

Via CFTC Portal

16 December 2022

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

LCH Limited Self Certification: Proposed Changes to the Terms of Reference of LCH Limited's Board Committees

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission ("CFTC") regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization ("DCO") registered with the CFTC is submitting for self-certification the proposed amendments to the Terms of Reference ("ToR") for certain committees of its Board of Directors ("Board") (collectively, the "Proposed Changes").

The updated Terms of References will be published on the LCH website on or after 4 January 2023, and in no event earlier than ten (10) US business days after the filing of this self-certification with the CFTC. The text of the Proposed Changes is attached hereto as Appendices I, II and III.

Part I: Explanation and Analysis

This submission covers changes approved by the Board to the respective ToR of the LCH Technology, Security & Resilience Committee ("TSRCo"), Risk Committee ("RiskCo"), and Audit Committee ("AuditCo") (together, the "Board Committees"). As part of these, the TSRCo has been renamed as the Operational Resilience Committee ("ORC").

The Proposed Changes are being adopted mainly to enhance LCH's governance documents to provide for improvements in the current coverage of resilience risk oversight by the relevant LCH Board Committees. Discussions on the topic will be primarily within the ORC, as an advisory committee to the RiskCo with regards to this; resilience risk matters will no longer be part of the AuditCo. In addition, the RiskCo ToR have been amended to provide further clarity on its remit and responsibilities.

Part II: Description of Rule changes

As noted, the main objective of the Proposed Changes is to provide clarity of responsibility related to resilience risk. The effect of the changes is that discussions on this topic will be primarily the responsibility of the ORC, as advisory committee to the RiskCo with regards to that, as further explained below. The Proposed Changes are designed to enhance efficiency and improve clarity of reporting lines to the Board.

An LSEG Business

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(i) Terms of Reference of the Operational Resilience Committee (formerly known as the Technology, Security and Resilience Committee)

The ToR for the TSRCo will be revised to reflect the name change to ORC to better reflect the scope of its responsibilities. Conforming changes are made throughout the ToR. References to Operational Resilience Risk matters and policies are also made throughout the ToR. Below is an overview of the other more substantial changes.

Article 1.3 will be added to the ToR to provide that the ORC will be the forum for discussion on resilience risk matters and will be advisory to the Risk Co with regards to these. In line with the risk taxonomy in the LCH Group Risk Governance Framework, the “Resilience Risks” and associated policies in the ORC scope will include (i) technology risk; (ii) business continuity management; (iii) information security and cyber risk; (iv) physical security risk; (v) third party risk; (vi) operational processes; and (vii) data management risk. The remaining provisions in Article 1 are renumbered to accommodate the addition.

Article 1.4.4 will be added to provide that the ORC will assist the Board in fulfilling its responsibilities related to the review of outsourcing and third party risk management arrangements.

The provisions in former Article 4.2.10 will be removed in order to avoid any duplication and overlap with the AuditCo and also to provide the ORC with an overall mandate for the review of operational resilience matters, as further set out in:

- Article 4.2.13, which will be added to confirm that the ORC will provide reports and advice to the RiskCo on resilience risk related matters as deemed appropriate, including in cases of potential member impact.
- Article 4.2.14, which will add the responsibility for the ORC to approve, or recommend for approval to the RiskCo, Detailed Operational Risk Assessments (“DORA”)¹ in accordance with the Operational Risk Policy. This policy prescribes that the ORC may recommend approval of DORA to the RiskCo at the discretion of the RiskCo Chair and Article 11.3 of the RiskCo ToR will be amended to note this point as described in section (ii) below.

(ii) Terms of Reference of the Risk Committee

A sentence will be added in the title section to highlight that the RiskCo advises the Board on any arrangements that may impact the risk management of the CCP, in line with regulatory requirements under EMIR.²

The role of LCH Group Chief Risk Officer (“CRO”) has been retired, therefore existing Article 1.2.4 is updated to note that the CRO of the London Stock Exchange Group plc (“LSEG”) or a delegate, instead, has the right to attend, ex officio, the meetings of the RiskCo. Existing Article 1.2.6 is removed as redundant and Article 2.10 will also be removed given the role of LCH Group CRO has been retired.

¹ 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.

² Article 28 of Regulation (EU) No 648/2012 of the European Parliament and of the Council, as applicable in the EU and as retained EU law effective in the United Kingdom under the European Union (Withdrawal) Act 2018.

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In addition, revised Article 1.2.5 will state that LCH employees, as opposed to the generic reference to other individuals in the LCH Group, may attend the RiskCo meetings, as determined by the Committee Chair.

The amendments to the articles under section 3 clarify the risks within the scope of the RiskCo, also referenced in Article 4.2. Other clarifications about the remit of the RiskCo are made throughout the ToR. In particular, under relevant sections, it will be clarified that the RiskCo:

- Shall be notified of the outcome of the annual independent validation of relevant models, in line with applicable LCH policies;
- Will review the annual default management drill exercise report, as well as the LCH liquidity plan, recovery plan and wind down plan for recommendation to the Board for approval;
- May consider the addition of new collateral types and associated risk controls, subject to Board approval.

Section 11 on Operational Risk Management will be renamed Operational Resilience Risk and the provisions will be amended to clarify that the RiskCo will review, on an annual basis (or more frequently if deemed necessary), the Operational Resilience Risk policies, tabled by the ORC and make recommendations to the Board for approval. This complements the amendment made to Article 1.3 of the ORC ToR, noted under section (i) above. Additionally, the responsibility for RiskCo to inform the Board in a timely manner of any new risk affecting the resilience of LCH is added in Article 11.2. As noted above, the ORC will be the committee responsible for reviewing and approving DORAs, unless, at the discretion of the RiskCo Chair, the RiskCo will do so, as per Article 11.3.

A new section titled 'Model Governance and Procyclicality' has been added as section 12 to set out the responsibilities of the RiskCo in relation to:

- The annual review of the Model Governance, Validation and Review Policy and the Procyclicality Risk Policy for recommendation to the Board for approval;
- The review of reports assessing the ongoing suitability of the LCH financial risk models and whether they remain anti-procyclical.

In Section 13 ESMA is added alongside the Bank of England as the authority that LCH must notify in the event the Board does not follow a recommendation of the RiskCo, in line with EMIR.

The title of section 16 is amended to 'Regular Reports and Notifications' and the provisions within the section have been simplified to set out the scope of:

- The management information to be provided by the Chief Risk Officer (to be used to highlight any new significant risks on the resilience of LCH to be reported to the Board) (articles 16.1 and 16.2);
- The annual reviews by RiskCo (articles 16.3 and 16.4).

(iii) Terms of Reference of the Audit Committee

Consistent with the changes described above, the Article 1.3.6 of the AuditCo ToR will be amended to remove the reference to the review of "Resilience Risk matters" as discussions on these will be the responsibility of the ORC.

The Article 3.3.6(a)(iv) and (v) will be removed as the oversight of business continuity, disaster recovery, and outsourced activities will now be within the remit of the ORC.

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(iv) Other changes

LCH is also making the following adjustments and administrative changes that are separate and not related to the main focus of this submission.

- Article 3.3.4 (e) in the AuditCo ToR is deleted as the review of the performance of the Chief Compliance Officer will now be taken by the Remuneration Committee.
- Article 1.7 of the RiskCo includes a clarificatory reference about the confidentiality agreement between LCH and users' representatives that are members of the Committee.
- Article 7.3 about escalating disagreement between the Board and the ORC via the Annual Report will be removed as, upon review, it was deemed redundant.
- In both the ToRs of the AuditCo and RiskCo the term LCH Group is clarified and references to "Chairman" are replaced by "Chair".

Part III: Core Principle Compliance

LCH has reviewed the Proposed changes against the requirements of the DCO Core Principles, and finds that it will continue to comply with all the requirements and standards therein. Specifically, these rule changes have relevance to Core Principle O (Governance and Fitness Standards) under CFTC regulation §39.24.

The changes described in this filing, which have been approved by the Board, ensure that LCH meets the objectives of Core Principle O, including that LCH have governance arrangements that:

- (i) are clear and documented;
- (ii) include clear and direct lines of responsibility and accountability; and
- (iii) clearly specify the roles and responsibilities of the board of directors and its committees.

As explained above, the Proposed Changes are mainly being adopted to enhance LCH's governance framework and make it more efficient with regards to the management of resilience risk. By formally assigning responsibility for resilience risk to the most appropriate Board Committee, the Proposed changes are clarifying the scope and responsibility of each Board Committee and avoiding the unnecessary duplication of oversight responsibilities for resilience risks across the AuditCo, ORC and RiskCo.

Part IV: Public Information

LCH has posted a notice of pending certification 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 by governing board or committee members, members of LCH or market participants.

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Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in CFTC Regulation §40.6, that the attached submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions please contact me at valentina.cirigliano@lseg.com or Michelle Weiler at michelle.weiler@lseg.com.

Yours sincerely,



Valentina Cirigliano
Compliance, Regulatory Adviser
LCH Limited

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APPENDIX I

Proposed changes to Terms of Reference of the LCH Technology, Security and Resilience Committee

LCH LIMITED
(the *Company*)

**TERMS OF REFERENCE OF THE ~~TECHNOLOGY, SECURITY AND RESILIENCE~~ OPERATIONAL RESILIENCE
COMMITTEE**

OF THE BOARD OF DIRECTORS (THE "COMMITTEE")

Adopted by the board of directors of the Company on ~~[9 September 2020]~~12
July 2022

1. PURPOSE

1.1 The ~~Technology, Security and Resilience Committee~~Operational Resilience Committee (LCH Limited ~~TSR-OR~~ 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~~operational resilience ~~including cyber security~~ to ensure that technology 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~~Resilience Risks and cyber risks that provide reasonable assurance that the company operates within its risk appetite and complies with regulatory requirements.

1.3 Operational Resilience Risks, as defined by the Risk Governance Framework, and associated policies in scope of the Committee are as follows:

1.3.1 Technology Risk;

1.3.2 Business Continuity Management;

1.3.3 Information Security and Cyber Risk;

1.3.4 Physical Security Risk;

1.3.5 Third Party Risk;

1.3.6 Operational Process; and

1.3.7 Data Management Risk.

~~1.3.1.4~~1.4 The Committee shall assist the Board in fulfilling its responsibility relating to:

~~1.3.1.1.4.1~~1.4.1 Review of the Company's Operations and Technology Strategy;

~~1.3.2.1.4.2~~1.4.2 Review of significant investments in support of such strategy including application and infrastructure architecture;

~~1.3.3.1.4.3~~1.4.3 Review of the frameworks, policies and strategies that set the internal control environment in relation to ~~technology, security and operational~~Operational resilienceResilience Risks;

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

1.3.41.4.5 Review of the Operational Risk Management Framework;

1.3.51.4.6 Review of the Company's Strategy for Cyber Security and Information Security and for delivery of supporting programmes;

1.3.61.4.7 Review the integration of Digital and Physical Security and their alignment with Business Continuity Plans;

1.3.71.4.8 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

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

1.41.5The 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 Group.

1.51.6The Committee shall provide time and capacity for discussions relating to ~~the rapidly developing areas of technology, security and Operational resilience~~ Resilience Risk 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.

1.61.7Nothing 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~~ Resilience Risk 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 50 per cent 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 of the Committee (the **Committee Chairman**); 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 have significant, recent and relevant experience of the operations of LCH and its dependence on technology, but the Committee as a whole should have a breadth of experience to enable alignment with financial risk management, regulatory requirements and audit.

2.2 Other ~~technology~~ Operational Resilience Risk expert individuals, 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 Selection and Removal

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

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

2.4 Committee Chairman

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

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

2.5 Secretary

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

2.5.2 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 Notice of Meetings

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

2.6.2 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 Frequency of Meetings and Location

The Committee shall meet as frequently as it determines necessary, but not less frequently than four 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, or any other member of the Committee, may call meetings of the Committee.

2.8 Attendance

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

2.8.2 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.

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

2.9 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 or another member of the Committee with their proxy, provided that the proxy is notified to the Chairman and the Secretary prior to the meeting.

2.10 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.

2.11 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

3.1 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 [Operational Resilience Risk](#) policies 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 Operational Resilience Risk policies ~~regarding operations and technology risk.~~
- 4.2.7 Review the Company's integrated security and resilience, including review of any new or novel approaches to IT including security and resilience.
- 4.2.8 Review and receive reports from management regarding the Company's Business Continuity Management planning and develop oversight of Business continuity management and disaster recovery.
- 4.2.9 Receive reports, as appropriate, from the Audit Committee regarding the results of reviews and assessments of the Company's operations and technology functions.

4.2.10 Review and receive reports on technology outsourcing.

~~4.2.10 Review and receive reports, as appropriate, on operations and agreed metrics in conjunction with the Audit Committee.~~

~~4.2.11.1.1 Review and receive reports on technology outsourcing.~~

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

4.2.12 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.

4.2.13 Provide reports and advice to LCH Limited Risk Committee on specific Operational Resilience Risk related matters as deemed appropriate, including where it is determined that a potential member impact may result.

4.2.14 Approval or recommendation of Detailed Operational Risk Assessments (DORAs) to the Risk Committee in accordance with the Operational Risk Policy.

- 4.3 The Committee shall consider any other matters as directed by the Board.
- 4.4 The Chair of the LCH Limited ~~TSR-OR committee~~ Committee shall be a standing member of the Audit Committee and may be invited to attend the meetings 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 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 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, 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 II

Proposed changes to Terms of Reference of the LCH Risk Committee

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LCH LIMITED
(the *Company*)

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

Adopted by the board of directors on ~~9 September 2020~~ 23 November 2022

The Board of Directors of LCH Limited have established a Risk Committee to advise the Board on any arrangements that may impact the risk management of the CCP.

1. COMPOSITION

1.1 The Risk Committee (the **Committee**) shall, subject to paragraph 1.4 below and subject to any co-optation 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 ~~Chairman~~Chair of the Committee (the **Vice ~~Chairman~~Chair**), 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 ~~Chairman~~Chair of the Committee (the **Committee ~~Chairman~~Chair**) nominated by the board of directors of the Company (the **Board**) and one will be the Vice ~~Chairman~~Chair of the Committee, if relevant, appointed pursuant to paragraph 1.4 below;

1.1.2 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 such number of end-client representatives 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 ~~Chairman~~Chair 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 Group (as defined below)~~ any LCH Group 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 ~~Chairman~~Chair 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);~~the London Stock Exchange Group plc, (LSEG) or their nominated delegate;
- ~~1.2.5~~ *ex officio* the Chief Executive Officer of LCH Group;
- ~~1.2.6~~ *ex officio* the Head of Financial Risk of the London Stock Exchange Group plc, (LSEG) or their nominated delegate;
- ~~1.2.7~~1.2.5 such other ~~individuals within the Group~~LCH Ltd employees as considered appropriate by the Committee Chair; and
- ~~1.2.8~~1.2.6 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). The Committee ~~Chairman~~Chair may, at ~~his or her~~their discretion, allow a Risk Expert Attendee to become a voting member of the Committee in place of an incumbent User Committee member, provided such Risk Expert Attendee meets the criteria set out in paragraph 1.1.2 above and that at any given time Users account for no more than 50% of the Committee (in accordance with paragraph 1.1 above).
- 1.3 Members of the Committee shall be appointed by the Board in consultation with the Committee ~~Chairman~~Chair, provided that Users shall be appointed in line with the procedure set out in Appendix I, and save for the Vice ~~Chairman~~Chair who shall be appointed pursuant to paragraph 1.4 below.
- 1.4 LSEG shall be entitled to appoint the Vice ~~Chairman~~Chair to the Committee, provided that such person has the skills and experience commensurate with such a role.
- 1.5 The Vice ~~Chairman's~~Chair's role is to take over the responsibilities of the ~~Chairman~~Chair to the extent the ~~Chairman~~Chair is unavailable to attend a Committee meeting.
- 1.6 Committee members that are neither Independent Directors nor the Vice ~~Chairman~~Chair (each, an **External Committee Member**) attend in their capacity as risk experts and represent the clearing membership or end-user clients (as the case may be) as a whole.
- 1.7 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, ~~they~~ will may, subject to the restrictions set out in their confidentiality agreement with LCH Ltd, consult internally prior to the Committee meeting. Papers will be issued in good time to permit this.

- 1.8 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.
- 1.9 The Company secretary or ~~his or her~~their appointed nominee shall be secretary of the Committee (the **Committee Secretary**).
- 1.10 The Committee ~~Chairman~~Chair, Vice ~~Chairman~~Chair 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 ~~Chairman~~Chair, or the Committee Secretary at the request of the Committee ~~Chairman~~Chair.
- 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 ~~Chairman~~Chair has 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 ChairmanChair or Vice ChairmanChair who shall at ~~his or her~~their sole discretion decide whether to defer decisions or recommendations on certain items in the light of the balance of attendance. Exceptionally, the Committee ChairmanChair or Vice ChairmanChair may nominate another Independent Director to represent them.
- 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 ChairmanChair and/or Vice ChairmanChair 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 Committee ChairmanChair of the Audit Committee ~~of the Company and the LCH Group Board~~.
- ~~2.10 The Group Chief Risk Officer shall notify the board of directors of LCH Group of the discussions and recommendations of the Committee which affect the Group and the Board shall consider any views expressed by the LCH Group Board when making decisions based on such discussions and recommendations of the Committee (provided that, for the avoidance of doubt, the LCH Group Board shall have no veto in respect of such decisions made by the Board).~~

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. ~~Certain corporate risks are not reported to the Risk Committee but to the Audit Committee or directly to the Board.~~
- 3.2 The risks within scope for the LCH Ltd 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 the 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 POWERS DELEGATED TO THE CHIEF EXECUTIVE OFFICER OF THE COMPANY

- 5.1 Under powers formally delegated by the Board, the Chief Executive Officer of the Company has responsibility for all risk decisions taken within the framework of agreed risk policies. This explicit delegation of 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 The delegated powers 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 any and all of their responsibilities referred to in these Terms of Reference to the Chief Risk Officer of the Company and/or the ERCo.

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 to make recommendations to the Board for approval.
- 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 to make recommendations to the Board for approval. 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.

6.4 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.

6.4.6.5 Clarification of approvals delegated to the ERCo 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 ERCo of the Company subject to the Committee being notified. The ERCo of the Company may, at its 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 ERCo 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 ERCo of the Company, it may appeal to the Committee. If, before coming to a decision, the ERCo of the Company has particular concerns regarding the applicant, it 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 make recommendations 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 make recommendations 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 recommendations to the Board for approval.

7.4 To review on an annual basis (or more frequently if deemed necessary) the Contract and Market Acceptability Policy and to consider proposals for the amendment of the policy and to make recommendations to the Board for approval.

7.5 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 (the Financial Resource Adequacy Policy) and to make recommendations to the Board for approval.

7.67.7 Clarification of approvals delegated to the ERCo of the Company:

7.6.17.7.1 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 ERCo of the Company, subject to the Committee being notified of any such approvals. The ERCo of the Company may, at its 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 review and recommendation to the Board for approval, because of the proposed scale of the extension of clearing.

8. MARGINING

8.1 To consider proposals for significant amendments to, or the introduction of new, variation margin methodologies and to make recommendations to the Board for approval.

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 policy, and to make recommendations to the Board for approval.

8.3 To consider proposals for significant amendments to, or the introduction of new, initial margin methodologies and to make recommendations to the Board for approval.

8.4 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 contained within the Financial Resource Adequacy Policy and to consider proposals for the adoption of a new policy and to make recommendations to the Board for approval.

8.58.6 Clarification of powers delegated by the Board to the Chief Executive Officer of the Company:

8.5.18.6.1 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 ERCo of the Company:

~~8.6.18.7.1~~ In the context of initial margin rate setting policies, contained within the Financial Resource Adequacy Policy approved by the Committee and the Board, and with reference to the powers in respect of initial margin rates delegated to the Chief Executive Officer of the Company, the ERCo 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 ERCo 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 changes 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 contained in the Financial Resource Adequacy Policy 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 make recommendations to the Board for approval.

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

9.4 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 to make recommendations to the Board for approval.

~~9.59.6~~ To consider the ~~default management policy~~ Default Management Policy for managing a default across individual and multiple product lines and to make recommendations to the Board for approval.

9.7 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 to make recommendations to the Board for approval.

~~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.

9.8.9.10 Clarification of powers delegated by the Board to the Chief Executive Officer of the Company:

~~9.8.49.10.1~~ 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, under the delegated powers default declaration and management are an executive 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 contained within the Payment, Settlement and Custody Policy and to consider proposals for modification of those arrangements and to make recommendations to the Board for approval.

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

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

~~10.3~~ 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 and to consider proposals to change these policies and to make recommendations to the Board for approval. To consider the addition of a new collateral type and associated risk controls and to recommend to the Board for approval.

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.

~~10.4.1~~10.7 Clarification of discretion delegated to the ERCo 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 ERCo and Head of CaLM, (ii) signed off by ~~either the ERCo or the Head of CaLM~~the Chief Risk Officer and (iii) reported to the Committee, the Chief Executive ~~Officers~~Officer of the Company ~~and the 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 ~~Risk Policy and Resilience Risk policies, following review by the LCH Limited Operational Resilience Committee, and to make recommendations to the Board for approval.~~

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

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

12. **MODEL GOVERNANCE AND PROCYCLICALITY**

~~11.1~~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.

~~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.~~

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.

~~11.3~~12.3 To review ~~a Detailed Operational~~annually (or more frequently if deemed necessary) the Company's Procyclicality Risk Assessment Policy, to consider proposals for all significant projects and new products as required under the Company's Operational Risk Policy~~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.

~~12.13.~~ **REGULATORY ISSUES**

~~12.1~~13.1 To consider any risk policy-related regulatory issues referred to it and to make recommendations to the Board for approval.

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.

~~12.2~~13.3 To consider any issue relating to the outsourcing of functions which may impact the risk management of the Company and to make recommendations to the Board for approval.

~~12.3~~13.4 To ensure that the Company reports promptly to the relevant regulatory authorities, ~~within 5 days of any meeting of the Board,~~ 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 ~~Chairman~~Chair, or ~~his or her~~their 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 Bank of England, Treasury and the CMA as required under UK law and regulations in force from time to time and (ii) 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 Bank of England, as lead regulator of the Company, and the European Securities and Markets Authority (ESMA) will be notified by the Company Secretary.

~~13.14.~~ **MISCELLANEOUS**

~~13.1~~14.1 To discharge any duties ascribed to the Committee in the ~~Group~~LCH 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 meetings periodically either separately from or, if considered appropriate by the Committee, jointly with the Risk Committee of LCH SA and the Risk Committees of any other operating subsidiaries of LCH Group as there may be from time to time.

~~14.15.~~ **PUBLICATIONS**

~~14.1~~15.1 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~~ The Committee shall consider and review regular reports prepared byTo receive management information from the Chief Risk Management departmentOfficer of the Company which on the assessment of all financial, model and operational resilience risks, and inform the Board in a timely manner of any new significant risk changes affecting the resilience of the Company. The report will include any breaches and waivers granted.

~~16.2~~ The management information shall cover recent developments ~~in~~ and material issues related to Financial and Model Risks, and Operational Resilience Risks.

~~15.1~~16.3 To review at least the following areas: annually risk tolerance limits and the associated warning thresholds (via the policies and procedures containing these metrics).

~~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 the Liquidity Risk policy;~~

~~15.1.4 Operation of the Counterparty Credit Risk policy;~~

~~15.1.5 Operation of the Collateral Risk policy;~~

~~15.1.6 Operation of the Payment, Settlement and Custody policy;~~

~~15.1.7 Operation of the Investment Risk Policy; and~~

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

16.4 To review at least annually the specific / formal sign-off of exceptions to LCH policies.

16.17. CONFIDENTIALITY AND CONFLICTS OF INTEREST

16.17.1 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.

16.217.2 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 and those relevant articles shall apply to the External Committee Members as if they were directors of the Company.

17.18. HARMONISATION WITH LCH SA

17.18.1 To consider any proposals for harmonisation of policies or procedures between the Company, LCH SA 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 to make recommendations to the Board for approval.

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

18.19. RELATIONSHIP WITH THE COMPANY'S AUDIT COMMITTEE

18.19.1 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**

19.120.1 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.

19.220.2 In particular, the Committee shall have access to: (i) the risk management department; (ii) the human resource department (to assess how the remuneration structure affects the risk profile of the Company); (iii) the human resource department; (iii) ~~the~~ compliance department (to ensure legal and regulatory changes are properly implemented); and (iv) the internal audit department.

20.21. **OTHER**

20.121.1 Notwithstanding any other provision set out herein, the Committee is solely accountable to, and reports solely to, the Board. 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.

20.221.2 Every member of the Committee shall be given a copy of these Terms of Reference.

20.321.3 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.

20.421.4 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.

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

20.621.6 Paragraphs 1.2.6, 1.2.4, 1.4, 16.117.1 and this paragraph 20.621.6 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 User Members

There are a number of risk experts who attend the Risk Committee and who fulfil the criteria of Users. The voting memberships of the Risk Committee are rotated between such 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 ChairmanChair, at their sole discretion, when rotating the voting memberships 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 ChairmanChair of the Risk Committee being satisfied that the membership of Users on the Risk Committee is an appropriate representation of the clearing membership as a whole.

Should the Company agree to allow an external party the right to nominate risk experts, the ChairmanChair of the Risk Committee shall decide the capacity in which the risk experts will attend Risk Committee (including whether they are clearing member Users or not) and will decide on voting membership on the basis set out above.

APPENDIX III

Proposed changes to Terms of Reference of the LCH Audit Committee

An LSEG Business

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LCH Group Holdings Limited | LCH Limited | Banque Centrale de Compensation | LCH.Clearnet LLC

LCH Limited. Registered in England No. 25932 Registered Office: 10 Paternoster Square, London, EC4M 7LS

LCH LIMITED
(the *Company*)

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

Adopted by the board of directors on [~~9-September~~12 July
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 auditor appointed by the Company (the *External Auditor*);
 - 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 through review of the Enterprise Risk report
 - 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.

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 Limited;
- (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**) or the LSEG chief financial officer, the LSEG chief risk officer or the LSEG head of audit, or any other person of appropriate seniority and expertise as may be agreed from time to time between LSEG and the **ChairmanChair** of the Board (the **LSEG Audit Representative**)).

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 **ChairmanChair**.
- 2.2.2 For the avoidance of doubt, the Committee **ChairmanChair** may also be appointed as **ChairmanChair** to the audit committee of LCH SA.
- 2.2.3 Subject to paragraph 2.1.1(d), the Board may remove members of the Committee with or without cause.

2.3 Committee **ChairmanChair**

- 2.3.1 The Board normally elects the Committee **ChairmanChair**. On an exceptional basis and in the absence of the appointed Committee **ChairmanChair**, the Committee shall elect a substitute Committee **ChairmanChair** from amongst its ranks by majority vote.
- 2.3.2 The Committee **ChairmanChair** 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~~**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 **ChairmanChair**, or the Committee Secretary at the request of the Committee **ChairmanChair**.
- 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 Auditor 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 Auditor 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 or the LSEG Audit Representative 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 the External Auditor's report.
- 3.2 The Committee will hold joint sessions of meetings with the audit committee of LCH

SA 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 Auditor 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 Auditor and Company management.

3.3.2 *Review of the External Auditor*

- (a) It will be the primary responsibility of the audit committee of LSEG for the selection, assessment of independence and review of the services and remuneration of the External Auditor, being the auditor of the wider LSEG group.
- (b) The Committee will retain the following responsibilities:
 - (i) *Review.* The Committee shall have responsibility for the resolution of disagreements between Company management and the External Auditor regarding financial reporting. It shall ensure that the External Auditor has the fullest co-operation of staff.
 - (ii) *Access.* The Committee has the right to have direct access to the Company's External Auditor on a confidential basis at any time. It shall meet the External Auditor without executives of the Company being present at least once a year.
 - (iii) *Reports.* The Committee shall review with the External Auditor:
 - (A) the final audit;
 - (B) any matters the External Auditor may wish to discuss;
 - (C) any representation letters required by the External Auditor before they are signed by management;
 - (D) the management letter and the responses from management; and

- (E) 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~~ annually, the Internal Audit Charter of the Company.
- (b) *Audit Planning.* The Committee shall review and confirm the annual audit plan prepared by the Internal Audit department after approval by the CEO of the Company and ahead of annual submission to the Company's 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 Auditor.
- (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 deems as being necessary, 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) 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;

- (b) review the Company's procedures for detecting and preventing financial crime including fraud, bribery and money-laundering;
- (c) discuss with management and the External Auditor any correspondence with regulators, which raise material issues regarding the Company's financial statements, accounting policies and/or internal control system;
- ~~(d)~~ monitor the Company's procedures for ensuring compliance with regulatory reporting requirements and its relationship with the relevant regulatory authorities;
- ~~(e)~~
- ~~(f)(d)~~ review the performance of the Company's Chief Compliance Officer and make recommendations with respect to such performance to the Board; and
- ~~(g)(e)~~ discuss legal matters that may have a material impact on the financial statements 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;
- (b) Review breaches of the Company's Risk Governance Framework approved by 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 law or regulation from time to time; and
 - ~~(iv)(iii)~~
 - ~~(v)~~ 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;
 - ~~(vi)~~ review at least once a year the measures taken to control outsourced activities and any risks the Company may incur; and
 - ~~(vii)(iv)~~ 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, which include escalating issues to the Board where appropriate.

3.3.7 *Coordination with 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 *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 Auditor. 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~~ Group Holdings Limited and its subsidiaries (together "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 the CFTC Rules and other 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.

- 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 SA.

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 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 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(d), 2.8, 3.3.2(a), 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.