

**LCH GROUP HOLDINGS LIMITED**  
(the *Company*)

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

Adopted by the board of directors on 10 July 2019

**1. BACKGROUND**

The board of directors of the Company (the *Group Board*) is required by the Company's articles of association to establish a nomination committee (the *Committee*). The Group Board has resolved to adopt these Terms of Reference with effect from completion of London Stock Exchange Group plc's (*LSEG*) acquisition of a majority interest in the Company (*Transaction Completion*). These Terms of Reference address the nomination of directors to the Group Board and the boards of LCH Limited (the *Limited Board*) and LCH SA (the *SA Board*) and any other operating subsidiary of the LCH group (the *Group*) as determined by the Group Board from time to time (together, the *LCH Boards*). These Terms of Reference replace any previous Terms of Reference for any nomination committee of the LCH Boards.

**2. PURPOSE**

*Group Board*

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

- 2.1.1 the chairman of the Group Board;
- 2.1.2 up to four independent directors who meet the standards of independence set out in paragraph 5.3 (*Independent Directors*);
- 2.1.3 five directors (the *User Directors*) associated with or connected to Company shareholders other than Venue Shareholders (as defined below) (*User Shareholders*);
- 2.1.4 either:
  - (a) three directors (the *Venue Directors*) associated with or connected to Company shareholders which are exchanges, trading venues, multilateral trading facilities, alternative trading systems or similar (excluding LSEG Directors, defined in paragraph 3.1 below) (*Venue Shareholders*); or
  - (b) if there are insufficient Venue Shareholders considered appropriate by LSEG to appoint a Venue Director, such number of Independent Directors (the *Venue Replacement Independent Directors*) as may be required to achieve three Venue Directors and Venue Replacement Independent Directors in total,

who shall be those individuals recommended or approved by LSEG for so long as LSEG exercises or controls the exercise of at least 40 per cent of the votes able to be cast on all or substantially all matters at general meetings of the Company (a *Significant Interest*); and

- 2.1.5 such LSEG Independent Directors (defined in paragraph 3.2 below) as are selected for appointment by LSEG in accordance with paragraph 3.

***Limited Board***

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

2.2.1 the chairman of the Limited Board;

2.2.2 up to three Independent Directors;

2.2.3 two User Directors; and

2.2.4 up to, in aggregate, two:

(a) Venue Directors; or

(b) Venue Replacement Independent Directors, if there are insufficient Venue Shareholders considered appropriate by LSEG to appoint a Venue Director,

who shall be the individual(s) recommended or approved by LSEG for so long as LSEG holds a Significant Interest in the Company.

***SA Board***

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

2.3.1 the chairman of the SA Board;

2.3.2 up to five Independent Directors, one of whom shall have appropriate expertise in credit default swaps (*CDS*);

2.3.3 up to two User Directors; and

2.3.4 up to, in aggregate, two:

(a) Venue Directors; or

(b) Venue Replacement Independent Directors, if there are insufficient Venue Shareholders considered appropriate by LSEG to appoint a Venue Director,

who shall be the individual(s) recommended or approved by LSEG for so long as LSEG holds a Significant Interest in the Company.

### ***Operating subsidiary boards***

- 2.4 The Committee shall make recommendations for nominations of candidates for appointment as directors of any other significant operating subsidiary of the Group from time to time and acting in accordance with the principles in the Relationship Agreement between the Company and LSEG, as relevant.
- 2.5 Subject to paragraph 2.5 above, the recommendations made by the Committee as set out in paragraphs 2.1 to 2.4 inclusive shall (i) take into account the criteria set out in these Terms of Reference as approved by the relevant LCH Board and (ii) be subject to any changes to the composition of the LCH Boards for regulatory purposes and as may be agreed by a majority of the directors of the respective LCH Board from time to time, provided that the LCH Boards have the minimum numbers of Independent Directors and representatives of "customers" as are from time to time required under applicable regulations.
- 2.6 The boards of the significant operating subsidiaries of the Company will also comprise the Group CEO, the Group Chief Risk Officer and the CEO of the relevant subsidiary.
- 2.7 The Committee shall, acting in accordance with the principles in the Relationship Agreement between the Company and LSEG as relevant, regularly assess the structure, size, composition and performance of the LCH Boards, and shall make recommendations to the relevant LCH Board if any changes are considered necessary or desirable.
- 2.8 If LSEG ceases to hold a Significant Interest in the Company, the Committee shall be responsible for making recommendations for nomination of the chief executive officer of the Company (the ***Group CEO***) to the Group Board in respect of whose appointment and removal LSEG shall be consulted for so long as it exercises or controls the exercise of at least 20 per cent of the votes able to be cast on all or substantially all matters at general meetings of the Company (a ***Material Interest***).

### **3. LSEG DIRECTORS**

- 3.1 For so long as LSEG holds a Significant Interest in the Company, it has the right to appoint three LSEG directors to the Group Board (the ***LSEG Directors***).
- 3.2 In order to facilitate the composition of the Group Board to be compliant with relevant regulatory requirements, LSEG has agreed with the Company that (i) until such time as LSEG notifies the Company to the contrary and (ii) to the extent that LSEG considers it practicable in the context of its available candidates, up to two of the three LSEG Directors will be Independent Directors (the ***LSEG Independent Directors***).
- 3.3 Pursuant to paragraph 3.2, on nomination to the Group Board of an LSEG Independent Director, LSEG will provide to the Committee a certificate verifying its opinion that such individual meets the standards of independence set out in paragraph 5.3 of these Terms of Reference. On receipt of such certificate for each LSEG Independent Director, the Committee will recommend the appointment of that LSEG Independent Director to the Group Board.

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

- 4.1 The Committee shall put forward candidates for appointment as directors in accordance with paragraph 2 above and coordinate any necessary succession planning in respect of the chairman or directors of any of the LCH Boards.
- 4.2 The Committee will need to be satisfied that candidates understand the responsibilities of Board membership (which could differ across jurisdictions) and will be able to devote the necessary time to Company and Group matters.
- 4.3 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 any LCH Board.
- 4.4 The Committee shall make available to the LCH Boards on a regular basis all such information as is required to ensure that each LCH Board is formally kept up to date with the actions, deliberations and determinations of the Committee in respect of such Board.
- 4.5 The Committee will undertake any other tasks required of it by the LCH Boards.
- 4.6 The Committee is authorised by the LCH Boards 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 its 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.
- 4.7 The Committee shall keep itself informed of any changes in the laws and regulations applicable to the composition of the LCH Boards and the other matters for which the Committee is responsible.

#### 5. **PROCEDURES OF THE COMMITTEE**

##### **Appointment of the chairman and the Independent Directors (excluding the LSEG Independent Directors, the "Non-LSEG Independent Directors")**

- 5.1 The Committee shall set its own procedures when making decisions on recommendations in relation to the appointment of a new chairman and/or the Non-

LSEG Independent Directors to the LCH Boards. 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 (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;
- (c) with regard to the appointment of a new chairman, consult with the Independent Directors of the relevant LCH Board in advance of making a recommendation to the relevant LCH Board.

5.2 When the Committee makes decisions on recommendations in relation to the appointment of a new chairman:

5.2.1 to the Group Board, for so long as LSEG has a Significant Interest in the Company, the Committee will also consult with LSEG as to the suitability of the short listed candidates being considered by the Committee and take into account LSEG's reasonable views; and

5.2.2 to any of the LCH Boards, unless the Independent Directors on the Committee approve otherwise, the then current chairman of the relevant LCH Board 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 relevant LCH Board for appointment.

5.3 In determining whether a person is fit for appointment as chairman to any LCH Board or as a Non-LSEG Independent Director to any LCH Board, 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 of its subsidiary undertakings and/or with any significant User or Venue 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 (including the UK Corporate Governance Code) or which the relevant LCH Board otherwise determines should be complied with in the interests of best practice corporate governance.

5.4 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 5.3 in respect of each Non-LSEG Independent Director's fitness.

5.5 When the Committee makes decisions on recommendations in relation to the appointment of a new Non-LSEG Independent Director to any LCH Board, the Committee will take into account (amongst other things, including specific restrictions

under local law) that ideally there should be, amongst the Non-LSEG 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, in the case of the SA Board, CDS;
- (c) representation of the geographic spread of the Group's business; and
- (d) diversity, including gender, age, geographical provenance, and educational and professional background.

5.6 When the Committee makes recommendations of Non-LSEG 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 5.3.

#### **Appointment of Venue Replacement Independent Directors**

5.7 If LSEG for so long as it has a Significant Interest, nominates one or more candidates for appointment as a Venue Replacement Independent Director, the Committee will consider whether to recommend the appointment of such person(s) to the relevant LCH Board.

5.8 In determining whether a candidate is fit for appointment as a Venue Replacement Independent Director, the Committee shall consider the factors set out in paragraph 5.3 above and paragraphs 5.4 to 5.6 above shall apply to Venue Replacement Independent Directors. For the avoidance of doubt, a candidate for appointment as a Venue Replacement Independent Director shall not be (a) deemed to represent a significant shareholder within the meaning of paragraph 5.3(d) purely as a result of his or her nomination by LSEG or (b) prevented from being a Venue Replacement Independent Director purely as a result of being an independent non-executive director of LSEG.

5.9 If the Committee fails to approve a candidate for Venue Replacement Independent Director proposed by LSEG, LSEG will be permitted to nominate one or more alternative candidates for consideration by the Committee.

#### **Appointment of User Directors**

5.10 The Appendix to these Terms of Reference sets out the process whereby User Directors shall be nominated to the LCH Boards.

### **6. TENURE OF DIRECTORS**

6.1 Each Non-LSEG Independent Director and Venue Replacement Independent Director shall in principle have a maximum tenure on any LCH Board of three three-year terms. However, the Committee may nominate an Independent Director or Venue Replacement Independent Director of the LCH Boards for such longer period as is

necessary to ensure that not all such Independent Directors' or Venue Replacement Independent Directors' appointments terminate at the same time.

- 6.2 All User Directors shall have a tenure on the relevant LCH Board of one three-year term, unless otherwise agreed by the relevant LCH Board but subject to paragraph 6.2.1 below.

6.2.1 Operating Subsidiaries

The Committee may nominate a User Director on the Boards of the operating subsidiaries of the Company for a second and third three-year term as is necessary to ensure that not all such User Directors' appointments terminate at the same time.

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

7. **MEMBERSHIP OF THE NOMINATION COMMITTEE**

- 7.1 The Committee shall be appointed by the Group Board and the membership shall comprise the chairman of the Group Board, at least two Independent Directors, one User Director and, for so long as LSEG holds a Material Interest in the Company, one LSEG Director or LSEG representative, being any person of appropriate seniority and expertise as may be agreed from time to time between LSEG and the Chairman of the Group Board ("**LSEG NomCom Representative**").

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

- 7.3 The chairman of the Group Board, 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.

8. **SECRETARY**

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

9. **TENURE OF NOMINATION COMMITTEE MEMBERS**

- 9.1 The Committee Chairman will keep the Committee's composition under review, and shall make proposals to the Group Board accordingly.

- 9.2 Appointments to the Committee are made by the Group Board and shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Committee.

- 9.3 If a member of the Committee ceases to be a director of the Company, that person's membership of the Committee shall automatically cease.

**10. NOTICE OF MEETINGS**

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

10.2 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.

**11. 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.

**12. ATTENDANCE AT MEETINGS**

12.1 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.

12.2 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..

**13. QUORUM**

The quorum for meetings shall be one Independent Director, one User Director and, for so long as LSEG holds a Material Interest in the Company, the LSEG Director or LSEG NomCom Representative (as relevant) 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.

**14. 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.

**15. MINUTES OF MEETINGS**

15.1 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.

15.2 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Group Board (subject to the Company's articles of association).



16. **REPORTING**

- 16.1 The Committee Chairman shall report to the Group Board in respect of all LCH Boards, and to each other LCH Board on the discussions, decisions and recommendations of the Committee.
- 16.2 The Committee shall produce to the Group 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 Group. Following such approval, that summary is to be included as a section in the Company's annual report.
- 16.3 The Committee Chairman, or his or her designee, will make available to the Chief Compliance Officers of the entities in the Group 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. **AMENDMENT**

These Terms of Reference may be amended with Group Board approval, subject to LSEG consent (for so long as it has a Significant Interest in the Company). Subject to the preceding sentence, it is intended that these Terms of Reference will be amended to reflect the balance of ownership of the Company from time to time.

18. **CONFIDENTIALITY AND CONFLICTS OF INTEREST**

- 18.1 Without prejudice to any rights LSEG may have in the Relationship Agreement between the Company and LSEG, 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.
- 18.2 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.

19. **OTHER**

- 19.1 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.
- 19.2 Every member of the Committee shall be given a copy of these Terms of Reference.

- 19.3 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.
- 19.4 The Committee shall arrange for periodic reviews of its own performance and, at least annually, shall arrange for independent internal review of its performance and these Terms of Reference to ensure that it is operating at maximum effectiveness and to recommend any changes considered necessary to the Group Board for approval.
- 19.5 To the extent these Terms of Reference conflict with the provisions of the articles of association of any member of the Group (in force from time to time), the provisions of the relevant articles of association shall prevail.

20. **INTERPRETATION**

References to *LSEG* in these Terms of Reference shall be construed as including references to LSEG's successors.

## APPENDIX

### Mechanism for Appointment of User Directors to the LCH Boards

1. Any User Shareholder which holds one of the 17 largest User Shareholder holdings of shares in the Company and (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 any LCH Board as it sees fit from time to time to nominate to the Committee a candidate for appointment as a User Director on the appropriate LCH Board.
2. The Committee will recommend an individual to replace any User Director who:
  - (a) retires by rotation;
  - (b) retires of their own volition;
  - (c) retires or is removed as a result of the User Shareholder which nominated them ceasing to be an Eligible User;
  - (d) 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;
  - (e) 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
  - (f) is disqualified or removed in accordance with the articles of association of the relevant Group 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 Group 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 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 LCH Board expertise on a wide range of products, including those which pose the greatest risk challenges for the Group from time to time;
  - (iv) the desirability of having LCH Boards with significant experience and expertise in the Group's principal markets;
  - (v) the desirability of diversity on each LCH Board, including gender, age, geographical provenance, and educational and professional background; and
  - (vi) that in general there should be geographical diversity reflecting the Group's business, with a view to there being at least one User Director who is connected with or representative of each region in which the Group has significant operations.
- (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 relevant LCH Board's needs in light of the factors set out at paragraphs 3(a) and 3(c) above. For so long as LSEG has a Significant Interest in the Company, the Committee will then seek LSEG's approval of each Proposed Director (and if LSEG ceases to hold such interest the requirement for LSEG's approval under this paragraph 3(e), together with the provisions of 3(f) and 3(g) below, shall no longer apply).
- (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 relevant LCH 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 relevant LCH Board as a User Director.

- 4. Any User Shareholder which (a) holds one of the 17 largest User Shareholder holdings of shares in the Company, (b) has not served notice terminating its clearing relationship with the Company and (c) is not associated with or connected to a User Director from time to time, shall be entitled to appoint an appropriate person to attend as an observer (but not to speak or vote at) Board meetings. In selecting such person, the relevant User Shareholder will take into consideration the factors which the Nomination Committee is required to consider in selecting a proposed User Director (as set out in paragraph 3(c) above). The Independent Directors will have the same right to exclude observers in the case of conflicts of interest as they would have for directors, and the observers will be subject to the same duties and obligations as to confidentiality that would apply to them if they were directors.