

## **Cassa di Compensazione e Garanzia S.p.A.**

### **Terms of reference of the Risk Committee**

**(adopted by the Board of Directors on 15 July 2013 and subsequently revised and ratified by the Board of Directors on 11 September 2013, 25 October 2016 15 December 2016, 22 October 2019 and 19 May 2020)**

#### **Article 1**

##### **Scope of the Rules**

These rules shall govern the functioning of the Risk Committee ("**Committee**") established by Cassa di Compensazione e Garanzia S.p.A ("**CC&G**" or the "**Company**") pursuant to article 28 of the Regulation (EU)no 648/2012 and article 22 bis of the CC&G' by-laws ("**By-laws**").

#### **Article 2**

##### **Composition of the Committee**

1. According to article 22 bis of the By-Laws and pursuant to resolution of the Board of Directors of CC&G, the Committee is composed by the following 8 (eight) members:

- (a) two independents non executive directors of CC&G ("**Members Independent Directors**");
- (b) one representative of each of the 3 (three) Clearing Members identified and chosen under article 3 below of these rules ("**Members Representatives of Clearing Members**");
- (c) one representative of each of the 3 (three) Clients identified and chosen under article 3 below of these rules ("**Members Representatives of Clients**").

2. The Company shall communicate to the Clearing Members and the Clients which have been chosen in accordance with the article 3, their faculty to nominate their representative as member of the Committee ("**Communication**"). The Clearing Members and the Clients, thus informed, shall indicate the name of their respective representatives ("**Nominated Representatives**") together with their mail address, telephone and fax number and e-mail address where any relevant communication shall be sent, within 15 calendar days from the receipt of the Communication.

3. Nominated Representatives shall have a proven experience in the matters pertaining to the risk management. For this purpose, a curriculum vitae of the Nominated Representative shall be provided. The Chief Executive Officer, in agreement with the President and the Vice President, once evaluated the observance of the required experience, approves with regards to the appointment.

4. In the event one or more of the Clearing Members or Clients invited to nominate their representative as member of the Committee do not communicate the name of their Nominated Representative to the Company within the term set forth under paragraph 2 or if the Nominated Representative should not satisfy the requirements under paragraph 3, such Clearing Members or Clients shall lose the opportunity to have a representative in the Committee, limited to the relevant round of selection. The Board of Directors shall proceed to select a new Clearing Member and/or a client, pursuant to article 3 below of these rules.

## CC&G Board of Directors – 19 May 2020

5. The Members Independent Directors shall remain in office until the expiry of the term of the Board of Directors of CC&G. The Members Representatives of Clearing Members and the Members Representatives of Clients shall remain in office for a period of maximum three years. The appointment starts from the 1<sup>st</sup> of July following the date of the appointment as per art. 2.3.
6. Notwithstanding paragraph 5, the offices of the Clearing Members / Clients appointed on the basis of the procedure set forth under paragraphs 2.9, 2.10 and 2.11 of these rules shall become effective right after the Board of the Directors in which the Clearing Members / Clients have been appointed, in accordance with the provisions set forth under paragraphs 2.2, 2.3 and 2.4. The term of office of the new Members will be aligned to the original term of office of the replaced Members.
7. Every year, one of the Members Representatives of Clearing Members and one of the Members Representatives of Clients, whose mandate is expiring, shall cease from her/his office. The Board of Directors of CC&G shall appoint the replacement member on the basis of the procedure set forth under paragraphs 2, 3, and 4 and article 3 of these rules. The Board of Directors, given an objective opinion, can reconfirm the office for those Clearing Members / Clients ceasing from their offices as long as the requirements provided in article 3 of these rules are still respected.
8. Notwithstanding paragraphs 5, one Representative of the Clearing Members And one Representative of Clients, which have been appointed for the first mandate of the Committee, shall remain in office for a period of two years upon random assignment.
9. Except for article 8.5 of these rules, if during the term of their office, one or more of the Members Representatives of Clearing Members or the Members Representatives of Clients cease for any reason, he/she/they will be replaced by Representatives of the same Clearing Member or of the Client, within 15 calendar days from the term of the office of the previous member. Paragraphs 3 and 4 will apply.
10. If one or more Clearing Members/Clients loses/lose the requirements upon which he/they has/have been appointed on the basis of the provisions of article 3 of these rules, the Clearing Member/s / Client/s shall be immediately suspended from its/their office/s. The first Board of Directors right after shall acknowledge the loss of requirements and shall at the same time appoint the substitute/s on the basis of the provisions of article 2.2, 2.3, 2.4 and 3 of these rules.
11. If one or more Clearing Members or Clients, whose representatives are Committee's members, cease for any reason to use the clearing services provided by CC&G, the relevant representative/s will automatically cease from her/his/their office and the CC&G Board of Directors shall acknowledge the ceasing of services' use by the Clearing Member/s / Client/s and shall appoint the replacement member/s on the basis of the procedure set forth under paragraphs 2, 3 and 4 and article 3 below of these rules.

**Article 3**

**Criteria for the selection of the Clearing Members and the Clients**

1. The Clearing Members and Clients which are requested to communicate the name of their Nominated Representative to the Committee, are those who result from a selection mechanism based on the contribution to the Default Fund (“DF”) during the six-months preceding the date of the meeting of the Board of Directors called in order to resolve upon, *inter alia*, the appointment of the Committee.

2. CC&G defines the two following rankings:

- a. GCMs and ICMs ranking
- b. NCMs ranking

with the aim to identify three Representatives for each category. The GCM is a Clearing Member that clears for itself and Clients that trade directly or trade in the name of the GCM. The ICM is a Clearing Member that trades and clears for itself and for Clients that trade in the name of the ICM.

3. The score assigned to each Clearing Member and Client is the result of the following formula:

$[(\text{Clearing Member or Client Average DF Contribution}) / \text{Total DF Contribution}] * 100$ .

4. The profile of GCM is assigned only if the Clearing Member effectively clears one or more NCMs; otherwise, the GCM will be considered as if it was an ICM.

5. The rank of GCMs and ICMs is obtained summing the scores achieved on Bond and Equity, calculated individually.

6. The Average DF Contributions of Clearing Members or Clients belonging to the same parent company are summed within each ranking.

7. Clients, who (i) are affiliated companies - according to article 2359 of the Italian Civil Code - of the GCM or ICM which have resulted from the selection set forth under paragraph 2 or (ii) are clients of the GCM selected according to article 3, paragraph 2, are excluded from the rankings.

8. CC&G appoints:

- 1) the first three Clearing Members with regards to the ranking sub a). If the first three classified Clearing Members are GCMs (ICMs), the third Clearing Member appointed will be the first classified ICM (GCM);
- 2) the first three classified NCMs with regards to the ranking sub b).

9. On the basis of the rankings sub a) and sub b), the Board of Directors shall appoint the Committee’s members justifying possible exceptions.

**Article 4**  
**Activity of the Committee**

1. The Committee shall give the Board of Directors its mandatory non-binding opinion on any arrangements that may impact the risk management of the Company acting as central counterparty.

In particular, the Committee shall advise with respect to the followings:

1.1 the features of the risk models adopted, including those concerning the interoperability agreements with other central counterparties, any material revisions or adjustments to such models, their methodologies and the liquidity risk management framework;

1.2 the internal policy framework for defining the types of extreme but plausible market conditions - and its reviews - implemented in order to determine the minimum size of Default Fund, proceeding with the assessments set forth under articles 29.3 and 31 of the Regulation (EU) n. 153/2013;

1.3 the policy for the management of default procedures;

1.4 the liquidity plan adopted by the Company, in accordance with article 32 of the Regulation (EU) n. 153/2013;

1.5 the criteria for accepting clearing members;

1.6 the criteria adopted for the clearing of new classes of instruments;

1.7 the outsourcing of functions;

1.8 the policy for the use of derivatives contracts, for the purpose of article 47 of the Regulation (EU) no 648/2012.

2. For the purpose of issuing the opinion provided for in paragraph 1, the Committee receives adequate documentation prepared by the Chief Risk Officer of the Company.

3. The Committee may also make recommendations to the Board of Directors with respect to any matters that may impact the risk management of CC&G.

4. The advisory and recommendation activity of the Committee does not include decisions concerning the daily operation of the Company. In any case, any discussion and evaluation of the Committee is excluded with regard to (i) specific data referred to Clearing Members or Clients or single financial instruments, (ii) detailed measures resulting from the implementation of those policies and criteria set forth under paragraph 1, such as the level of margins and of the contribution to the Default Funds; (iii) aggregated data which could provide guidance even to specific Clearing Members' or Clients' data.

5. Once a year, the Committee shall produce a report on the activities carried out and the evaluation of the Company's risk management. Such report is sent to the Board of Directors and to the Authorities.

**Art. 5**  
**Chairman, Deputy Chairman and Secretary**

1. The Chairman of the Committee is appointed by the Committee at the first meeting among the Independent Directors of the Company. The Committee also appoints a Deputy Chairman among the Members Independent Directors. In case of absence or impediment of the Chairman, chairmanship shall be taken by the Deputy

## CC&G Board of Directors – 19 May 2020

Chairman; in case of absence or impediment of the Deputy Chairman, chairmanship shall be taken by the oldest member of the Committee.

2. The Chairman represents the Committee vis-à-vis the Company and sends the opinions and recommendations as provided for in articles 4.1 and 4.3 of these rules to the attention of the Board of Directors.

3. The Chairman shall call the Committee, fix the agenda and co-ordinate its activity.

4. The Committee shall also appoint a Secretary, who may be chosen from among subjects under paragraph 2 (ii) of article 7. The Secretary of the Committee will draft the minutes of every meeting, which shall be maintained by CC&G according to article 15 of Regulation (EU) n. 153/2013.

### **Article 6**

#### **Meeting Call of the Committee**

1. The Committee shall meet at least on a quarterly basis and at any time the Chairman or at least 3 (three) members deem it appropriate. The Committee shall meet every time it has to issue of the opinions as provided for in article 4.1. The Committee is convened at the CC&G's registered office or at another location in Italy or in the European Union, by e-mail, registered letter, telegram, telex, facsimile or other means that make it possible to document receipt of the communication. The notice of call has to specify the items on the agenda of the meeting and it shall be sent at least 5 (five) days prior to the date set for the meeting, except in cases of urgency.

2. The Chairman shall act in order to have the documentation relating to the matters indicated on the agenda at the disposal of all the members of the Committee prior to the date of the meeting in a timely manner. In case the Committee is called for the purpose to issue opinions pursuant to article 4.1, the Chief Risk Officer of the Company shall forward to the Chairman of the Committee the supporting papers at least 5 (five) days prior to the date of the meeting of the Committee. The opinions are issued in due time for the Board of Directors' discussion.

### **Article 7**

#### **Meetings and Resolutions**

1. The Committee shall be duly constituted with the presence of the majority of its members. Participation to the meetings of the Committee through the use of teleconference and/or video conference systems is permissible. In such circumstances, the possibility for each participant to be identified, to intervene and to express his/her opinion and the simultaneity of the examination of the items and of the resolutions must be ensured; in this case, the meeting of the Committee shall be deemed to be held at the place where the member taking the chairmanship is present.

2. At the meeting of the Committee the following subjects can attend in a non-voting capacity:

- (i) representatives of the Supervisory Authorities;
- (ii) external independent experts, directors, the Chief Risk Officer or other employees of the Company upon request of the Chairman at its discretion in consideration of their relevant expertise and of the importance of their contribution to the activities of the Committee;

(iii) the Secretary of the Committee.

3. The Committee shall adopt resolutions with the favourable vote of the majority of the participants and, in the event of a tied vote, the vote of the Chairman shall prevail.

## **Article 8**

### **Duties of the Members of the Committee**

1. Upon appointment, the members of the Committee shall assume the obligation to comply with these rules.

2. Committee's members, both during the period of their office and afterwards, must keep any confidential information that they become aware of during the exercise of their office strictly confidential, and must not reveal it to third parties who are not colleagues of their company whose help is strictly necessary to the management of the appointment. If the confidential information must be revealed to third parties, in accordance with the provisions of law or applicable regulations, its confidential nature must be made known in advance.

3. It is forbidden to the Committee's members to use the confidential information on their own behalf or on the behalf of third parties, or to advise third parties regarding transactions on the basis of the aforesaid information or induce anyone to carry out transactions on the basis of the confidential information that they become aware of during the exercise of their office.

4. Each member of the Committee shall notify the other members, prior to the beginning of the discussion, of any potential interests regarding certain issues he/she may have on his/her own behalf or on the behalf of third parties which is conflicting, even potentially, as better specified below, specifying the nature, the terms, the origin, and the scope of the interest. According to the *ESMA Guidelines on CCP management of conflict of interest issued on 5th April 2019*, "there is a conflict of interest where the interests of a relevant person interfere with the interest of CC&G, of the Clearing Members or of the Clients, if they are known, and this could compromise his/her decision or the decision process he/she follows in the execution of his/her professional duties".

5. When the Chairman of the Committee, following the notification as provided for in the above paragraph 4 or on the basis of other available information, determines that a member has an actual or potential conflict of interest on a particular matter, that member shall not be allowed to vote on that matter and, in case of vote, the vote shall not be counted. The relevant member shall take part to the discussion, in order to allow the other members to consider his/her opinion.

6. In case of material breaches of any obligation provided for in the current article, the member may be dismissed upon resolution of the Board of Directors and replaced with a new member which represents another Clearing Member and/or client, selected according to articles 2 and 3 of these rules.

7. For the purpose of the application of this article, the term "confidential information" means all the information of a specific content regarding CC&G and/or the LSE Group, the activities they carry out, the Guarantee System Members and the financial instruments managed, in any case acquired from the members of the Committee, that has not been made public or is not in the public domain; the term "third parties" means all the persons or entities

## CC&G Board of Directors – 19 May 2020

different from CC&G, including the Clearing Member or the Client whose representatives are Committee's members, any companies which control, are controlled by or are under common control with such Clearing Member or Client, and persons who perform administrative, management or supervisory functions in all the aforesaid entities and their employees.

### **Article 9**

#### **Amendment of the Rules**

1. These Rules can be amended exclusively by a resolution of the Board of Directors of the Company. The Committee may also suggest to the Board of Directors the modifications to be made to these rules.