

LCH GROUP HOLDINGS LIMITED
(the *Company*)

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

Adopted by the board of directors on 20 February 2019

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 consolidated 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 of the Company's internal control environment including reviewing 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 of the Committee (the **Committee Chairman**);

- (b) one shall be a member of the Risk Committee of LCH Limited;
- (c) one shall be a director associated with or connected to Company shareholders other than exchanges, trading venues, multilateral trading facilities, alternative trading systems or similar (**User Director**); and
- (d) for so long as London Stock Exchange Group plc (**LSEG**) is entitled to exercise or control 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 (**Material Interest**), one shall be a director recommended or approved by LSEG (the **LSEG Director**) (or, following the appointment of one independent non-executive director to the Board by LSEG pursuant to Clause 10.10 of the Relationship Agreement between the Company and LSEG (**RA**), 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 Chairman 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 Chairman.

2.2.2 Subject to paragraph 2.1.1(d), the Board may remove members of the Committee with or without cause.

2.3 Committee Chairman

2.3.1 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.

2.3.2 For the avoidance of doubt, the Committee Chairman may also be appointed as Chairman to the audit committees of LCH Limited and LCH SA.

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

2.4 Secretary

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

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

2.5 **Notice of Meetings**

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

- 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, 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 Heads of Internal Audit of each subsidiary 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, (ii) the User Director, (iii) for so long as LSEG holds a Material Interest in the Company, the LSEG Director or, following the appointment of one independent non-executive director to the Board pursuant to Clause 10.10 of the RA, other 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 committees of LCH SA and LCH Limited from time to time as appropriate. All directors remain equally responsible for the affairs of the Company of which they are a director, as a matter of law.

3.3 The Committee shall perform the following specific functions:

3.3.1 *Review of the Company's Financial Statements*

The Committee shall review, discuss with and challenge where necessary the Company's management and the External Auditor with regard to the Company's consolidated 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) *Selection.* The Committee shall be responsible for making recommendations to the Board concerning the appointment, evaluation and termination of the engagement of the External Auditor for both the Company and LCH

Limited. The Committee shall oversee the selection process for a new External Auditor and if an External Auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.

- (b) *Independence.* The Committee shall take, or recommend that the Board take, appropriate action to oversee the independence of the External Auditor. The Committee shall actively engage in dialogue with the External Auditor concerning any disclosed relationships or services that might impact upon the objectivity and independence of the External Auditor. It is the general policy of the Company that the currently engaged External Auditor will not be asked to tender for any non-audit services with the exception of tax advice directly related to the Company's existing business.
- (c) *Services and Compensation.* The Committee shall discuss with the External Auditor his proposals regarding the nature, scope and planning of his work and to ensure proper co-ordination with internal audits planned by the Company's Internal Audit department. The Committee shall review from time to time the operational, control and cost effectiveness of the External Auditor.
- (d) *Review.* The Committee shall have ultimate responsibility for overseeing the External Auditor, including 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.
- (e) *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.
- (f) *Former Employees.* The Committee shall agree with the Board a policy on the employment of former employees of the External Auditor, then monitoring the implementation of this policy.
- (g) *Ethical Standards.* The Committee shall monitor the External Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements.
- (h) *Qualifications.* The Committee shall assess annually the qualifications, expertise and resources of the External Auditor and the effectiveness of the audit process, which shall include a report from the External Auditor on their own internal quality procedures.
- (i) *Co-ordination.* The Committee shall seek to ensure co-ordination with the activities of the internal audit function.
- (j) *Reports.* The Committee shall review with the External Auditor:
 - (i) the final audits;

- (ii) any matters the External Auditor may wish to discuss;
- (iii) any representation letters required by the External Auditor before they are signed by management;
- (iv) the management letter and the responses from management; and
- (v) compliance with any codes of conduct of corporate governance applicable from time to time or which the Board otherwise determines should be complied with to achieve best practice corporate governance standards.

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

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

- (a) *Internal Audit Charter.* The Committee shall review from time to time, and no less frequently than once every three years, the Internal Audit Charter of the Company
- (b) *Audit Planning.* The Committee shall review the internal audit programmes with a view to determining whether they provide appropriate coverage of the internal controls systems at the level of the LCH group (the **Group**) and to propose to or request each subsidiary's Audit Committee, if deemed appropriate, to make changes to their respective internal audit programme and to conduct specific audit assignments.
- (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 shall provide an annual appraisal of the Head of Internal Audit.
- (d) *Reporting line.* The Chairman of the Company shall, with the assistance of the advice and recommendations of the Committee, approve the appointment or termination of employment of the Group Head of Internal Audit 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 he deems as being necessary, the Group Head of Internal Audit has the absolute right to report directly to the Committee Chairman 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 (as well as, where appropriate, the Chairman 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 Group Head of Internal

Audit 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; and
- (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 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. In accordance with the principle of subsidiarity, the Committee will rely primarily on the audit committees of the subsidiary companies to fulfil this role. Matters identified at a subsidiary level with a Group-wide impact will be raised at this Committee;
- (ii) consider internal reports on the operation of Group-level controls and the proposals for implementation of change and strengthening;
- (iii) receive annually reports as required the Report on Internal Control as required under the Order of 3 November 2014 relating to internal control of credit institutions and investment firms, as amended (or any other similar reports required by law or regulation from time to time) on the conditions in which internal control is conducted and on the measurement and monitoring of risk;

- (iv) review at least once a year the provisions for business continuity and disaster recovery and the assessment of the effectiveness of the arrangements in place;
 - (v) review at least once a year the measures taken to control outsourced activities and any risks the Company may incur; and
 - (vi) determine whether the Group-level 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) at Group-level 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.

3.3.6 *Coordination with the Subsidiary Audit Committees, Risk Committees and Technology, Security & Resilience Committees*

- (a) The work of the Committee is complementary to that of the audit committees of LCH SA and LCH Limited. The Committee has responsibility for control matters at Group-level.
- (b) The Risk Committees of the subsidiary companies have responsibility for establishing policies and methodologies as defined by those Committees' terms of reference. The Committee will independently review operational risk controls at Group-level and is responsible for ensuring that risk policies are effectively and adequately applied.
- (c) The Technology, Security and Resilience Committees of the subsidiary companies represent the interests of their Boards in the sound management of technology security and operational resilience including cyber security. The Committee will independently review operational risk controls at Group-level.

1.1.1 *Other Subjects*

- (a) *Board Direction.* The Committee shall consider any other matters as directed by the Board.

2. PROVISIONS FOR ACCESS

2.1 Access to Management

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

2.2 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.

2.3 Access to Company Information

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

3. REPORTING

- 3.1 *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. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board unless it would be inappropriate to do so.

Board Reporting

- 3.2 The Committee Chairman shall report the Committee's discussions, decisions and recommendations to the Board, which shall decide on an appropriate policy response.
- 3.3 The Committee shall have no executive powers with respect to those findings and recommendations.
- 3.4 The Committee shall ensure that the Board is regularly informed of the adequacy of key Group-level control systems in the financial, operational and compliance-related areas.

Annual Reports

- 3.5 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 the CFTC Rules and other applicable regulations in force from time to time.
- 3.6 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

3.7 The Chairman of the Committee shall liaise regularly with the chairman of the audit committee of LSEG with a view to assisting LSEG in fulfilling its own audit requirements, including with respect to the information set out at paragraph 3.3.1 above and as referred to in paragraph 5.9 below.

3.8 The Committee shall have regard for the Company's obligations under the RA to provide information to LSEG, in particular under clause 21 of the RA and in particular with regard to LSEG's status as a listed issuer required to comply with the UK Corporate Governance Code.

4. EDUCATION, TRAINING AND COMPETENCE

4.1 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.

4.2 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.

4.3 Induction and training may be provided on a joint basis with all or any of the audit committees of LCH Limited and LCH SA.

5. CONFIDENTIALITY AND CONFLICTS OF INTEREST

5.1 Without prejudice to any rights LSEG may have in the RA, 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.

5.2 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.

5.3 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.

6. ANNUAL EVALUATION AND TERMS OF REFERENCE REVIEW

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.