head of CaLM; (b) signed off by LCH SA's Chief Risk Officer or the Head of CaLM, and (c) reported to . . . the Chief Executive Officers of both LCH SA and LCH Group, and the Audit Committee of LCH SA. As revised, such breaches (x) must be signed off only by LCH SA's Chief Risk Officer, and (y) must be reported to . . . the Chief Executive Officer of only LCH SA, and the Audit Committee. This change is being made to reflect that these policies are owned by the Chief Risk Officer who is responsible for signing off as part of their second line function. LCH SA is also proposing to remove reporting breaches to the Chief Executive Officer of LCH Group as this is no longer a functional role.

To strengthen the committee's supervision of certain information technology and resilience risk matters, Article 3 of the ToR, Risk Appetite and Scope, will be amended to add a new Article 3.2 of the ToR to clarify that the risks within the existing scope of the Risk Committee are Financial and Model Risks and Operational Resilience, as defined in the LCH Risk Governance Framework (**RGF**). Other provisions clarifying the Risk Committee's responsibilities are made throughout the ToR. In particular:

- Article 4, Executive Risk Committee, will be amended to revise Article 4.2 to clarify that the committee will receive detailed reports from the Executive Risk Committee only with regard to the risks defined within the scope of Article 3.2.<sup>10</sup> Pursuant to new Article 3.2, the risks within the scope of the committee are Financial and Model Risks, and Operational Resilience Risks.
- Article 6, CCP Membership, will be revised to add a new Article 6.4 to reflect the current practice that the committee be notified of the outcome of the annual independent validation of the counterparty credit scoring model in accordance with the Model Governance, Validation and Review Policy.<sup>11</sup>
- Article 7, New Clearing Activity: New Markets and Contracts, will be revised to add a new Article 7.5 to reflect the current practice that the committee review on an annual basis a report outlining the compliance of all markets and products against the criteria defined in the Contract and Market Acceptability Policy.<sup>12</sup> In addition, renumbered Article 7.7.1 will be revised to reflect the current practice that the Chief Executive Officer may approve new trade venues which present no novel risk features and require no amendment of risk controls, subject to notification to the committee.
- Article 8, Margining, will be revised to clarify in Article 8.2 the committee's current practice of reviewing the initial margin policies contained within the Financial Resource Adequacy Policy and to add a new Article 8.4 to reflect the current practice that the committee be notified of the outcome of the annual independent validation of all margin models in accordance with the Model Governance, Validation and Review Policy. This revision also aligns with the reporting process in the Model Governance, Validation and Review Policy.
- Article 9, Default Fund, Default Rules and Default Procedures, will be revised to (a) add reverse stress testing reports as a component of the committee's review of the adequacy of the default funds in Article 9.1; (b) add a new Article 9.4 to reflect the current practice that the committee be notified of the outcome of the annual validation of all stress testing models used to size the default funds in accordance with the Financial Resources Adequacy Policy; and (c) add a new Article 9.7 to reflect the current practice that the committee review default management fire drill exercise reports to assess LCH SA's default management process.<sup>13</sup> Revision (a) of Article 9 clarifies the specific stress testing reports utilized by the committee. Each of revisions (b) and (c) of Article 9 establish the existing notification and reporting processes done as part LCH SA's default management processes in the committee's ToR.
- Article 10, Payment and Money Settlement Arrangements, Bank Exposures, Liquidity Risk and Collateral, will be revised to reflect LCH SA's current liquidity risk management practices by: (a) adding a new Article 10.3 to provide that the committee

<sup>10</sup> The committee will receive a detailed risk report from the Executive Risk Committee which includes, among other things, the risk profile of the company. Reference to "the Group" has been removed to reflect the recent change in corporate structure.

<sup>11</sup> The remaining provisions in Article 6 will be renumbered to accommodate this addition.

<sup>12</sup> In addition, Article 7.4 will be revised to note that the name of the risk policy on the eligibility of new products accepted for clearing has been changed to the Contract and Market Acceptability Policy.

<sup>13</sup> The remaining provisions in Article 9 will be renumbered to accommodate the addition of Article 9.4 and Article 9.7.



will review, on an annual basis (or more frequently if deemed necessary), LCH SA's Liquidity Plan detailing how the standards contained in the Liquidity Risk Policy are applied, to consider proposed changes and to make recommendations to the Board for approval;<sup>14</sup> (b) adding a new Article 10.4 to provide that the committee will be notified of the outcome of the annual independent validation of the liquidity risk model, in accordance with the Liquidity Risk Policy; (c) amending Article 10.5 to provide that the committee will consider the addition of new collateral types and associated risk controls and to recommend them to the Board for approval; (d) adding a new Article 10.6 to provide that the committee will be notified of the outcome of the annual validation of the collateral haircut model in accordance with the Collateral Risk Policy<sup>15</sup>; and (e) adding two proposed changes in the sub-paragraph 10.7.4 in order to remove the power of the Head of CaLM (first line/business) to sign off on breaches, because only the CRO should do this as part of their second line function. The second change is to remove the LCH Group CEO as a receiver of a breach report, as this role is no longer a functional one.

- Article 11, currently titled Operational Risk Management, will be renamed Operational Resilience Risk, and will be revised to reflect the renaming of Operational Resilience Committee and the Operational Resilience Risk Policies and to align with the ToR of the Operational Resilience Committee. Specifically, LCH SA proposes to: (a) amend Article 11.1 to provide that the committee will review, on an annual basis (or more frequently if deemed necessary), LCH SA's Operational Resilience Risk Policies, following review by the Operational Resilience Committee, and to make recommendations to the Board for approval; (b) add a new Article 11.2 to provide that the committee will inform the Board in a timely manner of any new risk affecting the resilience of LCH SA;<sup>16</sup> and (c) amend Article 11.3 to provide that the committee will review and approve the recommendations of the Operational Resilience Committee in relation to Detailed Operational Risk Assessments for significant projects and new products, as required under LCH SA's Operational Risk Policy, and for notifying the Board of the same.
- A new Article 12, Model Governance and Procyclicality,<sup>17</sup> will be added to provide that the committee will be responsible for: (a) reviewing annually (or more frequently if deemed necessary) LCH SA's Model Governance, Validation and Review Policy, to consider proposals for modification of those arrangements and to make recommendations to the Board for approval (Article 12.1); (b) reviewing, in accordance with the Model Governance, Validation and Review Policy, at least annually and upon material change, reports prepared by independent model experts confirming the ongoing suitability of LCH SA's financial risk models (Article 12.2); (c) reviewing

<sup>14</sup> The remaining provisions in Article 10 will be renumbered to accommodate the addition of Article 10.3 and Article 10.4 and Article 10.6, below.

<sup>15</sup> See *supra* discussion on revisions to renumbered Article 10.7.4.

<sup>16</sup> Current Article 11.2, which provides that the Risk Committee, at the request of the Audit Committee, will review and provide advice on any aspect of LCH SA's operational risk management framework, will be removed, since this activity is now the responsibility of the Operational Resilience Committee.

<sup>17</sup> The remaining provisions in Articles will be renumbered to accommodate the addition of new Article 12.

annually (or more frequently if deemed necessary) LCH SA's Procyclicality Risk Policy, to consider proposals for modification of those arrangements and to make recommendations to the Board for approval; and (d) reviewing, at least annually, reports confirming that

LCH SA's risk models do not operate in a procyclical manner. The revisions are being made to align with the ToR of the Risk Committee of LCH Ltd. and to reflect LCH SA's current practice.

- Renumbered Article 13, Regulatory Issues, will be revised to add a new Article 13.2 to reflect the current practice that the committee (a) review, on an annual basis (or more frequently if necessary), LCH SA's Recovery Plan and Wind Down Plan, (b) consider proposals for modification of these arrangements, and (c) make recommendations to the Board for approval. In addition, renumbered Article 13.3 will be revised to clarify the committee shall consider any issue or new arrangements relating to the outsourcing of functions that may impact the risk management of the CCP. This revision to Article 13.3 reflects the committee's responsibility to consider the risk impacts of new outsourcing arrangements, as well as any new or existing issues and reflects LCH SA's current practice related to enhancements made to LCH SA's third-party risk management processes.
- Renumbered Article 16, Regular Reports and Notifications, will be amended to simplify the description of the management information to be provided by the Chief Risk Officer. Specifically, a new Article 16.1 will be added to provide that the committee will receive management information from LCH SA's Chief Risk Officer on the assessment of all financial, model and operational resilience risks including any breaches or waivers granted, and will inform the Board in a timely manner of any new significant risk change affecting the resilience of LCH SA.<sup>18</sup> Further, Article 16.2 will be revised to provide that management information will cover recent developments and material issues related to Financial and Model Risks and Operational Resilience Risks.
- Article 20.2 is being amended to correct the responsibility for providing information to the committee about the remuneration structure of the company from the risk management department to the human resources department. This correction reflects how the committee currently assesses the potential affects the remuneration structure may have on the risk profile of LCH SA.

### *The Board*

The ToR of the Board is also being amended to remove the requirement to translate minutes into French prior to Board meetings and to clarify that the Board is responsible for approving the Wind-Down Plan ("WDP").

<sup>18</sup> Further, former Articles 15.1.1 – 15.1.8, which set out specific areas on which the committee would receive reports, have been removed.

LCH SA will also implement revisions to Article 3, Composition of the Board, following a previous self-certification filed in 2021.<sup>19</sup> As a reminder, Article 3 is being amended to remove reference to the Chief Risk Officer of LCH Group. Currently, Article 3 provides that the Directors shall include, among other categories, executive directors, including the CEO of LCH SA, the CEO of LCH Group, and an additional LCH executive, who may be but shall not be limited to the Chief Risk Officer of LCH Group. LCH SA is removing the phrase “and an additional LCH executive, who may be but shall not be limited to the Chief Risk Officer of LCH Group.” LCH SA is doing so because the Chief Risk Officer position of LCH Group has been retired. Under Article 3 as amended, the Directors shall include, among other categories, executive directors, meaning only the CEO of LCH SA and the CEO of LCH Group. LCH SA is also adding, in a separate bullet point, another category of Director: an additional LCH or LSEG executive, who may be but shall not be limited to the chief risk officer of LSEG, as proposed by the CEO of LCH Group.

Thus, LCH SA is implementing amendments to Article 3, Composition of the Board, to clarify that the Board’s executive Directors shall include the CEO of LCH SA and the CEO of LCH Group Holdings Limited. LCH SA is also implementing a change to clarify that the composition of the Board shall include an additional LCH or LSEG executive, who may be the LSEG Chief Risk Officer, as proposed by the CEO of LCH Group. The composition of the Board previously included an additional executive from LCH only. In addition, LCH SA is implementing a revision to establish that the additional LCH or LSEG executive shall be proposed by the CEO of LCH Group.

Article 10, Minutes, is being amended to strike out the requirement that meeting minutes be translated into French prior to being presented to the Board. LCH SA determined that translating meeting minutes from English to French is no longer required based on the composition of the Board and therefore unnecessary for purposes of minute taking.

Article 12, Powers of the Board, is being amended to add under 12(e) that with respect to risk management, the Board shall approve the WDP of LCH SA. LCA SA’s internal procedures establish the governance process regarding the WDP, including the requirement that the Board approve the WDP. The amendment to the ToR to state that the Board shall approve the WDP will align with LCH SA’s procedures.

### **Part III: Core Principles Compliance**

LCH reviewed the Proposed Rule Change against the requirements of the Core Principles and finds it will continue to comply with all requirements and standards set forth therein. Specifically, this rule change has potential relevance to Core Principle O (Governance Fitness Standards) under CFTC Regulation §39.24.

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<sup>19</sup> This amendment to Article 3 of the Board ToR implements the proposed changes as referenced in LCH’s self-certification filed on October 6, 2021 (*see* “Proposed changes to the Terms of Reference of LCH SA’s Board Committees” filed with the CFTC on October 6, 2021 and available at <https://www.cftc.gov/sites/default/files/filings/orgrules/21/10/rule100721lchsadco001.pdf>).

The changes described in this filing ensure that LCH meets the objectives of Core Principle O, including that LCH establish governance arrangements that are transparent to fulfil public interest requirements and to permit the consideration of the views of owners and participants. CFTC Regulation §39.24(b) further provides, *inter alia*, that LCH have governance arrangements that are clear and documented, describe the structure pursuant to which the board of directors, committees, and management operate and clearly specify the roles and responsibilities of the board of directors and its committees, including the establishment of a clear and documented risk management framework.

LCH SA is proposing to more clearly define the role of the Technology, Security and Resilience Committee (now renamed the Operational Resilience Committee) by focusing its areas of expertise on technical subjects related to information systems, technology and cyber security, and with respect to the Audit Committee, to more clearly define the role of the Audit Committee in areas relating to operational and resilience risk management. In addition, LCH SA is proposing to amend the ToR of the Risk Committee by clarifying that the Risk Committee has responsibility for the supervision of certain information technology and resilience risk matters. LCH SA therefore believes that the Proposed Rule Change is consistent with the Core Principles, including Core Principle O (Governance Fitness Standards) and CFTC Regulation §39.24.

#### **Part IV: Public Information**

LCH SA has posted a notice of pending certifications with the CFTC and a copy of the submission on LCH's website at: <https://www.lch.com/resources/rulebooks/proposed-rule-changes>

#### **Part V: Opposing Views**

There were no opposing views expressed to LCH SA by governing board or committee members, members of LCH SA that were not incorporated into the rule.

#### **Certification**

LCH SA hereby certifies to the CFTC, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached changes submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me.



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**APPENDIX I – LCH SA Terms of Reference of the Board**

**LCH SA**  
**Terms of Reference of the Board**  
**(Adopted by the Board on ~~9-September-~~**  
**~~2020~~[.])**

**Article 1. Purpose**

These Terms of Reference provide for the terms relating to the organisation and functioning of the Board of the Company and of its Committees, which in addition to the law and to the articles of association, specify certain rules relating to the allocation of tasks and responsibilities between the General Management, the Chairman and the Board, and specify the rules applicable to the Directors.

The Directors are bound by the provisions of these Terms of Reference.

**Article 2. Definitions**

The following words and expressions when used in these Terms of Reference have the meaning given to them below:

**Audit Committee** means the audit committee of the Company.

**Board** means the board of directors (*conseil d'administration*) of the Company.

**Cash Clearing Agreement** means the agreement for cash equities clearing between the Company and EURONEXT dated 28 January 2013 as amended.

**Cash Clearing Infrastructure** means UCS Cash, or the successor clearing infrastructure used for cleared financial instruments agreed upon between the Company and EURONEXT as the clearing infrastructure to be used by the Company to render the clearing services.

**Cash Common Services** means the clearing services provided by the Company to the trading facilities for the cash clearing of financial instruments listed on the Euronext markets and other trading facilities operated by EURONEXT using the Cash Clearing Infrastructure developed and operated by the Company for the clearing of such financial instruments.

**CEO** means the chief executive officer (*directeur général*) of the Company.

**Chairman** means the chairman (*président du conseil d'administration*) of the Board.

**Clearing Member** has the meaning ascribed to it in the Company's clearing rules.

**Committee** means a committee established by the Board, which are listed in Article 15.

**Company** means LCH SA.

**Conflicted Shareholder** has the meaning ascribed to it in Article 14.18 of these Terms of Reference.

**Conflict of Interest** means a situation in which a Director has, or can have, an interest which conflicts, or possibly may conflict, with the interests of the Company.

**Conflict Situation** has the meaning ascribed to it in Article 14.18 of these Terms of Reference.

**Deputy-CEO** means a deputy managing director (*directeur général délégué*) of the Company, if any.

**Director** means a director (*administrateur*) of the Company.

**Eligible Institution** has the meaning ascribed to it in the articles of association of LCH Group Holdings Limited from time to time.

**EMIR Regulation** means the Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories as well as the Commission Implementing Regulation (EU) No. 1249/2012 of 19 December 2012 implementing regulatory technical standards and Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012 supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council, or any applicable successor law or regulation.

**Euronext** means Euronext Brussels S.A./N.V., Euronext Amsterdam N.V., Euronext Paris S.A., Euronext Lisbon – Sociedade Gestora De Mercados Regulamentados S.A., Euronext Oslo Børs ASA, Euronext UK Markets Ltd and any other member of the Euronext group from time to time.

**Exchanges** has the meaning ascribed to it in the articles of association of LCH Group Holdings Limited from time to time.

**General Management** means the general management (*direction générale*) of the Company.

**Head of Compliance** means the person who satisfies the role of chief compliance officer of the Company, as defined under the EMIR Regulation.

**Independent Director** means an independent director, who satisfies applicable Regulatory Requirements regarding independent directors and who is appointed in accordance with the Nomination Committee terms of reference.

**LCH Group** means LCH Group Holdings Limited and its subsidiaries from time to time.

**Local Management Committee** means the Local Management Committee of LCH SA, which advises and supports the Chief Executive Officer on all key management matters of the company, in order for him to fulfill his responsibilities. The composition and powers of the Local Management Committee are set out in its terms of reference.

**LSEG** means London Stock Exchange Group plc.

**LSEG Director** means a director appointed to the board of LCH Group Holdings Limited by LSEG (other than the CEO of LCH Group Holdings Limited).

**LSEG Group** means London Stock Exchange Group plc and its subsidiaries from time to time other than those entities comprising the LCH Group.

**Managers in Charge** means the CEO and the other person(s) designated as "dirigeant effectif" of the Company in accordance with applicable Regulatory Requirements, who are empowered with the effective determination of the operation of the Company's business, as described in Article 13.2 of these Terms of Reference.

**Nomination Committee** means the nomination committee of the Company.

**Regulatory Requirements** means, with respect to the Company, any regulation or requirement of applicable law or of any applicable regulatory body or any request of any applicable regulatory body, with which failure to comply would result or would reasonably be expected by the Company to result in the withdrawal of authorisation necessary to conduct clearing business in any relevant jurisdiction or other disciplinary or enforcement action that would have a material adverse effect on the ability of any member of the LCH Group to conduct clearing business in any relevant jurisdiction.

**Remuneration Committee** means the remuneration committee of the Company.

**Risk Committee** means the risk committee of the Company.



**Secretary** means the secretary (*secrétaire*) of the Board.

**Senior Management** has the meaning given thereto in the EMIR Regulation.

**Settlement Systems** means one of the settlement systems used by the Company for the Cash Common Services which are Euroclear Bank, Euroclear Belgium, Euroclear France, Euroclear Netherlands, or Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. (Interbolsa), Banque Nationale de Belgique (BNB), or any successor settlement system agreed upon between the Company and EURONEXT.

**Terms of Reference** means these terms of reference (*réglement intérieur*) of the Board.

**User** means Eligible Institutions other than Exchanges.

**User Director** means a director who is nominated by a shareholder of LCH Group Holdings Limited which is a User or who is otherwise connected to such User shareholder by virtue of his employment or directorship.

### **Article 3. Composition of the Board**

The Board is composed of a minimum of three and a maximum of eighteen Directors. Each Director is proposed by the Board at a shareholders' meeting and appointed for a period of three years. The Board's proposals regarding appointment of Directors shall be based on recommendations made by the Nomination Committee in accordance with its terms of reference.

Subject to the decision of the shareholders' meeting, the Board shall be composed of the following categories of Directors:

- an independent non-executive Chairman;
- Independent Directors (provided that at least two of the Independent Directors (which may include the Chairman) shall not also be independent directors on the board of directors of LCH Limited);
- executive Directors (including the CEO of the Company, and the CEO of LCH Group Holdings Limited and an additional LCH executive, who may be but shall not be limited to the chief risk officer of LCH Group Holdings Limited);
- an additional LCH or LSEG executive, who may be but shall not be limited to the chief risk officer of LSEG, as proposed by the CEO of LCH Group;
- a Director proposed by EURONEXT in accordance with and subject to the terms of these Terms of Reference;
- User Directors; and
- a Director representing LSEG,

such categories and such numbers of Directors within each category being subject to change to comply with any applicable legal or regulatory requirements from time to time (including the appointment of additional Independent Directors as may be required from time to time to comply with applicable Regulatory Requirements).

Pursuant to either (i) the Cash Clearing Agreement and for so long as the Cash Clearing Agreement is in force or (ii) the Derivatives Clearing Agreement and for so long as the Derivatives Clearing Agreement remains in force, EURONEXT is entitled to propose the appointment of a maximum of one Director to the Board through the Nomination Committee, such appointment being approved by the shareholders' meeting upon recommendation made by the Board (with the assistance of the Nomination Committee).

In its proposals, the Board aims for its own composition and that of the Committees it creates to be balanced and in line with the needs of the Company in terms of the skills and experience of the Directors chosen. The preceding sentence notwithstanding, the composition of the Board and its Committees shall at all times reflect

Regulatory Requirements. The Board shall take appropriate measures to ensure that the Directors meet all appropriate fitness standards under applicable law and that their duties are carried out with the necessary level of independence, integrity and objectivity.

Directors may be dismissed at any time by the shareholders' meeting without cause. If the conduct of a Director appears to the Nomination Committee likely to be prejudicial to the sound and prudent management of the Company, the Nomination Committee shall (and with regard to Directors appointed by LSEG, with LSEG's consent (not to be unreasonably withheld or delayed)) recommend to the Board convening a shareholders' meeting and the Board may propose such Director's removal at the shareholders' meeting. The shareholders may decide, in their sole discretion, taking into account the recommendation of the Board, to dismiss the relevant Director.

Directors may also resign by notice to the Company.

Otherwise, a Director's duties come to an end at the close of the shareholders' meeting approving the annual accounts for the past financial year and held the year the Director's term ends.

Directors shall be eligible for re-appointment up to a maximum of three three-year terms, unless otherwise determined by the Nomination Committee.

Only in case of a vacancy due to the death or resignation of one or more Directors, the Board may, in the period between shareholders' meetings, decide on temporary appointments, subject to the ratification by the next shareholders' meeting and compliance with Regulatory Requirements. A Director appointed by the Board to replace another shall remain in office for the remaining period of his/her predecessor's term. He/she is eligible for re-appointment.

#### **Article 4. Rules applicable to Directors**

##### 4.1 General obligations

The Directors represent the shareholders as a whole and must act under all circumstances in the corporate interest of the Company.

A Director must, at the time of his/her appointment, review the laws and regulations regarding his/her function as well as the specific provisions laid out in the articles of association and the internal rules and procedure of the Board and its Committees. A Director should, if he/she deems it necessary, be able to receive training regarding the specific features of the Company and its activities.

A Director's acceptance of his/her appointment requires his/her commitment, in particular:

- To dedicate the required time and attention to his/her duties and to matters considered by the Board, and where applicable, by the Committee of which he/she is a member;
- To ask for any additional information he/she might find useful;
- To form an opinion prior to making any decision; taking into consideration only the Company's best interests; and
- To actively participate in Board meetings.

He/she undertakes to attend Board meetings according to the pre-established annual calendar and, where possible, to make him/herself available for any exceptional meetings.

Each Director must fulfil his/her duties with respect to the requirement to commit sufficient time to perform their functions in the Company and the rules governing the number of corporate directorships that can be held. In a case where a Director intends to accept an office in addition to the ones he/she already holds, he/she must notify the Secretary.

Directors shall be prohibited from accepting an office (*mandat social*) in a competing company, save for an office in the LSEG Group.

#### 4.2 Right of information of Directors

Save as otherwise prescribed in these Terms of Reference, the Chairman or the CEO shall communicate to the Directors all necessary information for the fulfilment of their duties and the Directors may obtain all documents they consider useful prior to any meeting.

If a majority of the Independent Directors determine in good faith that, in order to prevent a breach of applicable competition law or regulation, a Director connected to a particular shareholder of LCH Group Holdings Limited or of the Company should not have access to competitively sensitive information concerning a particular Eligible Institution, the relevant Director shall be notified of this situation and shall immediately make appropriate arrangements in order not to receive such competitively sensitive information. The relevant Director shall also absent him/herself from any part of a Board meeting at which such competitively sensitive information is discussed, and/or shall abstain him/herself to participate in discussions or vote on any resolution at such Board meeting (or a meeting of any Committee) relating to such competitively sensitive information, unless a majority of the Independent Directors agree otherwise.

The Independent Directors may only make a determination described in the paragraph above on a case by case basis and:

- on their own initiative, provided that they have consulted the Company's legal advisers in advance of such determination and taken their views into account; or
- if, following receipt by the Company of a written request from any Eligible Institution that a particular Director should not have access to certain competitively sensitive information concerning such Eligible Institution, a majority of the Independent Directors determine, having obtained such legal advice as they consider appropriate, that such request is proportionate and not vexatious.

Any restriction imposed pursuant to the previous paragraphs shall be without prejudice to any rights of consent which LSEG may have under these Terms of Reference.

The Chairman, assisted by the Secretary, is responsible for the communication to Directors of all relevant information according to the circumstances and the points on the scheduled agenda. Where practicable, the Board's files shall be made available to the Directors at least a week before the proposed Board meeting.

Directors shall be informed regularly, by any means, of the Company's financial situation, its accounts and its undertakings as well as of any significant risk, event or operation regarding the Company as well as risk management policies and any amendments thereto.

To complete the information they have and for the fulfilment of their duties, Directors may meet with the Company's managers as reasonably requested, provided that the Chairman and the CEO have given their prior approval to such a meeting.

#### 4.3 Discretionary and confidentiality duties

Reports and documents provided to the Board shall be deemed confidential, unless otherwise indicated. The discussions as well as the minutes transcribing their content shall also be confidential. This duty of confidentiality applies to all persons attending the Board meetings.

Directors shall be bound by an absolute duty of confidentiality, even after the end of their term, with respect to the content of the discussions and deliberations of the Board with the exception of cases where the disclosure of such information is required by the laws or regulations in force or where it is in the public interest.

#### 4.4 Duty of expression

Directors commit to clearly express any objection they might have to a draft decision they deem might harm the Company.

#### **Article 5. Board meetings**

The dates of Board meetings for the following calendar year shall be agreed on a provisional basis, taking into account the scheduled dates of the meetings of the other boards of the LCH Group, as well as those of the board-level committees in the LCH Group. The proposed schedule is subject to the approval of the Chairman and the CEO as well as executives of the LCH Group. It is then placed on the Board's agenda to inform all Directors. Board meetings will be convened by e-mail.

The Board shall meet as often as required in the interests of the Company, at the request of any Director of the Company. The Board shall meet, on average, six times per year and at least once per annum. The Board shall devote an item on its agenda to a discussion of its working procedures.

When the Board does not meet for more than two months, a Director may request that the Chairman call a meeting with a determined agenda. The CEO may also request at any time that the Chairman call the Board with a determined agenda.

Board meetings shall be held at the registered office or at any other location specified in the notice (including abroad). Meetings shall be chaired by the Chairman or, failing that, by a Director temporarily carrying out the duties of chairman designated for that purpose by the Board.

Within the limits and conditions of the legal and regulatory provisions, the Board meetings may take place by means of video-conferencing or telecommunication. Any Directors participating in this manner shall be deemed to be present for the purpose of establishing quorum and majority, except (i) if provided otherwise by the articles of association, or (ii) when decisions relating to the closing of the annual accounts and consolidated financial statements and the drafting of the corporate management report are being made.

#### **Article 6. Quorum**

The board of Directors may validly deliberate only if at least half of the Directors are present.

If there is a breakdown in the telecommunication or video-conference link noted by the Chairman, the Board may validly deliberate and/or continue with the Directors who are physically present as long as the conditions of quorum have been fulfilled. The occurrence of any technical incident disrupting the operation will be mentioned in the minutes, including the interruption and re-establishment of remote participation.

Should no quorum exist at the commencement of a meeting, the Board shall be reconvened within five days with the same agenda.

#### **Article 7. Voting majority**

##### **7.1 Simple majority**

Subject to Article 7.2, decisions shall be made by a majority vote of the Directors present or represented at the Board meeting. The Chairman casts the deciding vote in the event of an equality of votes.

When only two Directors are present, decisions must be made by unanimous vote.

##### **7.2 Enhanced majority**

Decisions of the Board in respect of the following topics require a majority vote of 75% of the non-conflicted Directors voting at the meeting, unless otherwise agreed by EURONEXT and the Company:

- reduction in the choice, access to, and operating principles of Settlement Systems relevant to the Cash Common Services;

- changes of information technology systems or developments of new information technology architectures, advancements, in technologies (hardware, software and parameterisation of these hardwares and softwares) relating to the Cash Clearing Infrastructure; and
- allocation of costs relating to information technology systems developments (which include the costs incurred for hardware purchasing, software development, parameterisation, consultancy services, project management, related maintenance and support services and the Clearing Members technical support services) relating to the Cash Clearing Infrastructure.

#### **Article 8. Alternate Director**

Any Director may give a proxy in writing (by email, fax or letter) to another Director to represent him/herself at a specified Board meeting.

Each Director may only hold one proxy per meeting and cannot represent more than one Director. An Independent Director may only appoint a proxy who qualifies as an Independent Director and any purported appointment of an alternative who does not so qualify will be void *ab initio*.

#### **Article 9. Record of Board attendance**

Where Directors are unable to attend any Board meeting, they must notify the Secretary of their intended absence in a timely manner following receipt of their convening notice. The Secretary shall have the Directors sign the attendance register and take note of the Directors attending by means of videoconferencing or telecommunication, as the case may be. In the event that a Director has been repeatedly absent for more than three consecutive Board meetings, the Director concerned may be called to order by the Chairman.

The attendance register is kept in a safe in the office of the Secretary.

#### **Article 10. Minutes**

The minutes of any Board meetings shall be prepared by the Secretary. The minutes shall be subject to approval of the Chairman and CEO. They shall be distributed to the Directors and approved at the following meeting. ~~Given the French and English composition of the Board, minutes shall be translated into French before being presented to the Board.~~

The minutes shall be signed by the chairman of the meeting and at least one Director. In case of impediment of the chairman of the meeting, the minutes shall be signed by at least two Directors.

Copies or extracts from the minutes of the meetings shall be validly certified either by the Chairman, the CEO, a Deputy-CEO (if any), any other Director temporarily delegated to fulfil the functions of the chairman, or by a proxy empowered for this purpose.

During the liquidation of the Company, these copies or extracts would be certified by a sole liquidator.

#### **Article 11. Board Secretary**

The Secretary may be any person that the Board elects to appoint.

The Secretary is responsible for convening the Board meetings and the shareholders' meetings on behalf of the Chairman. In conjunction with the Chairman and CEO, the Secretary draws up the agenda of the Board. The agenda and notice of any Board meeting shall be then sent to the Directors or any other Board meeting attendees such as representatives of the works council.

The Secretary establishes the list of the documents that will be provided to the Directors in accordance with the proposed agenda and ensures their collection. The content of all the supplied documents shall be subject to the approval of the Chairman and the CEO before being sent or transmitted to Directors where practicable, approximately a week before the proposed Board meeting.

In compliance with laws and regulations, the Secretary shall ensure that copies of minutes are provided upon request to anyone entitled to receive such copies.

The Secretary is available to satisfy any request for information from a Director regarding his/her rights and obligations, the operation of the Board or the life of the Company.

The Secretary submits evidence of any official changes (Directors, financial statements, articles of association, etc.) to the commercial registry and to any relevant legal gazette, if required.

## **Article 12. Powers of the Board**

The Board determines the business strategies of the Company and oversees their implementation. Subject to the powers that the laws and regulations expressly reserve to general meetings of shareholders and to the Managers in Charge, namely the CEO and the other person(s) designated as "dirigeant effectif" of the Company, and within the limits of the Company's corporate purpose, the Board is responsible for the overall management of the Company, deals with all questions concerning the smooth course of the Company's business and passes resolutions to settle all matters that concern it.

This Article does not prevent the Board from having full access to relevant information which is outside the scope of the matters listed in this Article.

Within this framework, and without this list being exhaustive:

- (a) with respect to business management and strategy, the Board shall:
- establish clear objectives and strategies for the Company;
  - approve the Company's annual operating and capital expenditure budget subject to the consent of LSEG;
  - approve any material changes to the Company's budget (including any third party debt financing) subject to the consent of LSEG;
  - review the Company's performance in light of the strategy, objectives, business plans and budgets approved by the Board and any subsequent revision, and ensure that appropriate corrective action is taken;
  - approve any change in the fee grid which has a material impact on the relevant Business line's approved budget;
  - approve the terms and conditions of any merger agreement between the Company and a third party subject to the consent of LSEG;
  - convene and set the agenda of the shareholders' meeting;
  - approve the planned extension of the Company's activities through the launch of new products or the launch of existing products in new geographic areas where new or novel risk is being introduced;
- (b) with respect to the structure and capital of the Company, the Board shall issue a report to the shareholders to recommend:
- any changes relating to the Company's share or regulatory capital structure including any reduction of capital, issue of shares or other securities and share buy-back, to be decided upon by a general meeting of shareholders (save where such change results from the loan by a member of the LCH Group of a de minimis number of shares to one or more of its directors). In addition to shareholder approval, each issue of shares in the Company shall be subject to the consent of LSEG (such consent not to be unreasonably delayed);

- any changes to the Company's legal status to be decided upon by general meeting of shareholders;
  - any changes to the Company's management and control structure to be decided upon by general meeting of shareholders;
- (c) with respect to remuneration of the Company's employees, the Board shall:
- establish and regularly review appropriate remuneration policies, with the assistance of the Remuneration Committee, and control its implementation;
  - on the basis of the recommendation of the Remuneration Committee, to the extent required by EMIR Regulation or by the Company's regulators, approve the remuneration policy for the Chairman of the Board, the Executive Directors of the Company, the Company's Head of Compliance and any other senior executive personnel of the Company as decided by the Board;
  - determine the remuneration of the non-executive Directors of the Company;
  - in consultation with the Boards of other LCH Group subsidiary companies (as applicable), determine any material changes to the Company's pension arrangements;
- (d) with respect to financial reporting and controls, the Board shall:
- prepare the Company's annual accounts to be approved by general meeting of shareholders and issue a related management report to the shareholders;
  - having due regard to the Company's interests, issue a report to the shareholders recommending the payment of a final dividend, to be decided upon by general meeting of shareholders, having taken into account the following matters:
    - applicable regulatory and regulatory capital requirements, including reasonable capital "buffers";
    - restrictions in any finance documents;
    - investment to support capital expenditure contemplated by the business plan and budget from time to time, including technology, taking into account future expected cash flows; and
    - applicable laws;
  - approve any significant changes in accounting policies or practices;
- (e) with respect to risk management, the Board shall:
- establish and monitor the risk management function of the Company;
  - determine the general framework of membership rules (e.g. criteria for admission) following recommendation from the Risk Committee;
  - determine the general framework of risk control rules following recommendation from the Risk Committee;
  - determine the framework of Default Fund rules following recommendation from the Risk Committee;
  - approve the internal policy framework for defining the type of extreme but plausible market conditions that could expose the Company to greatest risk following recommendation of the Risk Committee and review any material change reported by the

Risk Committee and any review undertaken by the Risk Committee and reported to the Board;

- approve the new stress-testing model following recommendation from the Risk Committee;
- at least annually, approve the adoption of the LCH Group Risk Governance Framework;
- at least annually, approve the Company's Financial Resource Adequacy Policy, Default Management Policy, Collateral Risk Policy, Investment Risk Policy, Liquidity Risk Policy, Settlement, Payment & Custody Risk Policy, Counterparty Credit Risk Policy, Contract and Market Acceptability Policy, Model Governance, Validation & Review Policy, Operational Risk Policy and Procyclicality Policy and any significant changes to those policies following recommendations from the Risk Committee;
- approve the liquidity plan after consulting the Risk Committee;
- approve the level of liquidity risk tolerance determined by the Managers in Charge, and come to a decision at least once per year on such level of risk tolerance and on the strategies, policies, procedures, systems, tools and limits allowing the Company to detect, measure, manage and follow the liquidity risk, and approve any material change thereto;
- approve the limits (including, without limitation, the risk global limits) proposed by the Managers in Charge after having consulted, as the case may be, the Risk Committee;
- determine the conditions of communication and periodicity under which information on whether risk limits are satisfied, including whether global limits are likely to be reached, is communicated to the Board and the Risk Committee;
- approve the IT strategy of the company, the strategic guidelines and any significant changes annually;
- approve the business continuity policy, ~~and~~ the disaster recovery and the Wind Down plans of the Company, and review independent reviews of such business continuity policy and disaster recovery plan reported to the Board;
- oversee the crisis management function of the Company;
- ratify the suitability of any guarantor which is the issuer of a commercial bank guarantee to be accepted as collateral, after a full assessment of the issuer and of the legal, contractual and operational framework of the guarantee and ensure that the Company has a high level of comfort on the effectiveness of the guarantee;
- approve the policy for the use of derivative contracts by the Company for the purpose of investing its financial resources, after having consulted the Risk Committee;
- approve each year, or following any material change, the model that the financial and non-financial counterparties shall have for using marking-to-model as referred to in the EMIR Regulation, unless this approval has been delegated by the Board to a Committee (e.g. the Risk Committee);
- review the results of the independent audit assessments of the information technology systems and the information security framework reported to the Board;
- approve the contemplated dismissal of the chief risk officer (*responsable de la fonction de gestion des risques*);
- review at least annually risk tolerance limits and the associated warning thresholds (including policies and procedures containing these metrics),



provided that, in each case, any matter which constitutes a material increase in the risk profile of the investment policy or capital management policy of the Company or which would result in a material decrease in the liquidity resources available to the Company will be subject to LSEG consent, provided that nothing will prevent the Company from taking such steps as are: (i) necessary or desirable to comply with any legal or regulatory requirements; or (ii) considered by the Company's Chief Risk Officer; or, in his or her absence, the CEO; or, in his or her absence, the Chairman of the Risk Committee, to be required to be taken in response to a default by a clearing member or members or adverse macro-economic event;

- (f) with respect to Board membership and other appointments, the Board shall:
- subject to LSEG consent, recommend changes to the structure, size and composition of the Board upon recommendations from the Nomination Committee, to be approved by general meeting of shareholders;
  - ensure adequate succession planning for the Board;
  - decide appointments to the Board Committees further to recommendations from the Nomination Committee;
  - appoint the Chairman of the Board and the CEO (in accordance with the terms of reference of the Nomination Committee) and determine their remuneration;
  - in consultation with the Company's Head of Compliance (or his or her designee) manage and authorise Director conflicts of interest in accordance with these Terms of Reference;
  - recommend the appointment or reappointment of the external auditor upon recommendations from the Audit Committee, to be approved by general meeting of shareholders;
  - be responsible for the oversight of the Company's Head of Compliance, internal audit function and chief risk officer (all of which report directly to the Board); and
  - effectively monitor the Senior Management of the Company;
- (g) with respect to delegation of authority, the Board shall approve the terms of reference of Board Committees and any changes thereto subject to the consent of LSEG (to the extent provided for in those terms of reference or in these Terms of Reference below);
- (h) with respect to compliance and internal control, the Board shall:
- determine the compliance policies and procedures of the Company, jointly with the Managers in Charge;
  - monitor the compliance function and internal control function of the Company;
  - review on a regular basis, with the assistance of the Risk Committee, the policies implemented in order to comply with internal control requirements, and assess the efficiency of such policies, arrangements and procedures implemented for the same purpose and of the measures taken to remedy any failures;
  - review on a regular basis, with the assistance of the Risk Committee, the effectiveness of the implementation of the Company's risk and control processes by the Managers in Charge and take all appropriate measures to remedy any failures;
  - undertake twice a year a review of the Company's risk and control processes, results and activities of the internal control system, including the control of compliance, and the significant incidents revealed by the internal control procedures;

- determine the nature, volume, form and frequency of information communicated to the Board;
  - set the criteria and thresholds of significance allowing the identification of incidents by risk analysis and risk measurement systems, which must be brought to its attention;
  - approve the audit planning of the Company and its review;
  - oversee the outsourcing arrangements of the Company;
  - oversee the compliance of the Company with all provisions of the EMIR Regulation and all other regulatory and supervisory requirements;
  - meet with the Company's Head of Compliance at least once per year, together with the Managers in Charge, to which the Company's Head of Compliance reports;
  - provide accountability to the shareholders or owners and employees, clearing members and their customers of the Company and other relevant stakeholders;
  - review at least annually the specific / formal sign-off of exceptions to Group policies;
- (i) with respect to corporate governance and compliance, the Board shall:
- undertake an annual review of its own performance and that of its Committees;
  - oversee compliance with applicable legal, regulatory and contractual requirements from time to time; and
  - take into account any implications of the group for the Company's own governance arrangements (including having an appropriate conflicts policy in place) including whether the Company has the necessary level of independence to meet its regulatory obligations as a distinct legal person and whether its independence could be compromised by the group structure.

If there is any doubt as to whether a particular matter falls within the scope of this Article, the matter shall be brought to the attention of the Secretary of the Board who shall refer it to the Chairman of the Board who shall then decide whether the matter referred to him is reserved for the Board and his decision shall be final.

**Article 13. Company management (Chairman – CEO)**

The Board appoints from the Directors a Chairman, who shall be an individual. The Chairman may be dismissed at any time by the Board.

**13.1 General Management**

The Board shall entrust the General Management to the CEO.

The Chairman does not assume the General Management, he/she has no executive responsibilities and will be in charge of the following functions:

- To ensure the proper operation of the Company's bodies and in particular ensure that the Directors are able to carry out their duties within the Board;
- To report to the shareholders' meeting on the manner in which the work of the Board and the internal control procedures implemented by the Company are prepared and organized;
- To ensure the application of good governance standards;

- To maintain, in consultation with the CEO, the Company's high-level relationships with customers, regulators and public authorities both in France and abroad.

As the functions of Chairman and CEO are separated, the Board, with assistance from its Committees, appoints the CEO, sets the term of office, determines the remuneration and, if necessary, the limitations on its powers.

The CEO may be dismissed at any time by the Board.

With respect to day-to-day management, the CEO is vested with the broadest powers to act in any and all circumstances in the name of the Company. He/she exercises these powers within the limits of the Company's corporate purpose and subject to those powers that the law expressly reserves to general meetings of shareholders and to the Board.

The CEO represents the Company in its relationship with third parties. The CEO is also responsible for providing the Board and its Committees with the information they need and to implement the decisions taken by the Board.

The CEO ensures, through the Local Management Committee, that no person, save for the CEO, is entitled on his/her own, on behalf of the Company, to make an expense exceeding EUR 100,000 and to commit to its payment. The approval of the list of authorized signatories and any changes thereto is of the competence of the Local Management Committee.

As an internal restriction only and without effect towards third parties, (subject to any LSEG consent rights under article 12 of these Terms of Reference) the CEO must obtain the prior approval by a resolution of the Board in order to carry out:

- any planned extension of the Company's activities through the launch of new products or through the launch of existing products in new geographic areas where new or novel risk is being introduced;
- any opening of a new branch or representative office of the Company, whether conducting clearing activities through such branch or office or otherwise;
- any major change to the Company's corporate structure such as the creation of new holding or subsidiary companies;
- any contract which the Company or any subsidiary of the Company proposes to enter into in the ordinary course of business of the Company, which is material to the Company's business strategically or by reason of its duration (over three years) or its size, namely with an estimated or actual present value of EUR 5,000,000 or more;
- any contract which the Company or any subsidiary of the Company proposes to enter into outside the ordinary course of business of the Company including any loan or similar arrangement with a value of EUR 1,000,000 or more;
- any prosecution, defence or settlement of litigation worth at least EUR 2,000,000 or otherwise material to the Company's interests (provided that the settlement of any litigation which could result in a payment to or by the Company in excess of EUR 2,000,000 will be subject to LSEG consent);
- any item of expenditure or the incurrence of any liability if such expenditure or liability is in excess of EUR 10,000,000 or results in the total limit on spending or costs set out in the annual budget exceeding the budgeted level by more than 10%;
- any material borrowings and material capital expenditure. For the purposes of this paragraph: (i) **material borrowings** includes any new committed facilities (irrespective of the size of the borrowing) and any intra-day or over-night settlement bank and concentration bank facilities entered into for the purposes of the Company's clearing activities; and (ii) capital expenditure shall be **material** if it exceeds an aggregate annual amount of EUR 3,000,000; and

- any material IT investments proposed to be made by the Company (subject to LSEG consent). IT investments shall be material if they exceed an aggregate annual amount of EUR 3,000,000.

As an internal restriction only and without effect towards third parties, (subject to any LSEG consent rights under article 12 of these Terms of Reference) the CEO must consult with the board of LCH Group Holdings Limited and must obtain the prior approval by a resolution of the Board in order to carry out:

- any type of joint venture arrangement between the Company and any third party;
- any acquisition of a business with a valuation representing 5% or more of the Company's net revenue stated in the last audited accounts published by the Company;
- any disposal of all or any material part of the Company's business;
- any decision to cease to operate all or any material part of the Company's business;
- any acquisition or disposal of shares or any interest in shares of the Company, any significant investment in any third party or the making of any takeover offer; and
- any material acquisitions and disposals, including in relation to intellectual property and the Company's various business segments and group undertakings. For the purposes of this paragraph, an acquisition or disposal shall be **material** if the value of the consideration or the assets which are the subject of the transaction exceed an aggregate amount of EUR 10,000,000.

### 13.2 Managers in Charge

The Managers in Charge are both empowered with the effective determination of the operation of the Company's business. In summary, they are notably responsible, with the support of the other members of the Senior Management of the Company for (i) the accounting and financial information of the Company, (ii) ensuring the Company complies with French and EU law requirements relating to its own funds and (iii) ensuring the Company complies with French law requirements relating to internal control within the Company. In particular but not limited to:

(a) **with respect to accounting and financial information the Managers in Charge and other members of the Senior Management of the Company (if any) shall:**

- With respect to the ACPR, a Manager in Charge shall answer any request for information, circulate accurate information and ensure the submission of annual accounts in consolidated form.
- With respect to statutory auditors, a Manager in Charge shall ensure the nomination of statutory auditors, ensure their convening to all general meetings and more generally cooperate with them in performing their duties.
- They shall ensure that the annual accounts are made publicly available.

(b) **with respect to risk management, the Managers in Charge and other members of the Senior Management of the Company (if any) shall:**

- ensure consistency of the Company's activities with the objectives and strategy of the company as determined by the Board;
- ensure that sufficient resources are devoted to risk management;
- ensure that feedback and suggestions are provided to the Board and to the Risk Committee in respect of risk management framework including the measures taken to ensure the continuity of the activity and the assessment of the efficiency of the current

arrangements, and the measures taken to ensure the control of the outsourced activities and the potential risks arising therefrom for the Company;

- more generally, ensure that risks posed to the Company are duly addressed in compliance with policies, risk appetite defined by the board and applicable regulations;

(c) **with respect to compliance and internal controls, the Managers in Charge and other members of the Senior Management of the Company (if any) shall:**

determine the compliance, risk and internal control policies, processes and procedures of the company that promote the company's objectives, jointly with the Board (subject to regular review and testing and control of their efficiency).

13.3 The Board delegates responsibility to the CEO or his/her management team to provide to LSEG (subject to all laws and regulations (including antitrust laws and regulations)):

- (a) sufficient financial and other information that LSEG may reasonably require to meet any applicable reporting requirements or standards and LSEG's budgeting and forecasting processes; and
- (b) the audited accounts for each financial year and monthly management reports.

**Article 14. Conflicts of Interest**

14.1 Subject to Article 14.18 and applicable Regulatory Requirements, a Director shall be authorised by the Board to act or continue to act as a Director of the Company notwithstanding that at the time of his/her appointment or subsequently he/she also:

- holds office as a director of, or holds any other office or employment with, any other member of the LCH Group or the LSEG Group;
- holds office as a director of, or holds any other office or employment with, any other Eligible Institution that is a shareholder;
- participates in any scheme, transaction or arrangement for the benefit of the employees or former employees of the Company or any other member of the LCH Group or the LSEG Group (including any pension fund or retirement, death or disability scheme or other bonus or employee benefit scheme); or
- is interested directly or indirectly in any shares or debentures (or any rights to acquire shares or debentures) in the Company or any other member of the LCH Group or the LSEG Group,

and such authorisation shall also apply to a conflicting interest or duty that subsequently arises as a result of such office, employment, participation or interest.

14.2 A majority of the Independent Directors (in consultation with the Company's Head of Compliance (or his or her designee)) may, in accordance with Article 14.18, authorise any matter proposed to them which would, if not so authorised, involve a breach by a Director of his/her duty to avoid Conflicts of Interest

14.3 Any authorisation under Article ~~14.2~~**Error! Reference source not found.** will be effective only if:

- any requirement as to the quorum at the Board meeting at which the matter is considered is met without counting the Director in question or any other Director interested in the matter under consideration; and
- the matter was agreed to without such Directors voting or would have been agreed to if such Directors' votes had not been counted.

14.4 The Board may give any authorisation under Article ~~14.2 Error! Reference source not found.~~ upon such terms as it thinks fit. The Board may vary or terminate any such authorisation at any time.

14.5 For the purposes of this Article 14, a Conflict of Interest includes a conflict of interest and duty and a conflict of duties, and interest includes both direct and indirect interests.

14.6 A Director shall be under no duty to the Company with respect to any information which he/she obtains or has obtained otherwise than as a Director and in respect of which he/she owes a duty of confidentiality to another person. In particular the Director shall not be in breach of the general duties he/she owes to the Company if he/she:

- fails to disclose any such information to the Board or to any Director or other officer or employee of the Company; or
- does not use or apply any such information in performing his/her duties as a Director.

However, to the extent that his/her relationship with that other person gives rise to a Conflict of Interest or possible Conflict of Interest, this Article 14.6 applies only if the existence of that relationship has been authorised pursuant to Articles 14.1 or 14.2.

14.7 Where the existence of a Director's relationship with another person has been authorised pursuant to Articles 14.1 or ~~14.2 Error! Reference source not found.~~ and his/her relationship with that person gives rise to a Conflict of Interest or possible Conflict of Interest, such Director shall not be in breach of the general duties he/she owes to the Company if at his/her discretion or upon suggestion of the Board or any Committee he/she:

- absents him/herself from a meeting of the Board or a Committee at which any matter relating to the Conflict of Interest or possible Conflict of Interest will or may be discussed or from the discussion of any such matter at a meeting or otherwise; or
- makes arrangements not to receive documents and information relating to any matter which gives rise to the Conflict of Interest or possible Conflict of Interest sent or supplied by or on behalf of the Company or for such documents and information to be received and read by a professional adviser on his/her behalf,

for so long as he/she reasonably believes such Conflict of Interest (or possible Conflict of Interest) subsists.

14.8 The provisions of Articles 14.6 and 14.7 are without prejudice to any equitable principle or rule of law which may excuse the Director from:

- disclosing information, in circumstances where disclosure would otherwise be required under these Terms of Reference; or
- attending meetings or discussions or receiving documents and information as referred to in Article 14.7, in circumstances where such attendance or receiving such documents and information would otherwise be required under these Terms of Reference.

14.9 Subject to Article 24, a Director who is in any way, directly or indirectly, interested in a proposed transaction or arrangement with the Company shall declare the nature and extent of his/her interest to the Board before the Company enters into the transaction or arrangement.

14.10 Subject to Article 24, a Director who is in any way, directly or indirectly, interested in a transaction or arrangement that has been entered into by the Company shall declare the nature and extent of his/her interest to the Board as soon as is reasonably practicable, unless the interest has already been declared under Article 14.9.

- 14.11 Subject to Article 24, any declaration required by Article 14.9. may (but need not) be made at a Board meeting or by notice in writing. Any declaration required by Article ~~14.10~~**Error! Reference source not found.** must be made at a Board meeting or by notice in writing.
- 14.12 If a declaration made under Article 14.9 or ~~14.10~~**Error! Reference source not found.** proves to be, or becomes, inaccurate or incomplete, a further declaration must be made as appropriate.
- 14.13 Subject to Article 24, a Director need not declare an interest under this Article 14:
- if it cannot reasonably be regarded as likely to give rise to a Conflict of Interest;
  - if, or to the extent that, the Board is already aware of it (and for this purpose the Board is treated as aware of anything of which it ought reasonably to be aware); or
  - if he/she is not aware of his/her interest or is not aware of the transaction or arrangement in question (and for this purpose a Director is treated as being aware of matters of which he/she ought reasonably to be aware).
- 14.14 Subject to the provisions of the law and provided that he/she has declared the nature and extent of any direct or indirect interest of his/hers in accordance with this Article 14, where Article 14.13 applies and no declaration of interest is required, or where Article 14.1 applies, a Director notwithstanding his/her office:
- may be a party to, or otherwise be interested in, any transaction or arrangement with the Company or in which the Company is directly or indirectly interested;
  - may act by him/herself or through his/her firm in a professional capacity for the Company (otherwise than as auditor), and in any such case on such terms as to remuneration and otherwise as the Board may decide; or
  - may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise be interested in, any corporate body:
    - in which the Company is directly or indirectly interested as shareholder or otherwise; or
    - which is the parent undertaking of the Company or a subsidiary undertaking of any parent undertaking of the Company; or
    - with which he/she has such a relationship at the request or direction of the Company or any parent undertaking of the Company or a subsidiary undertaking of any parent undertaking of the Company.
- 14.15 A Director shall not, by reason of his/her office, be accountable to the Company for any remuneration or other benefit which he/she derives from any office or employment or from any transaction or arrangement or from any interest in any body corporate:
- the acceptance, entry into or existence of which has been authorised pursuant to Articles 14.1 or ~~14.2~~**Error! Reference source not found.**; or
  - which he/she is permitted to hold or enter into pursuant to Article 14.14 or otherwise pursuant to these Terms of Reference,
- nor shall the receipt of any such remuneration or other benefit constitute a breach of his/her duty not to accept benefits from third parties. No transaction or arrangement authorised or permitted pursuant to Article 14.1, ~~14.2~~**Error! Reference source not found.** or 14.14 or otherwise pursuant to these Terms of Reference shall be liable to be avoided on the ground of any such interest or benefit.
- 14.16 Save that this provision shall not restrict information being shared with LSEG in its capacity as an indirect shareholder of the Company for legal, accounting, tax, regulatory or disclosure purposes,

a Director nominated by a shareholder of LCH Group Holdings Limited may not provide to the shareholder of LCH Holdings Group Limited which nominated him any information which he or she receives by virtue of being a Director without the consent of a majority of the Independent Directors. The Independent Directors may give such consent either generally or in relation to specific information, and may vary or withdraw such consent at their absolute discretion.

14.17 Without prejudice to the Director's disclosure obligations under the law and these Terms of Reference, but subject to Articles 4.2 above, 14.18 and 24 below, a Director may:

- vote at any meeting of the Board or of a Committee on any resolution and be counted in the quorum present at a meeting in relation to any resolution; or
- participate in any decision unanimously taken,

concerning a transaction or arrangement with the Company or in which the Company is interested, or concerning any other matter in which the Company is interested, notwithstanding that the Director is interested in that transaction, arrangement or matter or has in relation to it a duty which conflicts or may conflict with the interests of the Company in relation to it.

14.18 If a majority of the Independent Directors (in consultation with the Company's Head of Compliance (or his or her designee)) determine that there is a conflict of interest, pursuant to Articles 14.1 to 14.15, between:

- (a) (i) a shareholder of LCH Group Holdings Limited which is connected to a Director by virtue of his employment or directorship (a "**Conflicted Shareholder**") and (ii) the Company or any other member of the LCH Group due to litigation, arbitration or other dispute, or the proposed entry into, material variation or termination of a contract, between any member of the LCH Group and the Conflicted Shareholder; or
- (b) (i) a Conflicted Shareholder other than LSEG and (ii) the Company or any other member of the LCH Group due to a matter other than those set out in (a) above;

each of (a) and (b) being a "**Conflict Situation**", then any Director connected to such Conflicted Shareholder shall abstain him/herself from attending any meeting (or part of a meeting) or participating in discussions or voting on any resolution at meetings of the Board or any Committee which relate to the relevant Conflict Situation, or from receiving confidential information concerning such Conflict Situation, unless a majority of the Independent Directors, in consultation with the Company's Head of Compliance (or his or her designee) agree otherwise.

## **Article 15. Committees of the Board**

Committees established by the Board shall be responsible for preparing some of the deliberations of the Board and submitting to the Board their opinions, proposals and recommendations.

Committees may, in the exercise of their duties, after having informed the Chairman, carry out at the Company's expense any study that may inform the deliberations of the Board. In carrying out its duties, the Committees may interview the LCH Group management as well as auditors.

There are five standing committees which assist the Company: the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and the ~~Technology, Security and Operational~~ Resilience Committee. Each Committee is composed of Directors or other individuals with specific skills in given areas.

In addition to these standing Committees, the Board may establish one or more *ad hoc* Committees.

The proceedings of the Committees shall be governed by those provisions of the articles of association of the Company and of these Terms of Reference which regulate the proceedings of Directors so far as they apply.



## **Article 16. Audit Committee**

Organisation and functioning of the Company's Audit Committee is detailed in the terms of reference of the Audit Committee from time to time.

These Audit Committee terms of reference are reviewed annually and are subject to approval of the Board and, in respect of the rights of LSEG under the terms of reference, the consent of LSEG. These Audit Committee terms of reference are subject to any changes required by the regulators of the Company or as a result of applicable law or regulation, including with regard to the composition of the Company's Audit Committee.

A director representing LSEG shall be part of the Company's Audit Committee.

A director representing Euronext shall be part of the Company's Audit Committee in accordance with the terms of the Derivatives Clearing Agreement (**DCA**) entered into by LCH SA, LCH Group Holdings Limited and the Euronext market undertakings.

## **Article 17. Risk Committee**

Organisation and functioning of the Company's Risk Committee is detailed in the terms of reference of the Risk Committee from time to time.

These Risk Committee terms of reference are reviewed annually and are subject to approval of the Board and, in respect of the rights of LSEG under the terms of reference, the consent of LSEG.

A director representing LSEG shall be the vice-chairman of the Company's Risk Committee, provided that such person has the skills and experience commensurate with such a role.

## **Article 18. Nomination Committee**

Organisation and functioning of the Nomination Committee is detailed in the terms of reference of the Nomination Committee from time to time.

These Nomination Committee terms of reference are reviewed annually and are subject to approval by the Board and the consent of LSEG.

A director representing LSEG shall be part of the Company's Nomination Committee.

## **Article 19. Remuneration Committee**

The Company has established its own Remuneration Committee and has therefore adopted terms of reference which take into account the remuneration policy and principles applied by the remuneration committee of LSEG for its executive management.

Organisation and functioning of the Remuneration Committee is detailed in the LCH SA terms of reference of the Remuneration Committee of the Board of Directors from time to time. These terms of reference are reviewed annually.

Such Remuneration Committee terms of reference may be amended with the approval of the Board only and, in respect of the rights of LSEG under the terms of reference, the consent of LSEG.

A director representing LSEG shall be part of the Company's Remuneration Committee. Ideally such director of the board of LSEG would also be a member of LSEG's remuneration committee.

## **Article 20. ~~Technology, Security and Operational~~ Resilience Committee**

Organisation and functioning of the ~~Technology, Security and Operational~~ Resilience Committee is detailed in the terms of reference of the ~~Technology, Security and Operational~~ Resilience Committee from time to time.

These ~~Technology, Security and Operational~~ Resilience Committee terms of reference are reviewed annually and are subject to approval by the Board.

## **Article 21. Remuneration of non-executive Directors**

Non-executive Directors may only receive a fixed annual sum as compensation for their activity (as Directors and/or Committees members), the amount of which would be decided by the shareholders' meeting.

The Board may decide to entrust certain Directors with specific tasks or services for and on behalf of the Company. Directors shall on the recommendation of the Remuneration Committee be entitled to exceptional remuneration as the Board may determine in respect of these specific tasks or services, excluding the Independent Directors.

No Independent Director or non-executive Director may receive performance-based remuneration for their services.

## **Article 22. Reimbursement of expenses**

Expenses regarding travel, accommodation, food services and the tasks of Directors related to Board meetings, Committee meetings or any other meeting regarding the work of the Board or its Committees, shall be covered or shall be subject to reimbursement by the Company, upon the presentation of receipts.

The Secretary receives and verifies the aforementioned receipts and sees to their payment or to the reimbursement of the amounts due.

## **Article 23. Training**

Upon their appointment or throughout the duration of their term, each Director can receive training regarding the activities of the Company as deemed necessary for the fulfilment of their tasks.

Any Director who wishes to receive training on his/her role as a Director or the specific features of the Company may request it at any time. One or more ad hoc training sessions will then be set up which will include meetings with the executive officers.

Information on the specific accounting, financial and operational features of the Company is made available to all members of the Audit Committee on request.

## **Article 24. Evaluation of the Board**

Each year, a questionnaire evaluating the Board's performance is submitted to each Director.

This questionnaire covers the Board's activities demonstrating its role and responsibilities, organisation, operation and training policy. The analysis of the questionnaire is done anonymously and the results shall be presented at the last meeting of the Board for the year. The results of this evaluation as well as the follow up measures that may be decided shall be outlined in the minutes of the meeting.

## **Article 25. Related party agreements between the Company and a manager, a Director or a shareholder**

Save for transactions entered into by the Company in the ordinary course of business and transactions entered into two companies if one of them holds, directly or indirectly, the entire share capital of the other (after deduction of the minimum number of shares required to comply with article L. 225-1 of the French Commercial Code), agreements between the Company and its Chairman, its CEO, one of its Deputy-CEO (if any), one of its Directors, or one of its shareholders holding over 10% of the voting rights of the Company, or in the case of a

company which is a shareholder of the Company, agreements with the entity that controls this shareholder, shall be subject to the authorisation, verification and approval procedure provided for in the French commercial code. The same applies to agreements in which one of the above persons has an indirect interest or where they enter into an agreement with the Company through an intermediary.

Agreements between the Company and an entity where the CEO of the Company, one of the Deputy-CEO of the Company (if any) or one of the Directors of the Company is a shareholder, a partner with unlimited liability, a manager, a director, a member of the supervisory board or, in general, a manager of that entity, are also subject to the aforementioned procedure.

Directors (whether legal persons or not) are prohibited, under penalty of nullity of the contract, from entering into contracts in relation to obtaining from the Company (i) loans or overdrafts on a current account, or (ii) an endorsement or guarantee of the Directors' commitments towards third parties. This prohibition also applies to the spouses, ascendants and descendants of the Directors as well as to all intermediaries.

Any contracts and agreements (including commercial and trading arrangements in the ordinary course of business) between the Company and LSEG or any member of the LSEG Group, will be subject to the prior approval of a committee of the Board consisting solely of the independent non-executive directors of the Company, which approval shall be given provided that the contract or agreement is on bona fide arm's length terms (and such committee's determination will be final).

#### **Article 26. Group Compliance**

In acknowledgement of LSEG's obligations under the Financial Conduct Authority's Listing Rules (from time to time), the Board will notify LSEG of any proposed transaction in relation to the Company or of which the Board is otherwise aware which may constitute for LSEG either:

- 26.1 a significant transaction under Listing Rule 10 (including, for example, any material acquisitions or disposals or providing a non-ordinary course indemnity to a third party); or
- 26.2 a related party transaction under Listing Rule 11 (including, for example, any proposed transaction or arrangement with (i) a person holding 10% or more of the voting rights in LSEG or any member of the LSEG Group (or who held such voting rights in the past 12 months) and (ii) any director of LSEG or any member of the LSEG Group (including for these purposes, any director of any LCH Group company), or who was such a director in the past 12 months),

and, if LSEG informs the Board that such proposed transaction does constitute a transaction (or other relevant matter) under Listing Rule 10 or 11, no such transaction will take place without the prior approval of LSEG.

#### **Article 27. Amendment**

These Terms of Reference may be amended by the Board, provided that any changes to LSEG's rights or any changes which would otherwise have a detrimental effect on LSEG's rights pursuant to these Terms of Reference will be subject to the consent of LSEG.

**APPENDIX II – LCH SA Terms of Reference of the Nomination Committee of the  
Board of Directors**

**LCH SA**  
(the *Company*)

**TERMS OF REFERENCE OF THE NOMINATION COMMITTEE  
OF THE BOARD OF DIRECTORS**

Adopted by the board of directors on ~~9-September-2020~~<sup>[•]</sup>

**1. BACKGROUND**

The board of directors of the Company (the *Board*) has resolved to establish a nomination committee (the *Committee*) and to adopt these Terms of Reference with effect from the date set out above. These Terms of Reference address the nomination of certain directors to the Board and replace any previous terms of reference for any nomination committee of the Board.

**2. PURPOSE**

**Board**

2.1 The Committee shall make recommendations to the Board for nominations of the following candidates for appointment as directors of the Board:

2.1.1 the independent chairman of the Board (the *Chairman*);

2.1.2 up to four independent directors who meet the standards of independence set out in paragraph 7.3 (the *Independent Directors*) (at least two of whom shall not also be independent directors on the board of directors of LCH Limited);

2.1.3 up to two directors (the *User Directors*) associated with or connected to shareholders of LCH Group Holdings Limited (the *Parent Company* and together with its subsidiaries, the *LCH Group*) other than London Stock Exchange Group plc (*LSEG* and together with its subsidiaries (other than the LCH Group), the *LSEG Group*) or other exchanges, trading venues, multilateral trading facilities, alternative trading systems or similar (the *User Shareholders*);

2.1.4 the director nominated by LSEG in accordance with paragraph 3; and

2.1.5 the director nominated by Euronext Brussels S.A./N.V., Euronext Amsterdam N.V., Euronext Paris S.A., Euronext Lisbon – Sociedade Gestora De Mercados Regulamentados S.A., Euronext Oslo Børs ASA, Euronext UK Markets Ltd and any other member of the Euronext group from time to time (*Euronext*) in accordance with paragraph 4.

2.2 The recommendations made by the Committee as set out in paragraph 2.1 shall (i) take into account the criteria set out in these Terms of Reference and (ii) be subject to any changes to the composition of the Board for regulatory purposes or as otherwise may be agreed by a majority of the directors of the Board from time to time, subject to LSEG consent.

- 2.3 The Board will also comprise:
- 2.3.1 the chief executive officer of the Parent Company (the *Group CEO*);
  - 2.3.2 the chief executive officer of the Company (the *Company CEO*) as proposed by the Group CEO (together with the Group CEO, the *Executive Directors*); and
  - 2.3.3 the chief risk officer of ~~the Parent Company~~ LSEG as proposed by Group CEO or such other LCH or LSEG executive as may be proposed by the Group CEO ~~(together with the Group CEO and the Company CEO, the *Executive Directors*)~~.
- 2.4 The Committee shall regularly assess the structure, size, composition and performance of the Board, and shall make recommendations to the Board if any changes are considered necessary or desirable.

### 3. **LSEG DIRECTOR**

- 3.1 Without prejudice to any other rights which LSEG may have, LSEG has the right to appoint one LSEG director to the Board (the *LSEG Director*).
- 3.2 If the existing LSEG Director retires or is removed, LSEG shall propose to the Committee a candidate to be the replacement LSEG Director.
- 3.3 The Committee shall consider:
- (i) the seniority, experience, skill and expertise of each candidate; and
  - (ii) the regulatory good standing of each candidate.
- 3.4 The Committee shall recommend to the Board the appointment of the candidate proposed by LSEG unless it considers the candidate not to be appropriate based on the criteria set out in paragraph 3.3 .

### 4. **EURONEXT DIRECTOR**

- 4.1 Without prejudice to any other rights which Euronext may have, Euronext has the right to appoint one Euronext director to the Board (the *Euronext Director*).
- 4.2 If the existing Euronext Director retires or is removed, Euronext shall propose to the Committee a candidate to be the replacement Euronext Director.
- 4.3 The Committee shall consider:
- (i) the seniority, experience, skill and expertise of each candidate;
  - (ii) the regulatory good standing of each candidate.
- 4.4 The Committee shall recommend to the Board the appointment of the candidate proposed by Euronext unless it considers the candidate not to be appropriate based on the criteria set out in paragraph 4.3.

## 5. **EXECUTIVE MANAGEMENT TEAM**

The Company CEO will be responsible for appointing their own management team in consultation with the Group CEO.

## 6. **DUTIES AND POWERS OF THE COMMITTEE**

- 6.1 The Committee shall put forward candidates for appointment as directors in accordance with paragraphs 2, 3 and 4 and coordinate any necessary succession planning in respect of the Chairman or directors of the Board.
- 6.2 The Committee will need to be satisfied that candidates understand the responsibilities of Board membership and will be able to devote the necessary time to Company matters.
- 6.3 The Committee will need to ensure that its recommended candidates are respected for their competence and are of good standing in their field of business and that such recommended candidates are not disqualified under any provisions of applicable law from serving on the Board.
- 6.4 The Committee shall make available to the Board on a regular basis all such information as is required to ensure that the Board is formally kept up to date with the actions, deliberations and determinations of the Committee.
- 6.5 The Committee will undertake any other tasks required of it by the Board.
- 6.6 The Committee is authorised by the Board to:
  - (a) undertake any activity within its frame of reference;
  - (b) make whatever enquiries or solicit whatever further information it may need from nominees or employees of the Company or the LCH Group or elsewhere, in order to perform its duties;
  - (c) maintain a list of potential candidates and may discuss with any such candidate the Committee's requirements for nomination;
  - (d) obtain, at the Company's expense, outside legal or other professional advice on any matter within its Terms of Reference and to invite those persons to attend at meetings of the Committee; and
  - (e) delegate any of its powers to one or more of its members or the Committee Secretary.
- 6.7 The Committee will consult from time to time with the nomination committee of LCH Limited to ensure that there is a coordinated process for the appointment of suitable directors to the Board and the board of directors of LCH Limited.
- 6.8 The Committee shall keep itself informed of any changes in the laws and regulations applicable to the composition of the Board and the other matters for which the Committee is responsible.

## 7. PROCEDURES OF THE COMMITTEE

### **Appointment of the Chairman and the Independent Directors**

- 7.1 The Committee shall set its own procedures when making decisions on recommendations in relation to the appointment of a new Chairman and/or the Independent Directors to the Board. However, as part of such procedures it will:
- (a) draw up a short-list of potential candidates whose suitability and willingness to be appointed should be explored in greater detail (and may engage a reputable firm of search consultants to recommend candidates);
  - (b) consult the Group CEO, the chief executive officer of LSEG and the chairman of LSEG (and may consult other persons who are not members of the Committee as appropriate) as to the suitability of the short-listed candidates being considered by the Committee, and if requested, arrange meeting(s) with short-listed candidates;
  - (c) with regard to the appointment of a new Chairman, consult with the Independent Directors in advance of making a recommendation to the Board.
- 7.2 When the Committee makes decisions on recommendations in relation to the appointment of a new Chairman to the Board, unless the Independent Directors on the Committee approve otherwise, the then current Chairman shall not be entitled to attend any part of a meeting of the Committee at which a candidate for the role is considered or to vote on whether a candidate should be short-listed or recommended to the Board for appointment.
- 7.3 In determining whether a person is fit for appointment as Chairman or as an Independent Director, the Committee shall consider whether such person is independent in character and judgment, and whether there are relationships or circumstances (including any with LSEG or any member of the LSEG Group and/or with any User Shareholder) which are likely to affect, or could appear to affect, such person's judgment. In addition, the Committee shall have regard to relevant factors which may include if such person has a relationship that would disqualify such person as a "public director" within the meaning of the CFTC Rules in force from time to time or as an "independent director" under any corporate governance standards applicable from time to time or which the Board otherwise determines should be complied with in the interests of best practice corporate governance.
- 7.4 The Committee shall, as often as necessary in light of all the facts and circumstances, but at least annually, verify its determination made pursuant to paragraph 7.3 in respect of each Independent Director's fitness.
- 7.5 When the Committee makes decisions on recommendations in relation to the appointment of a new Independent Director to the Board, the Committee will take into account (amongst other things) that ideally there should be, amongst the Independent Directors:
- (a) a breadth of industry expertise and experience and product knowledge;



- (b) particular expertise and experience in each of (i) risk management, (ii) audit, (iii) clearing services and (iv) financial services; and
- (c) diversity, including gender, age, geographical provenance, and educational and professional background.

7.6 When the Committee makes recommendations of Independent Director candidates, it shall state its reasons, identifying (if relevant) why it considers that the candidate is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination as described in paragraph 7.3.

### **Appointment of User Directors**

7.7 The Appendix to these Terms of Reference sets out the process whereby User Directors shall be nominated to the Board, including the approval rights of LSEG with respect to such appointees.

## **8. TENURE OF DIRECTORS**

8.1 Each director (other than the Executive Directors and User Directors) shall in principle have a maximum tenure on the Board of three three-year terms. However, the Committee may nominate an Independent Director for such longer period as is necessary to ensure that not all such Independent Directors' appointments terminate at the same time.

8.2 All User Directors shall have a tenure on the Board of one three-year term, unless otherwise agreed by the Board to ensure that not all such User Directors' appointments terminate at the same time.

8.3 The terms of appointment of each User Director shall provide that such User Director must retire from the Board if any of the circumstances set out in sub-paragraphs 2(a) through 2(f) of the Appendix occurs.

## **9. MEMBERSHIP OF THE NOMINATION COMMITTEE**

9.1 The Committee shall be appointed by the Board and the membership shall comprise the Chairman, at least two Independent Directors, one User Director and the LSEG Director.

9.2 The size of the Committee will be at the discretion of the Board and, for the current time, will comprise four to six directors.

9.3 The Chairman, or such other Independent Director as the independent directors and LSEG may agree, shall act as chairman of the Committee (the *Committee Chairman*). In the absence of the Committee Chairman and/or an appointed deputy at any meeting, the remaining members present shall elect one of themselves to chair the meeting from among the Independent Directors present.

## **10. SECRETARY**

The Company secretary or his or her appointed nominee shall be secretary of the Committee (the *Committee Secretary*).

**11. TENURE OF NOMINATION COMMITTEE MEMBERS**

- 11.1 The Committee Chairman will keep the Committee's composition under review, and shall make proposals to the Board accordingly.
- 11.2 If a member of the Committee ceases to be a director of the Company, that person's membership of the Committee shall automatically cease.

**12. NOTICE OF MEETINGS**

- 12.1 Notice of meetings shall be given by the Committee Chairman, or the Committee Secretary at the request of the Committee Chairman.
- 12.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend prior to the date of the meeting in a timely manner. Supporting papers shall be sent to Committee members, and to other attendees as appropriate, at the same time.

**13. TIMING AND LOCATION OF MEETINGS**

The Committee shall meet at least twice a year and additional meetings shall be arranged as necessary in order to fulfil the duties of the Committee.

**14. ATTENDANCE AT MEETINGS**

- 14.1 Only members of the Committee have the right to attend Committee meetings. Other individuals, such as appropriate senior employees and/or external advisers, may attend all or part of any meeting, as and when appropriate, at the invitation of the Committee Chairman.
- 14.2 Members of the Committee may hold meetings in person, by telephone or by video conference or any combination of these. Decisions may also be made by e-mail circulation, providing that approval is unanimous.

**15. QUORUM**

The quorum for meetings shall be one Independent Director, one User Director and the LSEG Director on the Committee. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

**16. MINUTES OF MEETINGS**

The Committee Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance, and such minutes shall be presented to the Committee for approval at the next following meeting.

## 17. **REPORTING AND REVIEWS**

- 17.1 The Committee Chairman shall report to the Board on the discussions, decisions and recommendations of the Committee.
- 17.2 The Committee shall produce to the Board for approval each year a summary of (i) its activities, (ii) the process used to make nominations, (iii) a description of its policy on diversity (including gender), any measurable objectives it has set for implementing the policy and progress on achieving such objectives and (iv) shall either explain if external advice or search consultants have not been used or, if they have been used, identify them and state whether they have a connection with the Company. Following such approval, that summary is to be included as a section in the Company's annual report.
- 17.3 The Committee Chairman, or his or her designee, will make available to the chief compliance officer of the Company (the *Chief Compliance Officer*) such information relating to the Committee's work as is necessary for the relevant Chief Compliance Officer to draft and submit the annual compliance reports required by the CFTC Rules and other applicable regulations in force from time to time.
- 17.4 The Committee shall, at least annually, carry out a review of the individual and collective performance of the "management body" of the Company (taking into account the joint ESMA and EBA Collective Assessment Guidelines in place from time to time) and shall recommend any changes considered necessary to the Board for approval.

## 18. **AMENDMENT**

These Terms of Reference may be amended with Board approval, subject to LSEG consent.

## 19. **CONFIDENTIALITY AND CONFLICTS OF INTEREST**

- 19.1 All confidential matters considered by the Committee and any confidential information disclosed to members of the Committee in connection with their position as a member of the Committee must remain confidential, notwithstanding the company to which that information relates, nor whether the member is a director of that company or not, save as required to be disclosed by law or regulation. Any other persons involved in the Committee's work shall either be bound by undertakings of professional secrecy or by ad hoc confidentiality agreements with the Committee.
- 19.2 Conflicts of interest relating to Committee members shall be governed by the relevant articles in the articles of association of the Company from time to time.

## 20. **OTHER**

- 20.1 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required on all Committee matters.
- 20.2 Every member of the Committee shall be given a copy of these Terms of Reference.

20.3 The Committee shall be provided with appropriate and timely training, both as an induction process and on an ongoing basis, and provided with access to external consultancy support, when required.

## APPENDIX

### Mechanism for Appointment of User Directors to the Board

1. Any User Shareholder which (i) is not connected with an existing director (other than a director who retires or is removed in accordance with paragraph 2(b), (d) or (e) below), and (ii) has not served notice terminating its clearing relationship with any member of the Group (an *Eligible User*) may be invited by the Board as it sees fit from time to time to nominate to the Committee a candidate for appointment as a User Director on the Board.
2. The Committee will recommend an individual to replace any User Director who:
  - (a) retires of their own volition;
  - (b) retires or is removed as a result of the User Shareholder which nominated them ceasing to be an Eligible User;
  - (c) retires or is removed as a result of their ceasing to be employed by, or for any other reason upon request by, the User Shareholder which nominated them;
  - (d) retires or is removed following a change of role within the User Shareholder, if such role change would result in the User Director concerned no longer being able to maintain the relevant skill and expertise; or
  - (e) is disqualified or removed in accordance with the articles of association of the Company,together, *Retiring User Directors*.
3. The Committee will recommend the appointment of candidates to replace Retiring User Directors selected using the following process:
  - (a) The Committee will select which Eligible Users shall be invited to propose to the Committee a candidate or candidates to replace a Retiring User Director (each such Eligible User being a *Nominating User*). The Committee will review the list of Eligible Users that it considers most likely to promote the success of the Company and, in so doing, will have regard to the following factors (in no particular order):
    - (i) the number of each Eligible User's contracts or trades (as the case may be) cleared by any member of the Group in the immediately preceding 12 months;
    - (ii) any other contribution made to the Group's business by each Eligible User, including without limitation assistance provided to the Group in the development of new projects and the introduction to the Group of new clearing clients;
    - (iii) the size of each Eligible User's shareholding in the Parent Company; and

- (iv) how recently (if at all) the relevant Eligible User has been represented on any LCH Board, and the desirability of achieving a reasonably fair rotation of appointees among Eligible Users.
- (b) The Committee will invite each Nominating User to propose one or more candidate(s) for the role of User Director for consideration by the Committee.
- (c) Once the Committee has received details of a Nominating User's candidate(s), the Committee will decide whether to approve the relevant candidate(s) (or any of them) (each such candidate being an **Approved Candidate**) and, in so doing, will have regard to the following factors:
  - (i) the seniority, experience, skill and expertise of each candidate;
  - (ii) the regulatory good standing of each candidate;
  - (iii) the desirability of having deep expertise on a wide range of products on the Board, including those which pose the greatest risk challenges for the Company from time to time;
  - (iv) the desirability of having on the Board significant experience and expertise in the Company's principal markets; and
  - (v) the desirability of diversity on the Board, including gender, age, geographical provenance, and educational and professional background.
- (d) If the Committee fails to approve any candidate proposed by a Nominating User for appointment as a User Director, such Nominating User will be allowed time to nominate one or more alternative candidates for consideration by the Committee until the Committee has approved a candidate proposed by such Nominating User.
- (e) The Committee will select such number of Approved Candidates as is equal to the number of Retiring User Directors (the **Proposed Directors**) for appointment as User Directors. The Committee will select those Approved Candidates that it considers to be most appropriate for the Board's needs in light of the factors set out at paragraphs 3(a) and 3(c) above. The Committee will then seek LSEG's approval of each Proposed Director.
- (f) If LSEG does not approve a Proposed Director then the Committee shall propose an alternative Proposed Director selected pursuant to paragraph 3(g)(i) or (ii) below but may nevertheless decide to propose such rejected Proposed Director to the Board together with the alternative Proposed Director selected pursuant to paragraph 3(g)(i) or (ii).
- (g) If LSEG does not approve a Proposed Director, the Nominating User concerned may:
  - (i) accept that the relevant Proposed Director should not be appointed as a User Director (in which case the Committee shall select another Proposed Director from among the Approved Candidates to be put to LSEG for its approval); or

- (ii) propose one or more alternative candidates to be considered by the Committee on the basis set out above and, if approved by the Committee for appointment as a User Director, to be put to LSEG for its approval. However, the Committee will not be obliged to select such alternative candidate as a Proposed Director and may select another Approved Candidate as a Proposed Director in his or her place.
- (h) If LSEG approves a given Proposed Director, the Committee shall recommend the Proposed Director's appointment to the Board as a User Director.

**APPENDIX III – LCH SA Terms of Reference of the Risk Committee of the Board of Directors**



**LCH SA**  
(the *Company*)

**TERMS OF REFERENCE OF THE RISK COMMITTEE  
OF THE BOARD OF DIRECTORS**

Adopted by the board of directors on ~~9 September 2020~~ [●]

**1. COMPOSITION**

1.1 The Risk Committee (the **Committee**) shall, subject to paragraph 1.4 below and subject to any co-option as referred to in paragraph 1.11 below, comprise:

1.1.1 such number of independent non-executive directors that is required from time to time each of whom has been appointed either (i) in accordance with, and satisfies the criteria for independence set out in, the terms of reference of the Company's nomination committee (the **Nomination Committee**) or (ii) in the case of the Vice ~~Chair~~ **Chairman** of the Committee (the **Vice Chair Chairman**), who has been appointed pursuant to paragraph 1.4 below, satisfies all applicable corporate governance standards of independence (each, an **Independent Director**). One of the Independent Directors will be the ~~Chair~~ **Chairman** of the Committee (the **Committee Chair Chairman**) nominated by the Board and one will be the Vice ~~Chair~~ **Chairman** of the Committee, if relevant, appointed pursuant to paragraph 1.4 below;

1.1.2 one of the independent non-executive directors in 1.1.1 must be the Chair of The Operational Resilience Committee of the Board of Directors;

~~1.1.2~~1.1.3 such number of members who represent a clearing member of the Company or part of the group to which a clearing member belongs that is required by law or regulation from time to time and who have significant expertise and experience in market, credit, ~~or~~ liquidity or operational risk management or other risk disciplines related to CCP risk management (each, a **User**); and

~~1.1.3~~1.1.4 such number of representatives of end-client of Users (who shall have significant expertise and experience in risk-related, audit, regulatory or compliance issues) that is required by law or regulation from time to time (each, a **Client**);

provided that: (1) the Committee ~~Chair~~ **Chairman** is an Independent Director; (2) at least one but not more than 50% of Committee members are Independent Directors; (3) at least one but not more than 50% of Committee members are Users; (4) at least one but not more than 50% of Committee members are Clients; and (5) no User, or Client representatives are also employees of ~~the any LCH Group (as defined below).~~ company (meaning LCH Group Holdings Limited and its subsidiaries).

1.2 The following individuals may be invited to attend the meetings of the Committee on relevant matters from time to time, in a non-voting capacity:

1.2.1 the ~~Chair~~ **Chairman** of the Audit Committee of the Company;

- 1.2.2 *ex officio* the Chief Executive Officer of the Company;
- 1.2.3 *ex officio* the Chief Risk Officer of the Company who shall be responsible for all technical issues and recommendations made to the Committee;
- ~~1.2.4 *ex officio* the Chief Risk Officer of LCH Group Holdings Limited (**LCH Group** and together with its subsidiaries, the **Group**);~~
- ~~1.2.5 *ex officio* the Chief Executive Officer of LCH Group;~~
- ~~1.2.6~~1.2.4 *ex officio* the ~~Head of Financial Risk~~ Chief Risk Officer of the London Stock Exchange Group plc (**LSEG**), or their nominated delegate;
- ~~1.2.7~~1.2.5 *ex officio* a representative of Euronext who shall be a specialist in risk related , audit, regulatory or compliance issues , or their nominated delegate;
- ~~1.2.8~~1.2.6 such other ~~individuals within the Group~~ LCH SA employees as considered appropriate by the Committee Chair; and
- ~~1.2.9~~1.2.7 such other risk expert individuals who are representatives of Users of the Company (who are not already represented by a voting member of the Committee) as considered appropriate by the Committee (hereafter the **Risk Expert Attendees**).
- 1.3 Members of the Committee shall be appointed by the Board in consultation with the Committee ~~Chair~~Chairman, save (i) for the Vice ~~Chair~~ Chairman or who shall be appointed pursuant to paragraph 1.4 below and (ii) in the circumstances described in paragraph 2.7 below.
- 1.4 LSEG shall be entitled to appoint the Vice ~~Chair~~ Chairman to the Committee provided that such person has the skills and experience commensurate with such a role.
- 1.5 Committee members that are not Independent Directors (each, an **External Committee Member**) attend in their capacity as risk experts and represent the clearing members or end-user clients (as the case may be) as a whole.
- 1.6 Only one External Committee Member from each User or Client (or, if any are part of a group, the group to which such User or Client belongs), is permitted. External Committee Members will do their best to contribute both their own expertise and the expertise of the User or Client (or group, if appropriate) for which they work for all markets and products which the User or Client (or group, if appropriate) clears with the Company. Where expertise other than the specialty of the External Committee Member is required, he or she ~~will~~may, subject to the restrictions set out in their confidentiality agreement with LCH SA, consult internally prior to the Committee meeting. Papers will be issued in good time to permit this.
- 1.7 User and Client membership of the Committee will be reviewed on an annual basis at a minimum. The metric for determining which Users and Clients are members of the Committee will be based on factors including the asset classes cleared, volume cleared, the level of contribution to the relevant default funds and whether they have previously been a voting member of the Committee.

- 1.8 As far as User membership of the Committee is concerned, a rotation between Risk Experts shall be performed, as previously approved by the Board, in accordance with the terms set out in Appendix 1.
- 1.9 The Company secretary or ~~their his or her~~ appointed nominee shall be secretary of the Committee (the **Committee Secretary**).
- 1.10 The Committee ~~Chair~~Chairman, Vice ~~Chair~~ Chairman and Committee Secretary will together seek to ensure that the Committee has a suitable range of expertise to consider and evaluate the risk matters placed before it, with particular reference to changes in the risks managed by the Company.
- 1.11 The Committee may co-opt any person, either for consideration of an individual subject or for a longer period.
- 1.12 The Committee may set up one or more advisory groups for the purpose of reporting back to it on specific issues. The Committee shall not delegate any of its powers or responsibilities set out herein to any such advisory group.
- 1.13 Subject to paragraph 1.4, the Board may remove members of the Committee with or without cause.
- 1.14 It is acknowledged that competent regulatory authorities shall have the right to request to attend Committee meetings in a non-voting capacity and be duly informed of the activities and decisions of the Committee.

## 2. CONDUCT OF MEETINGS

- 2.1 Notice of meetings shall be given by the Committee ~~Chair~~Chairman, or the Committee Secretary at the request of the Committee ~~Chair~~Chairman.
- 2.2 Save for in exceptional circumstances, (i) notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend prior to the date of the meeting in a timely manner and (ii) supporting papers shall be sent to Committee members, and to other attendees, as appropriate, at least 72 hours before the start of each meeting.
- 2.3 In exceptional circumstances the ~~Chair~~ Chairman as the discretion to convene a meeting of the Committee on short notice.
- 2.4 Meetings shall be held a minimum of six times per year, or more frequently according to the business to be considered.
- 2.5 Other than in exceptional circumstances, all meetings shall be held in one of the registered offices of the LCH Group entities.
- 2.6 Committee members, including External Committee Members are encouraged to attend Committee meetings in person. Meetings can however be attended by audio

or video conference facilities if necessary.

- 2.7 A quorum shall consist of a majority of the Committee members, including the Committee ~~Chair~~**Chairman** or Vice ~~Chair~~ **Chairman** who shall at their sole discretion decide whether to defer decisions or recommendations on certain items in the light of the balance of attendance. Exceptionally, the Committee ~~Chair~~ **Chairman** or Vice ~~Chair~~ **Chairman** may nominate another Independent Director to represent them. Without prejudice to the above, in the event that the quorum requirement would not be met, the Committee ~~Chair~~ **Chairman**, for the purpose of a specific meeting, may appoint a Risk Expert as a User Member (hereafter a Back-up Member) from a list approved by the Board and in the order established by such a list. In any event, the Committee ~~Chairman~~ **Chair** shall ensure, when appointing a Back-up Member, that there is an appropriate representation of clearing members as a whole and shall report such an appointment to the Board.
- 2.8 Decisions will be taken by consensus. If no consensus can be reached then the topic shall be put to a vote. All voting members of the Committee have one vote. The decision will be taken by simple majority of those present at the meeting. A decision requires the majority of the Independent Directors present at the meeting to vote in favour.
- 2.9 The Committee ~~Chair~~ **Chairman** and/or Vice ~~Chair~~ **Chairman** shall report to the Board of the Company on the discussions, decisions and recommendations of the Committee in order for the Board to formally ratify these decisions and recommendations. The Committee Secretary shall make all minutes available to the Board, and the ~~Chair of the Audit~~ Committee, ~~Chairman of the Audit Committee of the Company and the LCH Group Board.~~

~~2.10 The Chief Risk Officer of the Company shall report to the Board of LCH Group on the discussions, decisions and recommendations of the Committee to formally ratify those decisions and recommendations which affect the Group.~~

## PURPOSE OF THE COMMITTEE

### 3. RISK APPETITE AND SCOPE

3.1 To consider and comment on aspects of the Company's risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment, as reported upon regularly at Committee meetings.

3.1.3.2 The risks within scope for the LCH SA Risk Committee are Financial and Model Risks, and Operational Resilience Risks.

### 4. EXECUTIVE RISK COMMITTEE

4.1 To receive advice, recommendations and updates (as applicable) from the Executive Risk Committee of the Company (**ERCo**) in respect of the areas to which ERCo's delegated powers, described in these Terms of Reference, apply and in respect of proposed revisions to the risk policies and risk methodology subject to the ERCo's oversight and review.

- 4.2 To receive a detailed report from the ERCo which, for the risks defined within scope in paragraph 3.2, includes (i) the risk profile of the Company ~~and the Group~~ on a monthly basis and its evolution over time, (ii) qualitative comments from the ERCo and the Chief Risk Officer of the Company in relation to areas of potential concern, and (iii) a particular focus on concentration risk and members' margin circumstances.

## 5. **CLARIFICATION OF THE POWERS OF THE CHIEF EXECUTIVE OFFICER OF THE COMPANY**

- 5.1 The Chief Executive Officer of the Company has responsibility for all risk decisions taken within the framework of agreed risk policies. The exercise of these powers is considered necessary to formally preserve the independence of risk management, to avoid conflicts of interest if the Board or Committee was involved in the decision taking, and to ensure a timely response to situations which may develop or deteriorate rapidly.
- 5.2 These powers of the Chief Executive Officer establish a boundary line between the Committee's role in respect of policy review and recommendation and executive responsibility for risk management actions within the agreed policy framework.
- 5.3 The Chief Executive Officer may delegate the powers necessary to achieve the performance and implementation of any and all of their ~~his or her~~ responsibilities and decisions referred to in these Terms of Reference to the Chief Risk Officer of the Company.

## 6. **CCP MEMBERSHIP**

- 6.1 To review, on a periodic basis, criteria for initial admission to clearing membership and continuing membership criteria, to consider proposals for new criteria, and, as appropriate, to recommend any changes to the relevant decision-making body.
- 6.2 To review decisions of the Chief Executive Officer of the Company or their delegate relating to approvals and denials of membership applications.
- 6.3 To review annually the Counterparty Credit Risk Policy and, as appropriate, to recommend any changes to the Board. This review should include data on the previous year's changes in overall membership, specific aggregate information on the nature of the new members (if any) and their risk profile (if different from the existing membership), together with an assessment of any potential policy implications.

6.36.4 To be notified of the outcome of the annual independent validation of the counterparty credit scoring model in accordance with the Model Governance, Validation and Review Policy.

6.46.5 Clarification of approvals of the Chief Executive Officer of the Company:

6.4.16.5.1 Pursuant to paragraph 6.1 above, application by a current clearing member to extend its clearing activities *vis-a-vis* the Company may be approved by the Chief Executive Officer of the Company subject to the

Committee and the Board being notified. The Chief Executive Officer of the Company may, at their discretion, refer any such applications for consideration by the Committee.

~~6.4.26.5.2~~ Pursuant to paragraph 6.3 above and without prejudice to the Committee's authority under paragraph 6.2 above, new membership applications may be approved by the Chief Executive Officer of the Company subject to the applicant meeting the criteria determined by the Committee (and endorsed by the Board) subject to the Committee being notified of any such approvals. If an applicant is rejected by the Chief Executive Officer of the Company, it may appeal to the Board. If, before coming to a decision, the Chief Executive Officer of the Company has particular concerns regarding the applicant, they may exceptionally refer such an application for consideration by the Committee.

## 7. NEW CLEARING ACTIVITY: NEW MARKETS AND CONTRACTS

7.1 To consider the risk controls designed or adapted for the clearing of a new market (whether in the form of an exchange, or of a new product-specific OTC clearing service) or of a new class of instruments, and to recommend to the Board for approval.

7.2 To consider the risk controls designed or adapted for the clearing of a new contract proposed by a cleared exchange, or a new product type proposed for the Company's clearing service, and to recommend to the Board for approval.

7.3 To consider the risk controls designed or adapted for the continued clearing of an exchange contract or OTC clearing service product whose proposed terms have been significantly modified, and to make a recommendation to the Board on the continuation of clearing.

~~7.4~~ To review, on an annual basis (or more frequently if deemed necessary), the ~~risk policy on the eligibility of new products accepted for clearing~~ Contract and Market Acceptability Policy and, to consider proposals for the amendment of the policy, and, as appropriate, to recommend any changes to the Board.

~~7.47.5~~ To review on an annual basis a report outlining the compliance of all markets and products against the criteria defined in the Contract and Market Acceptability Policy.

~~7.57.6~~ To review, on an annual basis (or more frequently if deemed necessary), the policy containing the principles for managing the counterparty risk of other central counterparties with which an interoperability link has been established and, as appropriate, to recommend any changes to the Board.

~~7.67.7~~ Clarification of approvals of the Chief Executive Officer of the Company:

~~7.67.7.1~~ Pursuant to paragraph 7.2 above and without prejudice to the Committee's authority contained therein, approval for the clearing of new contracts, ~~or~~ products or trade venues which present no novel risk features and require no amendment of risk controls may be granted by the Chief Executive Officer of the Company, subject to the Committee being notified of

any such approvals. The Chief Executive Officer may, at their discretion, refer any such applications for consideration by the Committee.

~~7.6.27.7.2~~ In cases where the proposal is that the Company should clear a potentially large number of new contracts or products, none of which present novel risk features, the proposal will be presented for Committee consideration because of the proposed scale of the extension of clearing. The Committee will make a recommendation to the Board for approval.

## 8. MARGINING

8.1 To consider proposals for significant amendments to, or the introduction of new, variation margin methodologies, and, as appropriate, to recommend any changes to the Board.

8.2 To review, on an annual basis (or more frequently if deemed necessary), the initial margin policies contained within the Financial Resource Adequacy Policy, and consider amendments to the policies and, as appropriate, to recommend any changes to the Board.

8.3 To consider proposals for significant amendments to, or the introduction of new, initial margin methodologies, and, as appropriate, to recommend any changes to the Board.

8.38.4 To be notified of the outcome of the annual independent validation of all margin models in accordance with the Model Governance, Validation and Review Policy.

8.48.5 To review, on an annual basis (or more frequently if deemed necessary), the company's intra-day calling policy, to consider proposals for the adoption of a new policy, and, as appropriate, to recommend any changes to the Board.

8.58.6 Clarification of powers of the Chief Executive Officer of the Company:

~~8.5.48.6.1~~ The establishment and regular review of initial margin parameters at contract level, the introduction of higher initial margin parameters or other financial requirements specific to a member or a group of members, and intra-day calls under the current policy.

8.68.7 Clarification of powers delegated to the Chief Risk Officer of the Company:

~~8.6.48.7.1~~ In the context of initial margin rate setting policies approved by the Committee and the Board, and with reference to the powers of the Chief Executive Officer of the Company in respect of initial margin rates, the Chief Risk Officer of the Company in their role as Director, Risk Management of the Company, shall ensure that any rate that does not directly flow from any of the policies is documented as exceptional treatment. The reason for such treatment must be either that a disproportionate and unrealistic margin rate would otherwise have been established or that application of the documented policy would lower a rate or rates at a time of significant volatility and run a high risk of rapid reversal. The Chief Risk Officer of the Company will ensure that the Committee is informed of such treatment in the case of major

contracts as part of standard reporting of margin adequacy.

## 9. DEFAULT FUND, DEFAULT RULES AND DEFAULT PROCEDURES

9.1 To review quarterly, and on an *ad hoc* basis, as initiated by the Chief Risk Officer of the Company, the adequacy of the default funds of the Company (the **Default Funds**) on the basis of stress testing figures and reverse stress testing reports, and to recommend any change in the methodologies for sizing the Default Funds to the Board for approval. To review, on an annual basis (or more frequently if deemed necessary), the Default Fund policies and recommend any changes to these policies to the Board for approval.

9.2 To consider any adjustment to the stress testing model or the assumptions used in the model and to recommend any changes to the Board.

9.3 To consider any proposals to adopt a new stress-testing model and to recommend to the Board for approval.

9.39.4 To be notified of the outcome of the annual independent validation of all stress testing models used to size the default funds in accordance with the Financial Resource Adequacy Policy.

9.49.5 To consider any proposals for changes to the Default Rules and, as appropriate, make recommendations to the Board for approval.

9.6 To consider the Default Management Policy for managing a default across individual and multiple product lines and to make recommendations to the Board for approval.

9.59.7 To review default management fire drill exercise reports to assess the Company's default management process.

9.69.8 To consider as soon as possible after a member default, the default procedures taken and the continued adequacy of the Default Rules and, as appropriate, make recommendations to the Board.

9.79.9 The Committee will be notified of any significant amendments, additions or deletions to the stress testing scenarios. The Committee may also request new scenarios to be added to the stress testing model.

9.89.10 Clarification of powers of the Chief Executive Officer of the Company:

9.8.19.10.1 Pursuant to paragraph 9.1 above, the periodic recalculation of the Default Fund size and contributions, the stress test parameters as well as the review of the cap and floor of the Default Fund where applied, within the scope of the policy approved by the Board.

9.8.29.10.2 Pursuant to paragraph 9.5 above, default declaration and management are a Chief Executive Officer responsibility, subject to a commitment to notify the Board and convene a meeting of the Board if appropriate.



## 10. PAYMENT AND MONEY SETTLEMENT ARRANGEMENTS, BANK EXPOSURES, LIQUIDITY RISK AND COLLATERAL ~~POLICY~~

10.1 To review, on an annual basis (or more frequently if deemed necessary), the Company's payment and money settlement arrangements and collateral custody arrangements, to consider proposals for modification of those arrangements and, as appropriate, to recommend changes to the Board.

~~10.2~~ To review, on an annual basis (or more frequently if deemed necessary), the Company's 'Investment Risk Policy' for setting bank limits and 'Liquidity Risk Policy' for determining liquidity needs, to consider proposals to change these policies, and, as appropriate, to recommend any changes to the Board for approval.

~~10.3~~ To review, on an annual basis (or more frequently if deemed necessary), the Company's Liquidity Plan detailing how the standards contained in the Liquidity Risk Policy are applied, to consider proposed changes and to make recommendations to the Board for approval.

~~10.2~~~~10.4~~ To be notified of the outcome of the annual independent validation of the liquidity risk model, in accordance with the Liquidity Risk Policy.

~~10.5~~ To review, on an annual basis (or more frequently if deemed necessary), the Company's policy on acceptable forms of collateral contained within the Collateral Risk Policy together with the haircuts applied, to consider proposals to change these policies, and, as appropriate, to recommend any changes to the Board. To consider the addition of a new collateral type and associated risk controls and to recommend to the Board for approval.

~~10.3~~~~10.6~~ To be notified of the outcome of the annual independent validation of the collateral haircut model in accordance with the Collateral Risk Policy.

~~10.4~~~~10.7~~ Clarification of discretion of the Chief Executive Officer of the Company:

~~10.4.1~~~~10.7.1~~ Pursuant to paragraph 10.2 above, to decrease or remove investments or a counterparty's investment limits if there are concerns over the investment or counterparty for any reason.

~~10.4.2~~~~10.7.2~~ To approve proposals for the periodic adjustment of exposure limits within the scope of the Credit Risk Management Framework approved by the Committee.

~~10.4.3~~~~10.7.3~~ To change repo limits in line with the size of the cash portfolio to ensure that the assigned limits do not act as a constraint on securing the portfolio.

~~10.4.4~~~~10.7.4~~ If any of the limits or restrictions detailed in the Collateral Risk Policy and/or the Investment Risk Policy are breached, that breach must be (i) notified to the Chief Risk Officer and Head of CaLM, (ii) signed off by ~~either~~ the Chief Risk Officer ~~or the Head of CaLM~~ and (iii) reported to the Committee, the ERCo, the Chief Executive Officers of the Company ~~and of LCH Group~~ and

the Audit Committee of the Company.

## **11. OPERATIONAL RESILIENCE RISK MANAGEMENT**

~~11.1~~ To review, on an annual basis (or more frequently if deemed necessary), the Company's Operational Resilience Risk Policies, following review by the Operational Resilience Committee, ~~and to consider proposals for modification of those arrangements~~ and to make recommendations to the Board for approval.

~~11.1.2~~ The Committee shall inform the Board in a timely manner of any new risk affecting the resilience of the Company.

~~11.2~~ On request by the Audit Committee or the Board to review and provide advice on any aspects of the Company's operational risk management framework.

11.3 To review and approve the recommendations of the Operational Resilience Committee in relation to Detailed Operational Risk Assessments for ~~all~~ significant projects and new products, as required under the Company's Operational Risk Policy and to ~~make recommendations~~ notify to the Board ~~for~~ of the same approval.

## **12. MODEL GOVERNANCE AND PROCYCLICALITY**

~~12.1~~ To review annually (or more frequently if deemed necessary) the Company's Model Governance, Validation and Review Policy, to consider proposals for modification of those arrangements and to make recommendations to the Board for approval.

~~12.2~~ In accordance with the Model Governance, Validation and Review Policy, to review reports prepared by independent model experts confirming the ongoing suitability of the company's financial risk models, at least annually and upon material change.

~~12.3~~ To review annually (or more frequently if deemed necessary) the Company's Proccyclicality Risk Policy, to consider proposals for modification of those arrangements and to make recommendations to the Board for approval.

~~12.4~~ To review, at least annually, reports confirming that the Company's risk models do not operate in a procyclical manner.

## **13. REGULATORY ISSUES**

~~12.~~

~~13.1~~ To consider any risk policy-related regulatory issues referred to it, and to make recommendations to the Board.

~~13.2~~ To review, on an annual basis (or more frequently if deemed necessary), the Company's Recovery Plan and Wind Down Plan, to consider proposals for modification of those arrangements and to make recommendations to the Board for approval.

~~13.3~~ To consider any issue or new arrangement relating to the outsourcing of functions which may impact the risk management of the CCP and to make recommendations to the Board for approval.

~~12.3~~13.4 To ensure that the Company promptly reports to the relevant regulatory authorities of any decision in which the Board has rejected a recommendation of, or superseded an action by, the Committee, such report to contain at a minimum the following:

~~12.3.1~~13.4.1 the Committee's recommendation or action, as applicable;

~~12.3.2~~13.4.2 the rationale for such recommendation or action;

~~12.3.3~~13.4.3 the rationale of the Board for rejecting such recommendation or superseding such action; and

~~12.3.4~~13.4.4 the course of action the Board decided to take contrary to such recommendation or action.

~~12.4~~13.5 The Committee Chair ~~Chairman~~, or their ~~his or her~~ designee, will make available to the Chief Compliance Officer of the Company such information relating to the Committee's work as is necessary for the Chief Compliance Officer of the Company to draft and submit:

~~12.4.1~~13.5.1 the Company's annual compliance report (i) to the ACPR as required under French law and regulation in force from time to time, (ii) as required under applicable law and regulations in force from time to time, and (iii) to the CFTC as required under the CFTC Rules in force from time to time and any successor regulation; and

~~12.4.2~~13.5.2 any other reports that the Chief Compliance Officer of the Company may from time to time be required to submit, pursuant to regulatory requirements.

It is noted that in the event that the Board does not follow a recommendation of the Committee the *Autorité de Contrôle Prudentiel et de résolution*, as the lead regulator of the Company, will be notified by the Company Secretary.

## ~~13~~14. MISCELLANEOUS

~~13.1~~14.1 To discharge any duties ascribed to the Committee in the LCH Group risk policies reviewed by the Committee from time to time.

~~13.2~~14.2 To consider any other matters as directed by the Board.

~~13.3~~14.3 To hold joint meetings with the Risk Committee of LCH Ltd and the Risk Committees of any other operating subsidiaries of LCH Group as there may be from time to time.

## ~~14~~15. PUBLICATIONS

The Committee shall ensure that summaries of significant decisions implicating the public interest, including all decisions relating to (i) open access; (ii) membership; and (iii) the finding of products acceptable or not acceptable for clearing, including a description regarding whether the Board has rejected or superseded an action of the Committee, shall be made public on the Company's website in an up to date, clear and

accurate manner.

### **15.16. REGULAR REPORTS AND NOTIFICATIONS**

16.1 To receive management information from the Chief Risk Officer of the company on the assessment of all financial, model and operational resilience risks, and inform the Board in a timely manner of any new significant risk change affecting the resilience of the Company. The report will include any breaches or waivers granted.

~~15.1~~16.2 The management information ~~The Committee shall consider and review regular reports prepared by the Risk Management department of the Company which shall cover recent developments~~ and material issues related to Financial and Model Risks, and Operational Resilience Risks. ~~in at least the following areas:~~

~~15.1.1~~ — Membership (additions, deletions, extensions to business cleared, and other significant developments)

~~15.1.2~~ — Operation and adequacy of margin rate setting (back testing) and of the default fund (as revealed by the stress test results)

~~15.1.3~~ — Operation of Liquidity Risk policy

~~15.1.4~~ — Operation of Counterparty Credit Risk policy

~~15.1.5~~ — Operation of Collateral Risk policy

~~15.1.6~~ — Operation of Payment, Settlement and Custody Risk policy

~~15.1.7~~ — Operation of Investment Risk Policy

~~15.1.8~~ — Any other material issues which have arisen during the previous three months for any risk policy or its implementation

~~15.1.9~~16.3 To ~~R~~review at least annually risk tolerance limits and the associated warning thresholds (including policies and procedures containing these metrics)

~~15.1.10~~16.4 ~~R~~To review at least annually the specific / formal sign-off of exceptions to ~~Group~~ LCH policies

### **16.17. CONFIDENTIALITY AND CONFLICTS OF INTEREST**

~~16.1~~17.1 Without prejudice to any rights of LSEG or its representatives under these Terms of Reference, all confidential matters considered by the Committee and any confidential information disclosed to members of the Committee in connection with their position as a member of the Committee must remain confidential, notwithstanding the company to which that information relates, nor whether the member is a director of that company or not, save as required to be disclosed by law or regulation. Any other persons (with the sole exception of competent regulatory

authorities) involved in the Committee's work shall either be bound by undertakings of professional secrecy or by ad hoc confidentiality agreements with the Committee.

~~16.2~~17.2 Conflicts of interest relating to Committee members shall be governed by the relevant provisions in the règlement intérieur of the Company from time to time and those relevant provisions shall apply to the External Committee Members as if they were directors of the Company.

## **17.18. HARMONISATION WITH LCH LTD**

~~17.1~~18.1 To review any proposals for harmonisation of policies or procedures between the Company, LCH Ltd and any other operating subsidiaries of LCH Group as there may be from time to time, having regard to local law or regulatory requirements and liquidity characteristics of the relevant entity in the Group, and, as appropriate, to recommend any changes to the Board.

~~17.2~~18.2 In the event that the Risk Committees of the Company, LCH Ltd and any other operating subsidiaries of LCH Group as there may be from time to time cannot agree on the harmonisation issues, the Board of LCH Group and the Board of the relevant operating subsidiary together are responsible for the final decision.

## **18.19. RELATIONSHIP WITH THE COMPANY'S AUDIT COMMITTEE**

~~18.1~~19.1 Internal audits, external audits, investigations and reviews carried out under the auspices of (and contained in the relevant regular reporting to) the Company's Audit Committee will cover those departments and teams executing the policies and methodologies set by the Risk Committee.

## **19.20. AUTHORITY**

~~19.1~~20.1 The Committee is authorised to: (i) investigate any activity relating to these Terms of Reference; (ii) seek any information it requires from any employee of the Company in order to perform its duties; (iii) call any employee to be questioned at a Committee meeting as and when required; and (iv) obtain at the Company's expense, outside legal or other professional advice on any matter within its Terms of Reference.

~~19.2~~20.2 In particular, the Committee shall have access to: ~~(i) the risk management department (to assess how the remuneration structure affects the risk profile of the Company);~~ (ii) the human resource department (to assess how the remuneration structure affects the risk profile of the Company); (iii) the compliance department (to ensure legal and regulatory changes are properly implemented); and ~~(iiiv)~~ the internal audit department (who shall periodically carry out and report to the Committee on an independent audit of the design, implementation and effects of the remuneration structure).

## **20.21. OTHER**

~~20.1~~21.1 Notwithstanding any other provision set out herein, the Committee is solely accountable to, and reports solely to, the Board of the Company. Without limiting the foregoing, no decisions made by the Committee under paragraph 6 (*Membership*) or paragraph 7 (*New Clearing Activity: New Markets and Contracts*) may be restricted or

otherwise limited by any body other than the Board of the Company.

~~20.2~~21.2 Every member of the Committee shall be given a copy of these Terms of Reference.

~~20.3~~21.3 The Committee, in particular the Independent Directors, shall be provided with appropriate and timely training, both as an induction process and on an ongoing basis, and provided with access to external consultancy support, when required.

~~20.4~~21.4 The Committee shall arrange for periodic reviews of its own performance and, at least annually, shall arrange for independent internal review of its constitution and these Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

~~20.5~~21.5 Subject to paragraph 21.6, these Terms of Reference may be amended only with approval of the Board.

~~20.6~~21.6 Paragraphs ~~1.2.6~~ 1.2.4, 1.4, ~~17.1~~ 16.1 and this paragraph ~~21.6~~ 20.6 of these Terms of Reference may be amended only with approval of the Board and the consent of LSEG.

**APPENDIX I**

## Rotation of voting rights Among Users

A number of Risk Experts who attend the Risk Committee fulfil the criteria of Users. The voting rights of the Risk Committee are rotated between the Risk Experts on a regular basis (at least once a year), so as to ensure compliance with the composition requirements set out in Clause 1.1 of the Terms of Reference.

The following criteria are applied by the Board when rotating the voting rights of the Risk Committee:

1. Expertise in matters of risk;
2. Length of service on the Risk Committee;
3. Attendance at Risk Committee meetings; and
4. The ~~Chair~~ ~~Chairman~~ of the Risk Committee being satisfied that the membership of Users on the Risk Committee is an appropriate representation of the clearing members as a whole.

**APPENDIX IV – LCH SA Terms of Reference of the Operational Resilience Committee  
of the Board of Directors**



**LCH SA**  
(the *Company*)

**TERMS OF REFERENCE OF THE ~~TECHNOLOGY, SECURITY AND OPERATIONAL~~  
RESILIENCE COMMITTEE OF THE BOARD OF DIRECTORS (THE "COMMITTEE")**

Adopted by the board of directors of the Company on ~~9 September 2022~~ November 2022

**1. PURPOSE**

- 1.1 The ~~Technology, Security and Operational~~ Resilience Committee (LCH SA TSR Committee) (the *Committee*) shall be appointed by the Board of Directors of the Company (the *Board*) and shall represent the interests of the Board in the sound management of ~~technology security and operational resilience, including cyber security,~~ Operational Resilience to ensure that technology security, cyber security and operational resilience strategies, investments and outcomes support the mission, values, and strategic goals of the Company.
- 1.2 The Committee shall determine whether management has put in place adequate strategies and plans which include appropriate management of ~~technical, security,~~ operational resilience and ~~cyber risks that~~ provide reasonable assurance that the company operates within ~~its~~ the risk appetite ~~and set by the Board as well as~~ complies with regulatory requirements. The Committee will receive a regular assessment of these risks.
- 1.3 The Committee contributes to the review of the following Operational Resilience policies before they are presented to the Risk Committee for review and recommendation to the Board for approval:
- 1.3.1 Technology Risk;
  - 1.3.2 Business Continuity Risk;
  - 1.3.3 Information Security and Cyber Risk;
  - 1.3.4 Operational Risk;
  - 1.3.5 Third Party (Outsourcing) Risk; and
  - 1.3.6 Physical Security Risk.

The Committee will be notified by the owner of the policies of any breaches and waivers.

~~1.3.1~~ 1.4 The Committee shall assist the Board in fulfilling its responsibility relating to:

~~1.3.1.1~~ 1.4.1 Review of the Company's Operations and Technology Strategy;

~~1.3.2~~ 1.4.2 Review of significant investments in support of such strategy including application and infrastructure architecture;

~~1.3.3~~ 1.4.3 Review of the frameworks, policies and strategies that set the internal control environment in relation to ~~technology, security and operational resilience~~ Operational Resilience;

~~1.3.4~~ 1.4.4 Review of ongoing outsourcing and third party risk management arrangements of the Company;

~~1.3.4.1~~ 1.4.5 Review of the Operational Risk Management Framework;

~~1.3.5~~ 1.4.6 Review of the Company's Strategy for Cyber Security and Information Security

and for delivery of supporting programmes;

~~1.3.6~~1.4.7 Review the integration of Digital and Physical Security and their alignment with Business Continuity Plans;

~~1.3.7~~1.4.8 Review of and assessing of the Company's maturity against existing and emerging concepts of security and resilience in order to support the development of strategy; and

~~1.3.8~~1.4.9 Providing regulatory attestations or declarations as may be required from time to time in relation to technology, security and operational resilience.

~~1.4~~1.5 The Committee shall keep itself informed of any changes in the laws and regulations applicable to its function and of changes in guidance from within the broader LCH Group and London Stock Exchange Group.

~~1.5~~1.6 The Committee shall provide time and capacity for discussions relating to ~~the rapidly developing areas of technology, security and operational resilience~~Operational Resilience matters in order to provide constructive challenge to the business and assurance to the Board through recommendations and advice. The Committee will help the Board strengthen business continuity management, risk management and regulatory compliance.

~~1.61.7~~ Nothing in these Terms of Reference shall diminish the responsibility of the Board to maintain ongoing review of the Company's ~~technology, security and operational resilience~~ Operational Resilience policies as applicable.

## 2. STRUCTURE AND MEMBERSHIP

### 2.1 Composition

2.1.1 The Committee shall comprise no fewer than four directors of the Board, of which:

- (a) at least two shall be independent non-executive directors of the Board, each of whom satisfies the criteria for independence set out in, the terms of reference of the Company's Nomination Committee (the **Independent Directors**) and one of such Independent Directors shall be appointed ~~chairman~~ Chair of the Committee (the **Committee ~~Chairman~~ Chair**); and
- (b) at least one shall be a member of the Audit Committee of the Company;

2.1.2 Members of the Committee ~~shall ideally~~ must have ~~significant,~~ the relevant expertise required for the Committee to function properly as well as recent and relevant experience of the operations of LCH ~~and its dependence on technology, but the~~ Group. The Committee as a whole should have a breadth of experience to enable alignment with financial risk management, regulatory requirements and audit.

#### 2.1.3

~~2.2~~ Other technology expert individuals ~~Other experts in IT, security, resilience matters and more generally on Operational Resilience matters,~~ as considered appropriate by the Committee, may attend the meetings of the Committee on relevant matters from time to time, in a non-voting capacity.

### ~~2.3~~ 2.2 Selection and Removal

~~2.3.1~~ 2.2.1 Members of the Committee shall be selected and appointed by the Board at any time in consultation with the Committee ~~Chairman~~ Chair.

~~2.3.2~~ 2.2.2 The Board may remove members of the Committee with or without cause.

### ~~2.4~~ 2.3 Committee ~~Chairman~~ Chair

~~2.4.1~~ 2.3.1 The Board normally elects the Committee ~~Chairman~~ Chair. On an exceptional basis and in the absence of the appointed Committee ~~Chairman~~ Chair, the Committee shall elect a substitute Committee ~~Chairman~~ Chair from amongst its ranks by majority vote.

~~2.4.2~~ 2.3.2 The Committee ~~Chairman~~ Chair will keep the Committee's composition under review and shall make proposals to the Board accordingly.

### ~~2.5~~ 2.4 Secretary

~~2.5.1~~ 2.4.1 The secretary to the Committee (the **Committee Secretary**) shall be the Company Secretary or his or her nominee.

~~2.5.2~~ 2.4.2 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required and, where deemed necessary or appropriate, to professional advisers.

### ~~2.6~~ 2.5 Notice of Meetings

~~2.6.1~~ 2.5.1 Notice of meetings shall be given by the Committee ~~Chairman~~ Chair, or the

Committee Secretary at the request of the Committee ~~Chairman~~Chair.

~~2.6.22.5.2~~ Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required or permitted to attend prior to the date of the meeting in a timely manner. Supporting papers shall be sent to Committee members, and to other attendees as appropriate, at the same time.

#### **~~2.7.2.6~~ Frequency of Meetings and Location**

The Committee shall meet as frequently as it determines necessary, but not less frequently than three times per year. Other than in exceptional circumstances, all meetings shall be held in one of the registered offices of the group entities. The Committee ~~Chairman~~Chair, or any other member of the Committee, may call meetings of the Committee.

#### **~~2.8.2.7~~ Attendance**

~~2.8.12.7.1~~ Only members of the Committee have the right to attend Committee meetings.

~~2.8.22.7.2~~ Members of the Company's executive and the Head of Internal Audit may attend the meetings by invitation as and when appropriate and necessary, in accordance with items on the agenda.

~~2.8.32.7.3~~ The Committee may hold meetings in person, by telephone or by video conference.

#### **~~2.92.8~~ Quorum**

The quorum for meetings shall be two members of the Committee, one of whom shall be an independent Non-Executive Director. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

For the purposes of fulfilling the quorum requirements, a member of the Committee may provide the ~~Chairman~~Chair or another member of the Committee with their proxy, provided that the proxy is notified to the ~~Chairman~~Chair and the Secretary prior to the meeting.

#### **~~2.102.9~~ Conduct of Meetings**

Except as outlined above, meetings of the Committee shall be conducted in accordance with the provisions of the Company's articles of association governing the proceedings of directors.

#### **~~2.112.10~~ Remuneration**

The remuneration of Committee members shall be as determined by the Board. No member of the Committee may receive any consulting, performance, advisory or other compensatory fee from the Company other than fees paid in his or her capacity as a member of the Board or as a member of a Committee of the Board.

### **3. REPORTS TO THE COMMITTEE**

The Committee shall receive and review periodic management information for relevant operations and technology metrics and align its meeting schedule with the requirements of the Board.

#### 4. AUTHORITY AND RESPONSIBILITIES

4.1 The Committee's role is one of review. The Committee will also provide support and alignment with other committees to the Board.

4.2 The Committee shall perform the following specific functions:

~~4.2.1~~ Review the Company's operations and technology strategy and policies 4.2.1 relating to Operational Resilience including application and infrastructure architecture.

4.2.2 Review and, as appropriate, make recommendations to the Board regarding significant technology investments in support of the Company's technology strategy.

4.2.3 Review and, as appropriate, make recommendations to the Board regarding the resources and delivery of the Company's technology programmes.

4.2.4 Review any IT resilience, cyber and information security programmes, track progress in relation to such programmes and provide reports to the Board as appropriate.

4.2.5 Review any significant operations and technology risk exposures of the Company, including (i) review of any detailed operational risk assessments with significant IT elements (ii) information security and cyber security risks together with the steps management has taken to monitor and control such exposures.

4.2.6 Review and consider, where appropriate, the Company's risk management and risk assessment guidelines and Resilience risk policies ~~regarding operations and technology risk~~.

~~1.1.34.2.7~~ Review the Company's integrated security and resilience, including review of any new or novel approaches to IT including security and resilience.

~~4.2.74.2.8~~ Review and receive reports from management regarding the Company's Business Continuity Management planning and develop oversight of Business continuity management and disaster recovery.

~~4.2.84.2.9~~ Receive reports, as appropriate, from the Audit Committee regarding the results outcome of reviews and assessments of the Company's operations and technology functions.

~~4.2.9~~ Review and receive reports, ~~as appropriate, on operations and agreed metrics in conjunction with the Audit Committee.~~

relation to ongoing

~~4.2.10~~ ~~Review and receive reports on~~ technology outsourcing.

~~1.1.44.2.11~~ Receive reports from management, as and when appropriate, on industry trends that may affect the Company's technology strategy.

~~4.2.114.2.12~~ Coordinate with Management and other Board Committees as may be necessary in discharging its authorities and responsibilities and provide reports to such other Board Committees as may be appropriate.

1.1.54.2.13 Provide advice to LCH SA Risk Committee on specific Operational Resilience Risk related matters, as appropriate.

~~1.1.6~~4.2.14 Review Detailed Operational Risk Assessments (DORAs) with significant elements relating to Technology, Cyber or other Operational Resilience, prior to recommending approval by the Risk Committee.

4.2.15 Be notified of Operational Risk Assessments (ORA) related to cloud initiatives.

4.3 The Committee shall consider any other matters as directed by the Board.

4.4 The Chair of the LCH SA ~~TSR committee~~ Operational Resilience Committee shall be a standing member of the Audit Committee and ~~may be invited to attend the meetings~~ standing member of the Risk Committee ~~on relevant matters from time to time, in a non-voting capacity, and may make presentations to both Committees.~~

## 5. PROVISIONS FOR ACCESS

### 5.1 Access to Management

The Committee shall have full and unrestricted access to the LCH Group's management and employees. All employees are directed to co-operate with any requests made by the Committee.

### 5.2 Access to Outside Advisers

The Committee is authorised by the Board, at its discretion, to obtain independent professional advice and to secure the assistance of outsiders with relevant expertise. This shall apply both to the Committee as a whole and to individual Committee members. Costs relating to the provision of advice shall be borne by the Company.

### 5.3 Access to Company Information

The Committee shall have full and unrestricted access to any systems, records, facilities or other data it requires from the Company or other members of the LCH Group in order to carry out its functions.

## 6. REPORTING

6.1 *Minutes / Agenda.* The Committee Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance, and such minutes shall be presented to the Committee for approval at the next following meeting.

6.2 *Board Reporting.* The Committee ~~Chairman~~ Chair shall report the Committee's discussions, decisions and recommendations to the Board, which shall decide on an appropriate policy response.

6.3 The Committee shall have no executive powers with respect to those findings and recommendations.

6.4 *Annual Reports.* The Committee ~~Chairman~~ Chair, or his or her designee, will make available to the Chief Compliance Officer of the Company such information relating to the Committee's work as is necessary for the Chief Compliance Officer of the Company to draft and submit the annual compliance reports required by applicable regulations in force from time to time.

## 7. CONFIDENTIALITY AND CONFLICTS OF INTEREST

7.1 All confidential matters considered by the Committee and any confidential information disclosed to members of the Committee in connection with their position as a member of the Committee must remain confidential, notwithstanding the company to which that information relates, nor whether the member is a director of that company or not, save as required to be disclosed by law or regulation. Any other persons involved in the Committee's work shall either be bound by undertakings of professional secrecy or by ad hoc confidentiality agreements with the Committee.



7.2 Conflicts of interest relating to Committee members shall be governed by the relevant articles in the articles of association of the Company from time to time.

~~7.3 Any disagreement within the Board, including disagreement between the Committee's members and the rest of the Board, should be resolved at Board level. Where disagreements between the Committee and the Board cannot be resolved, the Committee has the right to report the issue to the shareholders through the Company's annual report.~~

**APPENDIX V – LCH SA Terms of Reference of the Audit Committee of the Board of Directors**

**LCH SA**  
(the *Company*)

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS**

Adopted by the board of directors on ~~9 September 2022~~ November 2022

**1. PURPOSE**

- 1.1 The Audit Committee (the *Committee*) shall be appointed by the Board of Directors of the Company (the *Board*) and shall represent the interests of the Board in the sound financial management and internal control management of the Company.
- 1.2 The Committee shall determine whether management has put in place adequate internal control systems that provide reasonable assurance that corporate objectives will be achieved and that the Company complies with applicable regulatory requirements, in force from time to time.
- 1.3 The Committee shall assist the Board in fulfilling its responsibility relating to:
- 1.3.1 Review of the Company's audited financial statements;
  - 1.3.2 Review of the external auditors appointed by the Company (the *External Auditors*);
  - 1.3.3 Review of the Company's internal audit function;
  - 1.3.4 Review of the Company's regulatory compliance;
  - 1.3.5 Review the Company's compliance with its risk governance framework, review of the Resilience and Enterprise Risk ~~report~~management reports;
  - 1.3.6 Review of the Company's internal control environment;~~including through review of Resilience Risk matters.~~
- 1.4 The Committee shall keep itself informed of any changes in the laws and regulations applicable to the ~~audit policy of the Company and the~~ matters for which the Committee is responsible.
- 1.5 Nothing in these Terms of Reference shall diminish the responsibility of the Board to maintain ongoing review of the ~~Company's audit policy~~matters listed above.

**2. STRUCTURE AND MEMBERSHIP**

**2.1 Composition**

- 2.1.1 The Committee shall comprise no fewer than four non-executive directors of the Board, of which:

- (a) no fewer than three shall be independent non-executive directors of the Board, each of whom has been appointed in accordance with, and satisfies the criteria for independence set out in, the terms of reference of the Company's nomination committee (the **Independent Directors**) and one of such Independent Directors shall be appointed ~~chairman~~Chair of the Committee (the **Committee ~~Chairman~~Chair**);
- (b) one shall be a member of the Risk Committee of LCH SA;
- (c) one shall be a director associated with or connected to LCH Group Holdings Limited shareholders other than exchanges, trading venues, multilateral trading facilities, alternative trading systems or similar (**User Director**); and
- (d) one shall be a director recommended or approved by London Stock Exchange Group plc (**LSEG**) (the **LSEG Director**).
- (e) For so long as Euronext is entitled to have a representative at the LCH SA Audit Committee in accordance with the Derivatives Clearing Agreement (**DCA**) entered into by LCH SA, LCH Group Holdings Limited and the Euronext market undertakings, one shall be a director associated with and recommended by Euronext.

2.1.2 Members of the Committee shall ideally have significant, recent and relevant financial experience, either by virtue of their experience in the senior executive or non-executive management or regulation of another financial institution, or as an auditor or finance director (or holding that responsibility) within a different company. At least one Committee member should have a professional qualification from one of the professional accountancy bodies.

## 2.2 Selection and Removal

- 2.2.1 Subject to paragraph 2.1.1(d), members of the Committee shall be selected and appointed by the Board at any time in consultation with the Committee ~~Chairman~~Chair.
- 2.2.2 Subject to paragraph 2.1.1(d), the Board may remove members of the Committee with or without cause.

## 2.3 Committee ~~Chairman~~Chair

2.3.1 The Board normally elects the Committee ~~Chairman~~Chair. On an exceptional basis and in the absence of the appointed Committee ~~Chairman~~Chair, the Committee shall elect a substitute Committee ~~Chairman~~Chair from amongst its ranks by majority vote.

~~2.3.2 For the avoidance of doubt, the Committee Chairman may also be appointed as Chairman to the audit committee of LCH Limited.~~

~~2.3.3~~2.3.2 The Committee ~~Chairman~~Chair will keep the Committee's composition under review and shall make proposals to the Board accordingly.

## 2.4 Secretary

2.4.1 The secretary to the Committee (the **Committee Secretary**) shall be the Company secretary or such other person as they may nominate.

2.4.2 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required and, where deemed necessary or appropriate, to professional advisors.

## 2.5 Notice of Meetings

2.5.1 Notice of meetings shall be given by the Committee ~~Chairman~~Chair, or the Committee Secretary at the request of the Committee ~~Chairman~~Chair.

2.5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required or permitted to attend prior to the date of the meeting in a timely manner. Supporting papers shall be sent to Committee members, and to other attendees as appropriate, at the same time.

## 2.6 Frequency of meetings and location

The Committee shall meet as frequently as it determines necessary, but not less frequently than three times per year and otherwise as required. Other than in exceptional circumstances, all meetings shall be held in one of the registered offices of the Group entities. The Committee ~~Chairman~~Chair, or any other member of the Committee, may call meetings of the Committee. The External Auditors may request a special meeting at any time.

## 2.7 Attendance

2.7.1 Only members of the Committee have the right to attend Committee meetings.

2.7.2 Members of the Company's executive, the Head of Internal Audit of the Company and representatives of the External Auditors may attend the meetings by invitation as and when appropriate and necessary, in accordance with items on the agenda.

2.7.3 Members of the Committee may hold meetings in person, by telephone or by video conferences.

## 2.8 Quorum

The quorum for meetings shall be (i) the Committee ~~Chairman~~Chair, (ii) the User Director, (iii) the LSEG Director and (iv) one other member of the Committee. Two of the directors present shall be Independent Directors and one shall have recent and relevant financial experience. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## 2.9 Conduct of Meetings

Except as outlined above, meetings of the Committee shall be conducted in accordance with the provisions of the Company's articles of association governing the proceedings of directors.

## 2.10 Remuneration

The remuneration of Committee members shall be as determined by the Board. No member of the Committee may receive any consulting, performance, advisory or other compensatory fee from the Company other than fees paid in his or her capacity as a member of the Board or as a member of a Committee of the Board.

### 3. AUTHORITY AND RESPONSIBILITIES

3.1 The Committee's role is one of review. The authority and responsibilities set forth do not reflect nor create any duty or obligation of the Committee to (i) plan or conduct any audit, although the Committee is responsible for agreeing the programme of audits proposed by the Internal Audit department and challenging the outcome of the audits, as appropriate, (ii) determine or certify that the Company's financial statements are complete, accurate, fairly presented, or in accordance with generally accepted accounting principles or applicable law, or (iii) guarantee each External Auditor's report.

3.2 The Committee may hold joint sessions of meetings with the audit committee of LCH Limited from time to time as appropriate. All directors remain equally responsible for the affairs of the Company of which they are a director, as a matter of law.

3.3 The Committee shall perform the following specific functions:

#### 3.3.1 *Review of the Company's Financial Statements*

The Committee shall review, discuss with and challenge where necessary the Company's management and the External Auditors with regard to the Company's audited financial statements and any other formal announcement relating to its financial performance, before their approval by the Board, notably concerning:

- (a) Compliance ~~with~~ accounting standards, ~~policies~~, ~~practices~~, ~~legal requirements~~ as well as any changes;
- (b) Major judgmental areas;
- (c) Any significant adjustments arising from the audit;
- (d) The "going-concern" assumption;
- (e) The proposed statement on the directors' review of the Company's system of internal control;
- (f) Other material written communication between the External Auditors and Company management.

#### 3.3.2 *Review of the External Auditors*

(a) *Selection.* The Committee shall be responsible for making recommendations to the Board concerning the appointment, evaluation and termination of the engagement of the External Auditors for the Company, taking into account the auditor appointed by LSEG in respect of the wider LSEG group. The Committee shall oversee the selection process for any new External Auditor and if an External Auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.

(a)

(b) ~~Independence.~~ The Committee shall take, or recommend that the Board take, appropriate action to oversee the independence of the External Auditors. The Committee shall actively engage in -dialogue with the External Auditors concerning any disclosed relationships or services that might impact upon the objectivity and independence of the External Auditors. It is the general policy of the Company that the currently engaged External Auditors will not be asked to

\_tender for any non-audit services with the exception of tax advice directly related  
(b)\_\_\_\_\_ to the Company's existing business.

- (c) *Services and Compensation.* The Committee shall discuss with the External Auditors their proposals regarding the nature, scope and planning of their work and to ensure proper co-ordination with internal audits planned by the Company's Internal Audit department. The Committee shall review from time to time the operational, control and cost effectiveness of the External Auditors.
- (d) *Review.* The Committee shall have ultimate responsibility for overseeing the External Auditors, including resolution of disagreements between Company management and the External Auditors regarding financial reporting. It shall ensure that the External Auditors have the fullest co-operation of staff.
- (e) *Access.* The Committee has the right to have direct access to the Company's External Auditors on a confidential basis at any time. It shall meet the External Auditors without executives of the Company being present at least once a year.
- (f) *Former Employees.* The Committee shall agree with the Board a policy on the employment of former employees of the External Auditors, then monitoring the implementation of this policy.
- (g) *Ethical Standards.* The Committee shall monitor the External Auditors' compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements.
- (h) *Qualifications.* The Committee shall assess annually the qualifications, expertise and resources of the External Auditors and the effectiveness of the audit process, which shall include a report from each External Auditor on their own internal quality procedures.
- (i) *Co-ordination.* The Committee shall seek to ensure co-ordination with the activities of the internal audit function.
- (j) *Reports.* The Committee shall review with each External Auditor:
  - (i) the final audit;
  - (ii) any matters the External Auditor may wish to discuss;
  - (iii) any representation letters required by the External Auditor before they are signed by management;
  - (iv) the management letter and the responses from management; and
  - (v) compliance with any codes of conduct of corporate governance applicable from time to time or which the Board otherwise determines should be complied with to achieve best practice corporate governance standards.



3.3.3 *Review of the Company's Internal Audit Function*

The Committee shall regularly review the functioning of the Internal Audit department,

notably concerning:

- (a) *Internal Audit Charter.* The Committee shall review from time to time, and no less frequently than once every three years, the Internal Audit Charter of the Company.
- (b) *Audit Planning.* The Committee shall review the annual audit plan prepared by the Internal Audit department after approval by the CEO of the Company and ahead of any submission to the Company's regulator, on the request of such regulator. In doing so, the Committee shall determine whether the audit programme provides appropriate coverage and may request any special tasks or projects to be included in the plan. The Committee shall also ensure that the plan is effectively coordinated with the External Auditors.
- (c) *Quality and Effectiveness.* The Committee shall monitor the quality and effectiveness of the Internal Audit department. An external review of Internal Audit will be conducted at least every five years. The Committee ~~Chairman~~Chair shall provide an annual appraisal of the Head of Internal Audit.
- (d) *Reporting line.* The ~~Chairman~~Chair of the Company shall, with the assistance of the advice and recommendations of the Committee, approve the appointment or termination of employment of the Head of Internal Audit of the Company and keep under review the reporting line to ensure independent operation of the department. In the event of an unresolved dispute between the executive and Internal Audit, or in respect of any matter the Head of Internal Audit of the Company deems as being necessary, to the extent such position exists within the Company from time to time, he or she has the absolute right to report directly to the ~~Committee~~ ~~Chairman~~Chair or any Committee member.
- (e) *Resources.* The Committee shall monitor the adequacy of resources within the Internal Audit department.
- (f) *Reporting.* The Head of Internal Audit shall report directly to the Committee ~~Chairman~~Chair (as well as, where appropriate, the ~~Chairman~~Chair of the Board). The Committee shall agree and receive regular reporting from the Internal Audit department including coverage of completed audit assignments, follow up of issues and planned progress. It shall meet the Head of Internal Audit of the Company regularly, and at least once a year without executives of the Company being present.

#### 3.3.4 *Review of the Company's regulatory compliance*

The Committee shall:

- (a) approve the Compliance policies and be informed of any breaches;
- ~~(a)~~(b) review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-

up actions;

~~(c)~~ review the Company's procedures for detecting and preventing financial crime including fraud, bribery and money-laundering;

~~(e)~~(d) discuss with management and the External Auditors any correspondence with regulators, which raise material issues regarding the Company's financial statements, accounting policies and/or internal control system;

~~(d)~~(e) monitor the Company's procedures for ensuring compliance with regulatory reporting requirements and its relationship with the relevant regulatory authorities;

~~(e)~~ review the performance of the Company's Chief Compliance Officer and make recommendations with respect to such performance to the Board; and

~~(f)~~ discuss legal matters that may have a material impact on the financial statements ~~(f)~~ or on the Company's compliance policies.

### 3.3.5 ~~Review of~~ the Company's Risk Management Framework

(a) Review the process for the annual validations of the Company's risk management ~~models;~~ models;

#### Review

~~(b)~~ Be notified of outside appetite financial and resilience risks, review breaches of the Company's Risk Governance Framework, ~~as approved by~~ (b) the Board; and

(c) Commission and review audit reports relating to the risk management of the Company.

### 3.3.6 ~~Review of~~ the Company's Internal Control Environment

(a) *Internal Control.* The Committee shall:

(i) keep under review the Company's framework of internal controls and make recommendations for change to the Board;

(ii) consider internal reports on the operation of controls and the proposals for implementation of change and strengthening;

(iii) receive annually reports as required by ~~Articles 258 to 266 of the Order of 3 November 2014 on the internal control of banking sector companies, payment services and investment services~~ law or regulation from time to time;

~~(iv)~~ review at least once a year the provisions for business continuity and disaster recovery and the assessment of the effectiveness of the arrangements in place;

~~(v)~~(iv) review at least once a year the measures taken to control outsourced activities and any risks the Company may incur; and

~~(vi)~~(v) determine whether the risk internal control and compliance resources are adequate and whether such controls and monitoring have appropriate standing within the Company.

~~(b)~~ *Issues.* The Committee shall consider any major findings, and management

response(s) arising from internal audits, external audits, management reporting and internal investigations, and any other reviews carried out (including recommendations ~~from~~ regulatory authorities) and take ~~appropriate~~ actions,

(b) which include escalating issues to the Board where appropriate.

### 3.3.7 *Coordination with the Risk Committee*

Internal audits, external audits, investigations and reviews carried out under the auspices of (and contained in the relevant reporting to) the Committee will include control areas responsible for executing the policies and methodologies set by the Company's Risk Committee.

### 3.3.8 *Coordination with the ~~Technology, Security and Operational~~ Resilience Committee*

The Committee shall coordinate with the ~~Technology, Security and Operational~~ Resilience Committee as may be required from time to time in connection with its functions and to fulfil its responsibilities.

### 3.3.9 *Board Direction*

The Committee shall consider any other matters as directed by the Board.

## 4. PROVISIONS FOR ACCESS

### 4.1 **Access to Management**

The Committee shall have full and unrestricted access to the Company's management and employees, and to the Company's Internal and External Auditors. All employees are directed to co-operate with any requests made by the Committee.

### 4.2 **Access to Outside Advisers**

The Committee is authorised by the Board, at its discretion, to obtain independent professional advice and to secure the assistance of outsiders with relevant expertise. This shall apply both to the Committee as a whole and to individual Committee members. Costs relating to the provision of advice shall be borne by the Company.

### 4.3 **Access to Company Information**

The Committee shall have full and unrestricted access to (i) any systems or facilities of the Company and of the LCH group (the **Group**) and (ii) any books, records or other data it requires from the Company and from the Group in order to carry out its functions.

## 5. REPORTING

5.1 *Minutes / Agenda.* The Committee Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording ~~the names~~ of those present and ~~in attendance~~, and such minutes shall be presented to the Committee for approval at the next following meeting.

### *Board Reporting*

5.2 The ~~Committee~~ ~~Chairman~~ ~~Chair~~ shall ~~report~~ ~~the~~ ~~Committee's~~ ~~discussions~~, ~~decisions~~ ~~and~~ ~~recommendations~~ to the Board, which shall decide on an appropriate policy response.

5.3 The ~~Committee~~ shall ~~have~~ ~~no~~ ~~executive~~ ~~powers~~ ~~with~~ ~~respect~~ ~~to~~ ~~those~~ ~~findings~~ ~~and~~ ~~recommendations~~.

- 5.4 The Committee shall ensure that the Board is regularly informed of the adequacy of key control systems in the financial, operational and compliance-related areas.

#### *Annual Reports*

- 5.5 The Committee ~~Chairman~~Chair, or his or her designee, will make available to the Chief Compliance Officer of the Company such information relating to the Committee's work as is necessary for the Chief Compliance Officer of the Company to draft and submit the annual compliance reports required by applicable regulations in force from time to time.
- 5.6 Where requested by the Board, the Committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

#### *Provision of information to LSEG*

- ~~5.7~~ The ~~Chairman~~Chair of the Committee shall liaise regularly with the ~~chairman~~Chair of the audit committee of LSEG with a view to assisting LSEG in fulfilling its own audit requirements, including with respect to the information set out at paragraph 3.3.1 above and as referred to in paragraph ~~5.7~~5.8 below.

- 5.8 The Committee shall have regard for LSEG's status as a listed issuer required to comply with the UK Corporate Governance Code.

## **6. EDUCATION, TRAINING AND COMPETENCE**

- 6.1 An induction programme shall be provided for new Committee members. This shall cover the role of the Committee, including its Terms of Reference and expected time commitment by members and an overview of the Company's business, identifying the main business and financial dynamics and risks.
- 6.2 The Committee shall be provided with appropriate and timely training, both as an induction process and on an ongoing basis, and provided with access to external consultancy support, when required.
- 6.3 Induction and training may be provided on a joint basis with the audit committee of LCH Limited.

## **7. CONFIDENTIALITY AND CONFLICTS OF INTEREST**

- 7.1 Without prejudice to any rights of LSEG or its representatives under these Terms of Reference, all confidential matters considered by the Committee and any confidential information disclosed to members of the Committee in connection with their position as a member of the Committee must remain confidential, notwithstanding the company to which that information relates, nor whether the member is a director of that company or not, save as required to be disclosed by law or regulation. Any other persons involved in the Committee's work shall either be bound by undertakings of professional secrecy or by ad hoc confidentiality agreements with the Committee.
- 7.2 Conflicts of interest relating ~~to Committee members~~ ~~shall~~ ~~be governed~~ by the relevant provisions in the Règlement Intérieur of the Company from time to time.

7.3 Any disagreement within the Board, including disagreement between the Committee's members and the rest of the Board, should be resolved at Board level. Where disagreements between the Committee and the Board cannot be resolved, the Committee will report the issue to the Board of LCH Group Holdings Limited.

**8. AMENDMENT**

8.1 Subject to paragraph 8.2, these Terms of Reference may only be amended with the approval of the Board.

8.2 Paragraphs 2.1.1(d), 2.8, 5.7, 5.8, 7.1 and this paragraph 8.2 of these Terms of Reference may be amended only with approval of the Board and the consent of LSEG.