



VIA CFTC PORTAL

21 January 2015

Mr Christopher Kirkpatrick
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

Dear Mr Kirkpatrick:

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to the Terms of Reference of the Audit Committee of the Board of Directors.

LCH.Clearnet intends to implement these amendments, at the next Audit Committee meeting on 18th February 2015.

Part I: Explanation and Analysis

The attached Terms of Reference for the LCH.Clearnet Audit Committee has been amended to reflect and clarify changes in operation, namely;

- Re-titling of the internal frameworks and clarifying the role of the Audit Committee in their review.
- The composition of the Audit Committee, increasing representation of independent non-executive directors from two to three.
- The role of the Audit Committee Chairman in the appointment and termination of employment of the Head of Internal Audit.

Part II: Description of Rule Changes

Changes to the attached document did not require any changes to the LCH.Clearnet Limited Rulebook.

Part III: Core Principle Compliance

The rule amendments and other changes described above relate primarily to LCH.Clearnet's compliance with Core Principles O (Governance Fitness Standards) and Q (Composition of Governing Boards).

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LCH.Clearnet Group Limited | LCH.Clearnet Limited | LCH.Clearnet SA | LCH.Clearnet LLC



LCH.Clearnet has concluded that compliance with the Core Principles will not be adversely affected by this change.

Part IV: Public Information

LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at:

<http://www.lchclearnet.com/rules-regulations/proposed-rules-changes>

Part V: Opposing Views

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

Certification

LCH.Clearnet Limited hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me at julian.oliver@lchclearnet.com .

Yours sincerely,

Julian Oliver
Chief Compliance Officer
LCH.Clearnet Limited



Appendix I

Terms of Reference of Audit Committee of the Board of Directors

LCH.CLEARNET LIMITED
(the *Company*)

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

~~Approved~~Adopted by the board of directors on ~~22 October 2013~~ 10 December 2014

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 of the Company's operational risk framework;~~
 - ~~1.3.6 Review of the Company's combined assurance report;~~
 - 1.3.5 Review of the Company's Risk Governance Framework (including its operational risk framework);
 - 1.3.6 Review the Company's compliance with its Risk Governance Framework, in particular through review of the Company's combined assurance report;
 - 1.3.7 Review of the Company's internal control environment; and
 - 1.3.8 Review of the Company's Information Security and Business Continuity Planning programmes.
- 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 ~~two~~ 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 LCH.Clearnet group 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.Clearnet Limited;
- (c) ~~one~~ shall be a director associated with or connected to LCH.Clearnet Group Limited shareholders other than exchanges, trading venues, multilateral trading facilities, alternative trading systems or similar (**User Director**);~~1~~ 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 LCH.Clearnet Group Limited (**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 of LCH.Clearnet Group Limited 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 For the avoidance of doubt, the Committee Chairman may also be appointed as Chairman to the audit committees of LCH.Clearnet Group Limited, LCH.Clearnet SA and/or LCH.Clearnet LLC.

~~2.2.2.2.3~~ Subject to paragraph 2.1.1(d), the Board may remove members of the Committee with or without cause.

2.3 **Committee 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 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 four 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 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, (ii) the User Director, (iii) for so long as LSEG holds a Material Interest in LCH.Clearnet Group Limited, the LSEG Director or, following the appointment of one independent non-executive director to the Board of

LCH.Clearnet Group Limited 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.Clearnet Group Limited, LCH.Clearnet SA and LCH.Clearnet LLC from time to time as appropriate. ~~These Terms of Reference of the Committee are in accordance with the principle of the unitary board. All directors remain equally responsible for the affairs of the Company of which they are a director, as a matter of law, notwithstanding the fact that the Company, LCH.Clearnet Group Limited, LCH.Clearnet SA and LCH.Clearnet LLC now hold combined audit committee meetings.~~

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, including its annual and half-yearly reports, 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) Insofar that the same External Auditor is appointed in respect of both the Company and LCH.Clearnet Group Limited, it will be the primary responsibility of the Audit Committee of LCH.Clearnet Group Limited for the selection, assessment of independence and review of the services and remuneration of the External Auditor as defined in that Committee's terms of reference.
- (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 interim and final audits;
 - (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, 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 ~~and 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 and shall respond to any requests from the LCH.Clearnet Group Audit Committee to ~~make changes to vary~~ the internal audit programme of work.
- (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 three years. The Committee Chairman shall provide an annual appraisal of the Head of Internal Audit.
- (d) *Reporting line.* The ~~Chairman of the Company~~CEO 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, ~~to the extent such position exists within the Company from time to time,~~ 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 Head of Internal Audit of the Company, ~~to the extent such position exists within the Company from time to time,~~ has the absolute right to report directly to the Committee Chairman or any Committee member. The Head of Internal Audit shall report directly to the Committee Chairman (as well as, where appropriate, the Chairman of the Board).
- (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 Head of Internal Audit of the Company, ~~to the extent such position exists within the Company from time to time,~~ regularly, and at least once a year without executives of the Company being present ~~at least once a year.~~

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) review the performance of the Company's Chief Compliance Officer and make recommendations with respect to such performance to the Board; and
- (f) discuss legal matters that may have a material impact on the financial statements 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.

~~3.3.5~~ 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;
 - (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 risk internal control and monitoring 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.

~~3.3.6~~3.3.7 *Review of the Company's Information Security and Business Continuity Planning programmes*

(a) Review written reports or minutes of meetings regarding the Company's information security programme and business continuity planning programme. The written reports or minutes should address the results of the risk assessment process; risk management and control decisions; service provider arrangements; results of security monitoring and testing; business continuity planning exercise schedules and results; business continuity planning invocations; security breaches or violations and management response; information security; business continuity planning awareness programme status; and recommendations for major changes to the information security or business continuity planning programmes.

(b) Provide feedback and questions to information security and business continuity planning management on desired metrics, reporting detail and specific concerns.

~~3.3.7~~3.3.8 *Coordination with the Group Audit Committee and Limited Risk Committee*

(a) The work of the Committee is complementary to that of the Audit Committee of LCH.Clearnet Group Limited. It will be that Committee's responsibility to consider issues at the Group-level.

(b) 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~~3.3.9 *Other Subjects*

(a) *Operational Risk Policy.* The Committee shall establish the Company's operational risk policy and will review the same on an annual basis. The Committee will (i) assess operational risk within the risk management processes and the related mitigating actions, requesting additional actions from the relevant business areas if necessary and (ii) assess any incidents resulting from operational risks in the risk management processes and the measures taken to prevent their recurrence in the future. The Committee will provide a report (or an executive summary thereof) to the Risk Committee on the same.

- (b) *The Risk ~~Combined Assurance~~ Report*. The Committee will (i) review the summary rating of the enterprise-wide risks against the tolerance for the risk—(ii) assess actions to mitigate the risk levels and request additional actions from the relevant business areas if necessary and (iii) assess any significant incidents impacting each risk type and the measures taken to prevent their recurrence in the future. The Committee will provide a report to the Board and an executive summary thereof to the Risk Committee on the same.
- (c) *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.Clearnet group (the **Group**) and (ii) any books, records or other data it requires from the Company and from the Group in order to carry out its functions.

5. REPORTING

- 5.1 *Minutes / Agenda*. The Committee Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance. 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

- 5.2 The Committee Chairman 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, 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 The Committee shall produce a report including (i) a summary of its main responsibilities and the work of the Committee in discharging those responsibilities, (ii) details of its composition, including relevant qualifications and experience, (iii) an explanation of how it assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the External Auditor, (iv) information on the length of tenure of the current audit firm and when a tender was last conducted, (v) if the External Auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded and (vi) any significant issues the Committee considered in relation to the financial statements. This report shall be put to the Board for approval each year. Following such approval, that report is to be included in the Company's annual report.
- 5.7 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.

Regulatory Reporting

- ~~5.8 The Committee shall ensure that the Company reports to the CFTC of any decision in which the Board has rejected a recommendation of, or superseded an action by, the Committee, such report to contain at a minimum the following:~~
- ~~5.8.1 the Committee's recommendation or action, as applicable;~~
- ~~5.8.2 the rationale for such recommendation or action;~~
- ~~5.8.3 the rationale of the Board for rejecting such recommendation or superseding such action; and~~
- ~~5.8.4 the course of action the Board decided to take contrary to such recommendation or action.~~

Provision of information to LSEG

- ~~5.9~~5.8 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 ~~5.10~~9 below.
- ~~5.10~~5.9 The Committee shall have regard for LCH.Clearnet Group Limited'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.

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 all or any of the audit committees of LCH.Clearnet Group Limited, LCH.Clearnet SA and LCH.Clearnet LLC.

7. CONFIDENTIALITY AND CONFLICTS OF INTEREST

- 7.1 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.
- 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 through the Audit Committee of LCH.Clearnet Group Limited to the Board of LCH.Clearnet Group Limited.

8. 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.

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