

**Euroclear France (the “Company”)**  
**Board of Directors (the “Board”)**  
**Terms of Reference**  
**(Incorporating Internal Governance Practices & Procedures)**

- 1. Purpose**
- The Board is the ultimate decision-making body of the Company and has the power to carry out all acts that are useful or serve to achieve the purpose of the Company, other than those explicitly reserved by law or the Articles of Association to the general meeting of shareholders and to the Chief Executive Officer (CEO).
- The Board shall exercise its powers in accordance with the Euroclear group strategy, governance and risk management frameworks and financial policy objectives as applicable from time to time and with due respect for all applicable laws and regulations.
- 2. Members**
- 2.1. The Board has at least six members; with a maximum of 16 members as prescribed by the Articles of Association.
- 2.2. The Board shall be composed of suitable members of sufficiently good repute with an appropriate mix of skills, experience and knowledge of the Company and of the market.
- 2.3. The majority of the members of the Board are non-executive members.
- 2.4. The Board shall comprise at least one third, but no less than two, independent members. Independence is defined in accordance with the applicable legal and regulatory requirements.
- 2.5. Board members are appointed by the general meeting of shareholders for a term of up to three years (with possibility of renewal), in accordance with the Articles of Association and the Company’s Board and Board Committee Composition Policy. The mandate of a Board member who has passed the age limit of 75 years may be renewed only for a 3-year period which may be renewed. The number of Directors who have passed the age limit of 75 years may not exceed one-third of serving Board members.
- 2.6. The term of office of a Board member who is not re-appointed expires immediately after the relevant general meeting of shareholders.
- 2.7. Where a Board member leaves the Board before the end of his or her term, the Board may appoint a new Board member to fill the vacancy, such appointment being confirmed by the shareholders at their next general meeting. Such appointment is made for the remaining duration of the predecessor’s mandate.

- 2.8. Removal and resignation of a Board member shall be in accordance with the Articles of Association of the Company and with the applicable legal and regulatory requirements.
- 2.9. Appointments of individual Board members are subject to a prior assessment of his or her expertise and professional integrity (referred to as 'fit and proper', in accordance with local regulatory guidance), and to prior regulatory non-objection by the supervisory authority. The Company will also inform the supervisory authority of any proposed renewal of appointment, as well as of non-renewal and removal. Board members must permanently comply with the 'fit and proper' requirements during their term of office. The Board must collectively have the appropriate balance of skills, experience, independence, knowledge, and diversity to fulfil its duties.
- 2.10. As part of the Company's diversity policy, the Board composition must take account of the target and the timeframe regarding the representation of the under-represented gender, as decided by the non-executive members of the Board.

**3. Chair**

- 3.1. The Board appoints a Chair from among its non-executive members, subject to prior non-objection from the supervisory authority. His/her appointment as Chairman runs until the end of the Annual General Meeting called to rule on the fiscal year of his 75th birthday.
- 3.2. The Board may at any time remove the Chair from his or her office.
- 3.3. The Chair presides every meeting of the Board. In the absence of the Chair, the Board can nominate one of the other non-executive Board members to chair the meeting, in accordance with the procedure included in the Company's Articles of Association.
- 3.4. The Chair's roles and responsibilities are defined and agreed upon his or her appointment.

**4. Meeting attendees**

- 4.1. Entitled to be present:
  - i. Board members;
  - ii. Board Secretary;

Other attendees:

  - iii. Observers/advisors appointed by the Board; and
  - iv. Other attendees by invitation (e.g. heads of control functions), as deemed necessary or appropriate by the Chair.

- 5. Frequency of meetings**
- 5.1. The Board has at least five scheduled meetings per year.
  - 5.2. Additional meetings may be called whenever the interest of the Company requires it or whenever one Board member has asked for it.
  - 5.3. Additional ad-hoc meetings in accordance with the procedure included in the Company's Articles of Association.
- 6. Quorum**
- 6.1. The Board of Directors may only deliberate and adopt resolutions if at least a simple majority of its members are present taking into account section 6.2.
  - 6.2. Board members may attend the meeting by any means of telecommunication or videoconference, in accordance with applicable laws and regulations, and shall be considered to be present in the calculation of the quorum and majority. Nevertheless, Board members must be effectively present or represented at meetings for all proceedings of the Board of Directors relating to the appointment and removal of the Chairman or the Chief Executive Officer, the closing of the annual financial statements and consolidated financial statements as well as the writing of the management report and, if necessary, of the report on the management of the Group.
  - 6.3. Any Board member unable to attend a meeting may authorise in writing, one of his or her fellow Board members to attend and vote for him or her.
- 7. Voting**
- 7.1. A simple majority of Board members present or represented.
  - 7.2. The Chair has the casting vote in case of equality of votes.
- 8. Meeting agenda and notice**
- 8.1. The Chair sets the agenda in consultation with the CEO with support from the Board Secretary.
  - 8.2. All Board members can place items on the agenda in accordance with the Articles of Association.
  - 8.3. An item not on the agenda may be addressed at the meeting.
  - 8.4. Notice of each Board meeting shall indicate date, time, place and agenda and be given to each Board member, at the latest 3 calendar days before the meeting, but need not be in writing and may be sent by electronic means.
  - 8.5. The Chair shall ensure that adequate time is available at Board meetings for the discussion of all agenda items.

**9. Board support and resources**

- 9.1. Each Board member must have a clear understanding of the detailed responsibilities of the Board and of the Company's operational structure, activities and services and of the risks associated with the services and products it offers.
- 9.2. Each Board member shall:
  - i. receive induction training on all topics considered necessary for his or her Board directorship; and
  - ii. receive ongoing training, as appropriate.
- 9.3. In addition, the Board shall:
  - i. receive regular reports from Board committees and the Management Committee on the implementation of the agreed strategy, risk profile and financial position of the Company and all other matters delegated from the Board to the Management Committee, including amongst others regular reporting on risk control policies, risk appetite, metrics and critical residual risk and any change thereto;
  - ii. obtain such other information and reports from Board committees and Management Committee as they deem necessary to prepare the matters to be discussed;
  - iii. be granted access to information discussed in Board committees;
  - iv. have full and direct access to the heads of internal control functions (compliance, risk, audit) as well as technology function who should report relevant information regularly. The heads of internal control functions (compliance, risk, audit) have direct access to the Board and/or its relevant committees;
  - v. receive accurate, timely and clear information;
  - vi. be entitled to seek independent professional advice at the Company's expense.
- 9.4. The Board Secretary will minute all meetings and submit these to the Board for approval. The minutes shall evidence the discussions that took place in the Board meeting and shall include:
  - i. summaries of all matters reviewed;
  - ii. details of the recommendations made;
  - iii. details of the main considerations passed and decisions taken by the Board;
  - iv. a record of any follow-up actions; and
  - v. a record of any challenge and dissent by Board members.
- 9.5. The minutes will be kept in accordance with applicable legal

requirements and internal procedures. They will be made available to the supervisory authorities and the auditors upon request.

9.6. Written material is made available to Board members in a timely manner ahead of its meetings, in order to allow Board members to adequately review the information provided.

**10. Responsibilities and Powers**

10.1. The Board has ultimate and overall responsibility for the Company.

10.2. The Company is a regulated entity forming part of a group ("Euroclear group") and as such it is subject to regulatory and supervisory requirements that apply both on a stand-alone basis and on a group wide basis. The Board shall take the group dimension into account when exercising its management powers. More particularly it shall, pursuant to the "Standard Operating Procedure with respect to matters subject to referral to Euroclear SA/NV ("ESA")" (the "ESA referral SOP", attached as Appendix 1 to these Terms of Reference)

- exercise its powers in accordance with the Euroclear group strategy, governance and risk management frameworks and financial policy objectives as applicable from time to time and with due respect for all applicable laws and regulations;
- adopt policies and frameworks consistent with the minimum standards contained in the Euroclear group policies and frameworks ;

adhere to the referral procedure set forth in the ESA referral SOP

10.3. Without prejudice to the provisions of Clause 10.2 of these Terms of Reference, the Board's general responsibilities and powers include, but are not limited to, the following:

10.3.1. Strategy, general policy and business developments

- i) providing leadership of the Company within a framework of prudent and effective controls;
- ii) setting the objectives, strategy and orientation of the Company's activities (upon a proposal of the CEO), *inter alia* as regards product and service offerings and approval of any material extension of activities into materially new business or geographic areas; approval of any decision to cease to operate any material part of the business;
- iii) setting, approving and overseeing the consistent implementation of the policies, including membership in

the Euroclear system, pricing, major contracts with third parties

10.3.2. Finance matters

- i) ensuring the financial soundness of the Company;
- ii) approving the accounting policies as well as financial reporting practices and any major changes thereto;
- iii) ensuring the data quality of the accounting, financial and prudential reporting systems, including the rules for operational and financial control, and, in particular, obtaining assurance on the integrity of the financial reporting and the required fulfilment of duties by the external auditors; when applicable, supervising the procedure for disclosing and communicating information toward stakeholders and supervisory authorities as per regulatory requirements;
- iv) setting key financial targets and dividend policy ;
- v) establishing the principles with respect to the raising of capital and major financing facilities;
- vi) approving the annual or longer-term business operating and capital expenditure plans and budgets, and any material changes to them ;
- vii) approving investment and treasury policies

10.3.3. Risk Management and Internal Control

- i) setting the Company's overall risk strategy, including its risk appetite for all its activities and establishing the Company's risk management framework and desired risk culture; approving, regularly reviewing and overseeing the consistent implementation of the policies governing the taking, managing, monitoring and mitigating of risks to which the Company is (or could be) exposed in line with the Group's risk appetite and strategy as well as the embedding of the risk culture; approving the Risk Management Charter; ensuring the monitoring of the risk management function and of significant risks; providing the supervisory authority with the risk tolerance of the Company;
- ii) verifying periodically, and at least once a year, whether the independent control functions (compliance, risk audit) as well as technology function operate properly; ensuring their independence, including direct access to the Board, and sufficient authority, stature and resources to perform their functions;

- iii) approving the Internal Audit Charter, and the quarterly and annual planning ;
  - iv) laying down the policies for own funds and liquidity needs, regularly evaluating and updating them whenever appropriate and supervising their implementation by management; monitoring capital and liquidity adequacy including ensuring that an appropriate balance of funds are available to satisfy the Company's capital requirements, including working capital, any relevant regulatory requirements and any prudential buffer requirements identified from time to time; overseeing the adoption and use of models such as for liquidity and credit risk management systems; overseeing the stress testing programme; being involved in the definition and selection of scenarios and approval of their output and reviewing at least annually the set of stress tests ;
  - v) approving the liquidity contingency funding plan;
  - vi) approving, regularly updating and providing the supervisory authority with the Company's plan governing the raising of capital when its capital approaches or falls below specific thresholds and ensuring the orderly winding-down or restructuring of the Company's operation and services where the Company would be unable to raise new capital;
  - vii) reviewing, approving and regularly updating the Company's contingency, business continuity and recovery plan;
- 10.3.4. Compliance, legal matters and regulatory issues
- i) monitoring and ensuring compliance with all relevant regulatory and supervisory requirements;
  - ii) approving the Compliance & Ethics Charter and Plan;
  - iii) approving prosecution, defence or settlement of any major legal, tax claim or threatened arbitration, litigation or other litigated proceeding;
- 10.3.5. Governance
- i) overseeing and assessing all aspects of governance arrangements relevant to the Company, including defining, approving and overseeing the adequacy and effectiveness of the Company's internal governance framework including a clear organisational structure and

taking appropriate steps to address any identified deficiencies ; reviewing and updating, at least annually, the Company's Governance Memorandum; providing the supervisory authority with the (updated) Governance Memorandum;

- ii) establishing the culture, values, standards, ethics and conduct of business rules of the Company, setting and supervising the Company integrity policies; ensuring that the Company's obligations to its shareholders and other relevant stakeholders are understood and met; approving policies both at institutional level and for staff aiming at identifying, managing and mitigating actual and potential conflicts of interests;
- iii) establishing and periodically reviewing policies, procedures and processes by which the Board, Management Committee and any Board committees shall operate, including Terms of Reference ; reviewing matters referred to the Board by its committees and taking appropriate actions;

#### 10.3.6. Human Resources

- i) setting out a suitability policy and ensuring an effective individual and collective assessment process for the Board and key function holders ; overseeing and approving as necessary the selection, appointment and removal of key personnel, including among others Board and Board committees members, the Chair of the Board and Board committees (except the Chair of the Audit Committee), the members of the Management Committee, the Company Chief Compliance Officer, the Company Chief Auditor, the Company Chief Risk Officer and the Board Secretary; ensuring appropriate succession planning ; The supervisory authority will be previously informed as per applicable regulatory requirements;
- ii) setting the overall principles for an adequate Company remuneration policy, assessing the remuneration policy regularly and at least once a year, supervising its implementation and confirming remuneration of executive and non-executive Board members as well as deciding for the members of the Management Committee, other Identified Staff and senior officers of the control functions (Compliance, Risk and Internal Audit); determining pension policies as well as following-up on the pension schemes; approval of any share incentive plan;

#### 10.3.7. Supervision of Management

- i) supervising and monitoring the decision-making, actions



and performance of the CEO, the management culture, and the management of all significant risks; constructively challenging and critically reviewing proposals and information provided by the CEO;

- ii) supervising the business of the Company and monitoring business performance against pre-set budget and key targets;
- iii) ensuring that the CEO takes the necessary measures to remedy any shortcomings;
- iv) ensuring that the necessary financial and human resources are in place for the Company to meet its objectives;

10.3.8. Other specific responsibilities

- i) approving and regularly reviewing the outsourcing policy;
- ii) setting merger and joint venture strategy as well as approval of material terms of all major corporate transactions (acquisition, disposal or transfer of assets (including intellectual property rights), merger, takeover, capital restructuring, joint-venture undertaking) or otherwise investments or divestments both intra-group or in third companies ; approval of any prospectus or other public document issued in respect of such transactions ;
- iii) appointing the Chairman of the Board of Directors;
- iv) allocating the remuneration of Directors (Jetons de presence) within the limits set by the General Meeting;
- v) filling vacancies on the Board of Directors subject to ratification by the General Meeting;
- vi) preparing the financial statements and annual reports ;
- vii) proposing the allocation of profits;
- viii) setting the agenda, convening shareholders meetings and approving all documents to be put forward at such meetings;
- ix) being accountable to shareholders, employees, users and other relevant stakeholders.

10.3.9. The Board has set up several advisory committees with defined responsibilities and powers (e.g. the Audit, Risk,

Remuneration and Nomination & Governance Committees) to assist and advise it in carrying out its role effectively.

The Board shall put in place a reporting calendar to ensure it has the reporting, tools and information necessary to fulfil its role.

- 11. Board evaluation** At least annually the Board evaluates its own performance and effectiveness to ensure it has the appropriate balance of skills, experience, independence, knowledge and diversity necessary to make decisions effectively and that the Board and its individual members are performing effectively. The Board undertakes a periodic evaluation with the assistance of an external party.
- 12. Directors' conduct**
- 12.1. Board members should among others:
- i. adhere to the highest standards of fairness, honesty and integrity and act with sound judgment in accordance with relevant legal and regulatory requirements and in the Company's interest;
  - ii. devote sufficient time to fulfil their role and responsibilities and comply with the rules governing the limitation of external functions;
  - iii. carry out their duties with the necessary objectivity and independence of mind; and
  - iv. comply with confidentiality rules; in respect of any non-public information that might come to the knowledge of Board members in the exercise of their functions as Board members, whether in writing or orally, whether during formal meetings or informal discussions. Each Board member will:
    - i. acknowledge that such information is confidential and is shared with him or her only in their capacity as a Board member; and
    - ii. undertake to keep such information confidential and not use it for purposes other than for the exercise of their Board membership.
- 13. Directors' liabilities**
- 13.1. Board members are informed upon appointment of their duties and potential liabilities and are reminded of these on a periodic basis.
- 13.2. Board members benefit from directors and officers insurance taken out by the Company.

- 14. Directors' remuneration**
- 14.1. The collective amount of the remuneration of the Board members is set by the shareholders general meeting.
- 14.2. The individual remuneration of Board members is determined in line with the Compensation policy of the Company and the applicable laws and regulations on remuneration and is set out in their employment contracts and/or in their terms of appointment, as appropriate, or in any amendments thereof. The remuneration of the independent and other non-executive members of the Board will not be linked to the business performance of the Company.
- 15. Conflicts of Interest**
- 15.1. Board members have to comply with the applicable rules on conflicts of interest and with the Policy on Conflicts of Interest for Board members.
- 15.2. In particular, Board members should immediately notify potential or actual conflicts of interest of which they are aware, and inform the Board Secretary or Chair immediately; the Chair will determine how to conclude on the conflict of interest and, where necessary, the steps to be taken to manage such conflict in line with the procedure set out in the Policy on Conflicts of Interest for Board members.
- 15.3. Where the Chair has a potential or actual conflict of interest, the process to conclude on that conflict of interest shall be the responsibility of an independent non-executive member of the Board, who will determine how to conclude on this conflict of interest and, where necessary, the steps to be taken to manage such conflict, in line with the procedure set out in the Policy on Conflicts of Interests for Board members, without any involvement of the Chair.
- 16. Review of Terms of Reference**
- This document shall be reviewed at least annually by the Board.
  - Last approved by the Board on 15 October 2019.
- 17. Publication of Terms of Reference**
- This document was last published on the Euroclear website on 1st January 2020.

**Standard Operating Procedure  
with respect to matters subject to  
referral to Euroclear SA/NV (“ESA”)**

## 1. Reference information

Procedure Owner	ESA CoSec
Key contact(s)	Head of the Corporate Secretariat Division
Last updated	Board - June 2018
Next revision	Annually (2019) or earlier if required

## 2. Introduction and Scope

ESA is the direct parent company of several national or international Central Securities Depositories (the “**CSDs**” or “**Operating Entities**” and, together with ESA, also referred to as the “**Group**”) with responsibility for consolidated oversight. Therefore the Board of Directors of ESA (the “**ESA Board**” or “**Board**”) sets the Group strategic objectives and overarching frameworks and policies, without prejudice to the legal autonomy and responsibility of the boards and management of the Operating Entities.

The structure and composition of the board and management bodies of each Operating Entity ensure that the entity has the requisite autonomy and authority to manage effectively the affairs and interests of the Operating Entity, taking into account the needs of the Group and in accordance with legal and regulatory requirements applicable to it. This is expanded in the governance documents of each Operating Entity.

ESA has put in place a control framework which ensures that its own management bodies are aware of material deviations from the Group’s strategic and financial objectives as well as its risk management and governance framework and have the means to act where any such deviation could compromise the soundness or risk profile of the Group. This control framework comprises the Group Strategic Objectives (Annex 3), the Group Financial Policy Objectives (Annex 4), the Group Risk Management Framework (Annex 5) and the Group Governance Framework (annex 6). These frameworks are underpinned by a series of group policies. The list of relevant policies can be found in Section B of Annex 2.

The Group strategic objectives and overarching frameworks and policies have been designed in compliance with relevant laws and regulations and are driven by the following principles:

- consistent, transparent and well integrated governance arrangements, processes and mechanisms whereby the ESA Board is aware of the material risks and issues facing the Group;
- promotion of effective and transparent internal control, risk management and compliance arrangements;
- successful implementation of the Group’s strategy;
- avoidance of fragmentation, duplication and value destruction; and
- promotion of consistent group values, ethics and culture

whilst at the same time, ensuring that the (I)CSDs:

- can follow the Group strategic direction and risk appetite but remain independent and have flexibility to meet local needs and take advantage of local opportunities;
- comply at all times with local regulation including having in place robust and transparent governance and risk arrangements in their individual entities;

- have access to sufficient and adequate resources (including financial and human resources) to operate as an (I)CSD.

**In order to ensure a coherent management of all entities of the Group and monitor effectively the risks faced by the entities of the Group, the CSDs will bring for consideration of ESA the matters set out in Section 3.**

**The boards and management of all Operating Entities are expected to comply with the Group strategic objectives and meet the standards set out in the various group frameworks and policies. These standards are the minimum standards expected to be met by each Operating Entity. In addition, each entity is expected to operate within the legal and regulatory requirements of the country in which it is incorporated.**

**Section 4 details the referral procedure between CSDs and ESA. Referrals will at all times be made subject to and in accordance with applicable conflicts of interest procedures.**

Each CSD should ensure that it has in place the adequate internal operational procedures to refer the matters set out below to ESA where necessary.

This document remains subject to applicable legal provisions and does not prevent the ESA Board from (i) delegating authority as it deems appropriate from time to time in accordance with the Articles of Association of ESA; or (ii) having full access to, or requiring to be (kept) informed on issues which fall outside the scope of the matters described below but necessary for its (consolidated) oversight responsibilities.

In case of conflict between the provisions in this document and applicable local legal or regulatory requirements, the latter prevail to the extent of such conflict.

### **3. Matters requiring referral to ESA**

#### **A. Reserved Matters**

Each CSD shall refer to ESA and obtain formal approval before taking decisions in respect of the following matters:

##### Group Strategy Framework:

- Reserved Matters as defined in the Group Strategy Framework

##### Group Financial Policy Objectives:

- Changes to (or decisions aiming at lowering) the key minimum financial targets, control or ratios to be respected by each Operating Entity or the applicable dividend policy principles below those set out in the Group Financial Policy Objectives;
- Requests for capital contribution or major financing facilities in excess of the threshold set out in the Group Financial Policy Objectives;
- Approval of transactions (acquisition, disposal or transfer of assets (including intellectual property rights), merger, takeover, capital restructuring, joint-venture undertaking or otherwise investments or divestments both intra-group or in third companies exceeding the following threshold: shareholder approval required for material terms in corporate transactions in and outside the consolidation

perimeter (material means in excess for 2.5% of CE (CSDs) or CET1 (EB) capital).

- Entering into financing arrangements and/or granting of real or personal liens, such as guarantees, charges (fixed or floating), mortgages, suretyships, encumbrances, pledges, etc. on the assets of the CSD exceeding the following amounts: EB and other CSDs cannot enter into financing arrangements or provide financial guarantees in and outside the group, in excess of 5% of their CE or CET1 capital without shareholder consent;
- Changes to accounting principles as set out in in the Euroclear plc manual of accounting;
- Any deviation of the Group Investment Policy Handbook (not applicable to EB)

#### Group Risk Management Framework:

- Each CSD is required to comply with the Group Risk Management Framework contained in the Corporate Risk Management Board Policy. Any deviation from those principles shall be considered a reserved matter requiring ESA approval;

#### Group Governance Framework:

- Changes to the governance documents adopted by the CSDs which would no longer be in line with the Group Governance framework is a reserved matter;
- CEO appointment/removal of an Operating Entity by the Board of the Operating Entity; for the avoidance of doubt it is clarified that the decision to appoint/remove a CEO remains within the powers of the Board of the Operating Entity but that such decision is subject to ESAs approval and needs to be taken with due respect for all applicable legal and regulatory requirements.

### **B. Consultation Matters**

Each CSD shall refer to ESA for consultation the following matters:

- Each CSD should adopt policies and frameworks consistent with the Group policies and frameworks set out in Annex 2 hereto. Adopting decisions or making changes to policies or frameworks which go below the minimum standards which are set out in the Group policies and frameworks listed in Section B of Annex 2 shall be a matter for consultation;
- Initiating or settling any major litigation, arbitration or other proceeding, either affecting the reputation and/or risk profile of the Group or exceeding the threshold set out in the Group Financial Objectives;
- Appointing and dismissing any members of the Management Committee other than the CEO
- Transactions (acquisition, disposal or transfer of assets (including intellectual property rights), merger, takeover, capital restructuring, joint-venture undertaking or otherwise investments or divestments both intra-group or in third companies not qualifying as Reserved Matters but exceeding the following threshold: Shareholder approval required for material terms in corporate

transactions in and outside the consolidation perimeter (material means in excess of 1% but lower than 2.5% of CE (CSDs) or CET1 (EB) capital).

- Entering into financing arrangements and/or granting of real or personal liens, such as guarantees, charges (fixed or floating), mortgages, suretyships, encumbrances, pledges, etc. on the assets of the CSD not qualifying as Reserved Matters but exceeding the following amounts: EB and other CSDs cannot enter into financing arrangements or provide financial guarantees in and outside the group, in excess of 2% but lower than 5% of their CE or CET1 capital without shareholder consent.

#### **4. Referral procedure**

- Each CSD's MC<sup>1</sup> shall see that each item mentioned under Section 3 be subject to prior referral to ESA before being formally adopted, insofar the group view has not already been sought and obtained earlier;
- Each proposal as mentioned under Section 3 shall be submitted by the sponsor at CSD's MC level to the competent sponsor of ESA MC following a standard format as provided for in annex 1. Likewise, if there is any doubt as to whether a particular matter falls within the scope of Section 3, the matter shall be referred to the ESA MC sponsor who shall notify the MC sponsor at CSD level of his decision in this respect as soon as possible;
- The ESA MC sponsor shall place the proposal on the agenda of the next ESA MC (or the ESA MC committee having the relevant delegated power). Where necessary, the matter shall be referred to the first upcoming ESA Board in accordance with its Terms of Reference. The respective committee secretaries shall liaise for timely consideration of the matter in their own committee;
- Upon his request, the sponsor at CSD's MC level (or his delegate) may also attend the relevant committee meeting to present the matter;
- Review by ESA should consider the balance between group and local interests, including local regulations, materiality (impact, duration) of deviation from the group framework or policy and mitigating measures;
- When reviewing a proposal qualifying as:
  - Reserved Matters, ESA will inform the CSD in writing whether or not it objects to the CSD's proposal or whether it consents to the proposal under conditions;
  - Reporting Matters, ESA will issue an advice in writing on the CSD's proposal
- The ESA MC sponsor shall communicate the ESA decision or advice as soon as the matter has been dealt with by ESA;
- After receipt of the decision or advice, the CSD's MC may proceed with the proposal considering the referral's outcome. Whenever the issue falls within the remit of the CSD's Board, the CSD's MC shall for completeness' sake and information purposes include ESA's response in its proposal to its own board.

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<sup>1</sup> In this Section 4 the expression «CSD MC » refers to the relevant CSD's Management Committee or any other competent management body or individual (CEO) according to the CSD's own governance.



- In exceptional urgent circumstances, the above referral procedure may be substituted by direct contact between the CSD's Chair/CEO and ESA Chair/CEO as the case may be.

***Last approved by the Boards of Euroclear Belgium, Euroclear France and Euroclear Nederland on [13 July 2018].***

## **ANNEX 1: STANDARD MEMO TO ESA MC**

Category of item (reserved/consultation matter) subject to prior referral to ESA

Description of proposal and its estimated impact

Justification

## **ANNEX 2: OVERVIEW OF RELEVANT GROUP FRAMEWORKS AND POLICIES (as of June 1, 2108)**

### **Section A**

#### **Reserved Matters**

The following documents form the group framework for the purpose of the Reserved Matters:

- Group Strategic Objectives (annex 3)
- Group Financial Policy Objectives (annex 4)
- Corporate Risk Management Board Policy (annex 5)
- Group Governance Framework (annex 6)

In addition, the following documents should also be considered reserved matters:

- Euroclear Group plc Manual of Accounting Policy
- Group Investment Policy Handbook (not applicable to EB)

### **Section B**

#### **Consultation Matters**

- Admission and On-Going Monitoring of Participants in the Securities Settlement Systems Policy Handbook
- Financial Risk Policy handbook (EB only)
- Ethical Conduct, Legal and Compliance Risk Board Policy
- Board Code of Ethics- Policy on Conflicts of Interests for Board members - Policy on External Mandates for Board and Senior Management
- Policy Handbook on Conflicts of Interest and External Mandates
- Compensation Policy
- Outsourcing and CSP Board policy
- Euroclear Group Inter-Company Transaction Policy
- Business Continuity Strategy Board Policy
- Information Technology Framework Board Policy
- New Initiative, Product & Pricing Board Policy
- Policy Framework Policy Handbook
- Board and Board Committee Composition Policy
- External Auditor Engagement Policy

### **ANNEX 3: GROUP STRATEGY FRAMEWORK**

This document provides the framework to be followed by the CSDs of the Euroclear Group in respect of strategic matters. It applies to Euroclear SA/NV (ESA) and its CSD subsidiaries being Euroclear Bank (EB), Euroclear France, Euroclear Belgium, Euroclear Netherlands, Euroclear UK& Ireland, Euroclear Finland and Euroclear Sweden (individually the "CSD" and together the "CSDs" hereafter). ESA together with the CSDs are herein referred to as the "Euroclear Group" or the "Group".

It defines the Group strategy and pricing framework for the Group CSDs. It aims to ensure overall alignment of our strategic positioning and service provision, and reinforce the overall value proposition of the Group. The Group CSDs operate within this framework, deviation from which is considered as a Reserved Matter.

#### **Strategy policy**

The strategies of the Group CSDs should be consistent with the overall Group strategy. The overall Group strategy is defined around three axes:

- Provision of core regulated CSD services within the CSD Regulatory framework, which reflect our role of a trusted, resilient, cost effective FMI, delivering services for the market (Claim & Protect)
- Expansion of services and revenues in growth areas, with a focus on domains such as collateral management, funds distribution, Global Reach, and data solutions, leveraging Group synergies (Expand & Grow)
- Innovation of existing services and development of new services adjacent to the core offering of the Group, strengthening our ecosystem across asset classes, client segments, and geography, and seeking synergy within the Group (Explore & Develop)

The overall CSD service deployment should fit with our longer term perspective of developing and strengthening the ecosystem and offering an open architecture. Services can be deployed organically and/or in partnership and through ventures, consistent with other relevant Reserved Matters.

#### **Pricing policy**

The CSD should adhere to the principles of fair and transparent pricing as defined in the NIPP Group policy (ESA's New Initiative, Product and Pricing Board Policy). Pricing should be set to allow to meet the business objectives of the CSD, taking the value to users into account, reflecting costs and risks associated with the service, and in compliance with competition law.

## **ANNEX 4: GROUP FINANCIAL POLICY OBJECTIVES**

This document is designed as the framework to be followed by the CSDs of the Euroclear Group in respect of financial matters. It applies to Euroclear SA/NV (ESA) and its CSD subsidiaries being Euroclear Bank (EB), Euroclear France, Euroclear Belgium, Euroclear Netherlands, Euroclear UK& Ireland, Euroclear Finland and Euroclear Sweden (individually the "CSD" and together the "CSDs" hereafter). ESA together with the CSDs are herein referred to as the "Euroclear Group" or the "Group".

### **Principles**

Each entity of the Euroclear Group should adopt a budget before the beginning of its financial year which shall be approved by its Board. The budget shall be consistent with the concepts set out in this framework and should be developed in consultation with the ESA's Group Finance Division to ensure consistency between all the entities of the Group.

Each CSD shall define its various financial ratios and targets in line with this framework. An entity can define ratios and targets which may be higher than those set out in this framework but cannot define lower ratios or targets without the consent of ESA, acting as shareholder.

Any decision relating to the deviation of the various ratios and targets adopted by an entity below those set out in this framework (section II) shall require the consent of ESA, acting as a shareholder.

Each entity is expected to consult first with ESA in respect of those matters set out in section (III) of this framework before a decision is adopted by such entity.

Referral shall be carried out in accordance with the procedure set out in the Standard Operating Procedure with respect to matters subject to referral to ESA.

Each entity is expected to report on a monthly or quarterly basis (as the case may be) its financial performance by using the reporting tools implemented by the Group Finance Division. The reporting shall cover, at a minimum, the matters set out in this framework.

In case of inconsistency between the rules and principles set forth in this document and those established in the context of a CSD's recovery and resolution planning, the latter will prevail.

### **Reserved matters**

#### **1. Deviating from Key Financial Targets and Dividend policy**

##### **1.1. Dividend and capital management policy**

###### EB

- CET1 (excl. CY net profit as per ICAAP) shall reach up to **15% above P2R+ wind down + combined buffer requirement** (i.e. €1,65 bn in 2018 and up to € 1,70 Bn in 2020)
  - If met, the Company is expected to pay dividend for up to 100% of its CY profit.
  - If capital is below, the Company cannot distribute more than 80% of its CY profits.

- To secure group dividend distribution, **interim dividends could be envisaged as soon as early Q3 each year** based on end Q2 results and reach [between 80-100%] of accumulated interim audited CY profit reported.
- **CET1 capital ratio** shall be maintained at **min 30% of RWA** at all times.

#### Other CSDs

- Core equity (CE) **capital shall meet highest requirement (i.e. CSDR as per ICAAP ) with a 20% buffer:**
  - If met, the Company is expected to pay dividend for up to 100% of its CY profit
  - If buffer above CSDR is between 10% and 20%, the Company cannot distribute more than 90% of its CY profits.
  - If below 10%, the Company cannot envisage any dividend payment.

For both EB and the other CSDs, dividend distributions will always take into account any future investment (capital expenditures or financial assets) and evolution of applicable capital requirement (including any management buffer imposed to the entity) over the next 2-3 years as planned under the ICAAP.

#### **1.2. Deviating from key financial targets:**

To reach group performance and return objectives, each CSD of the group will be monitored via 3 main financial ratios:

- ROE (Return on Equity):
    - Net profit of the year on average CE (CSDs) or CET1 (EB) of that year.
    - RoE during the year will be computed on the basis of the preceding 12-months period of results.
  - Operating margin:
    - EBIT – excl. Inter-CSD’s project recharges - on operating income for CSDs
    - EBIT – excl NIE on business income for EB.
  - Operating leverage:
    - Difference between operating income growth and growth in administrative expenses - excl. Inter-CSD’s project recharges for CSDs.
    - Difference between business income growth and growth in administrative expenses for the Bank.
    - Operating leverage will be finally assessed over a 3 year time span where CAGRs will be applied to assess compliance.
- CSDs of the group are then supposed to reach a minimum level for each ratio. If such minimum levels are not met in 2018 or any time later, shareholder escalation would be required.
- Aspirational targets will also be provided for each ratio. The CSD shall then be in a position to reach such targeted levels after a 3-year time horizon provided the market conditions remain in line with currently expected levels for such time period. Simultaneously, a breach of aspirational targets after such 3 year period would also be treated as a shareholder matter.

Thresholds on the level of each ratio applicable to EB and the other CSDs are defined as follows:

### 1.2.1. Return on Equity (RoE):

<b>Entity</b>	<b>Minimum Level</b>	<b>Aspirational Target</b>
EB	10%	15%
EFR-EUI	15%	18%
EBe, ENL, ESW, EFN	8%	10%

The different levels between entities reflects (i) the different size of business activity as well as the differing risk profiles requiring each entity to hold a specific amount of capital to cover them (i.e. credit risk capital in the bank, business risk capital in small CSDs, etc).

### 1.2.2. Operating Margins

<b>Entity</b>	<b>Minimum Level</b>	<b>Aspirational Target</b>
EB	25%*	30%+
EFR-EUI-ENL-ESW	20%	25%+
EBe, , EFN	15%	20%+

\* existing yardsticks

The treatment applicable to entities reflects the different volume and business profiles of the group entities.

### 1.2.3. Operating Leverage

<b>Entity</b>	<b>Minimum Level</b>	<b>Aspirational Target</b>
EB	100bps	200bps
EFR-EUI	0	100bps
EBe, ENL, ESW, EFN	0	100bps

Operating Margin and Operating leverage levels are set at higher levels in EB than in the other CSDs, as it reflects the larger service portfolio in the Bank, where services with higher margin and growth potential are provided to clients and contribute more materially to the performance of the company (e.g. Collateral Highway, Global Reach, SLB, etc).

## 2. Treasury Investment for CSDs

The investment of the own funds of the CSD shall be made in compliance with the group investment policy principles approved by the shareholder. Any deviation of these principles should be referred to ESA for prior approval.

## 3. Issuing any request for capital contribution or major financing facilities

- EB and other CSDs cannot **issue any request for capital contribution** or any major financial facilities in excess of **[5%] of their CE or CET1 capital w/o** shareholder consent.

#### **4. Thresholds for strategic or financing matters which require the shareholder's approval**

##### **4.1. Approval of transactions (acquisition, disposal or transfer of assets (including intellectual property rights), merger, takeover, capital restructuring, joint-venture undertaking or otherwise investments or divestments both intra-group or in third companies exceeding the following threshold:**

- Shareholder approval required for material terms in corporate transactions in an outside the consolidation perimeter (material means in excess for [2.5%] of CE (CSDs) or CET1 (EB) capital).

##### **4.2. Entering into financing arrangements and/or granting of real or personal liens, such as guarantees, charges (fixed or floating), mortgages, suretyships, encumbrances, pledges, etc. on the assets of the subsidiary exceeding the following amounts:**

- EB and other CSDs cannot enter into financing arrangements or provide financial guarantees in and outside the group, in excess of [5%] of their CE or CET1 capital without shareholder consent.

#### **Consultation matters**

##### **1. Initiating or settling any major litigation, arbitration or other legal proceeding, either affecting the reputation and/or risk profile of the Group or exceeding the following amounts:**

- EB: €3,000K
- EUI-EFR: €750 K (or € equivalent).
- Other CSDS: €250K

##### **2. Approval of transactions (acquisition, disposal or transfer of assets (including intellectual property rights), merger, takeover, capital restructuring, joint-venture undertaking or otherwise investments or divestments both intra-group or in third companies exceeding the following threshold:**

- Shareholder approval required for material terms in corporate transactions in an outside the consolidation perimeter (material means in excess of [1%] but lower than [2.5%] of CE (CSDs) or CET1 (EB) capital).

##### **3. Entering into financing arrangements and/or granting of real or personal liens, such as guarantees, charges (fixed or floating), mortgages, suretyships, encumbrances, pledges, etc. on the assets of the subsidiary exceeding the following amounts:**

- EB and other CSDs cannot enter into financing arrangements or provide financial guarantees in and outside the group, in excess of 2% but lower than [5%] of their CE or CET1 capital without shareholder consent.



**ANNEX 5: GROUP RISK MANAGEMENT FRAMEWORK: CORPORATE RISK  
MANAGEMENT BOARD POLICY**

[Link to document](#)

## **ANNEX 6: GROUP GOVERNANCE FRAMEWORK**

[Link to document](#)