

VIA EMAIL TO: [comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

16 January 2019  
The Secretary  
Ontario Securities Commission  
20 Queen Street West, 22nd Floor  
Toronto, Ontario M5H 3S8

**LCH Limited Response to CSA Consultation on Proposed Amendments to National Instrument 24-102 Clearing Agency Requirements and Proposed Changes to Companion Policy 24-102 Clearing Agency Requirements (October 2018)**

Dear All,

LCH Limited ("LCH") is recognised as a Clearing Agency by the Ontario Securities Commission ("OSC") to offer SwapClear, ForexClear and RepoClear clearing services to Ontario-resident clearing members.

This document includes the LCH response to the Canadian Securities Administrators (CSAs) consultation on the proposed amendments to National Instrument 24-102 Clearing Agency Requirements and proposed changes to companion policy 24-102 Clearing Agency Requirements.

LCH appreciates the efforts of the CSA to further align the National Instrument to the CPMI IOSCO's Principles for Financial Markets Infrastructures. We hope that this response will assist the CSAs, including the OSC, in the development of the final requirements.

Should you have any questions, please contact me at [julian.oliver@lch.com](mailto:julian.oliver@lch.com) or Valentina Cirigliano at [valentina.cirigliano@lch.com](mailto:valentina.cirigliano@lch.com).

Yours sincerely,



Julian Oliver  
Chief Compliance Officer  
LCH Limited

**LCH response to CSA consultation:**

LCH would like to provide comments in respect to the following proposed requirements in Part 4 of the National Instrument:

▪ **Chief Risk Officer and Chief Compliance Officer – paragraph 4.3 (1)**

The CSAs propose to require the Chief Risk Officer and Chief Compliance Officer to report directly to the board of directors to ensure more independence of those functions.

The LCH Chief Risk Officer and Chief Compliance Officer each have a reporting line to the LCH Chief Executive Officer. It is LCH's view that this ensures the CEO has a balanced view and has responsibility to take into account compliance and risk matters alongside the financial performance of the business. However, to mitigate any risk of conflict, each function make reports to the LCH Board about compliance and risk matters, respectively.

Further, the Chief Compliance Officer makes reports to the LCH Audit Committee. This is a Board committee, whose Terms of Reference require it to review the performance of the Chief Compliance Officer and make recommendations with respect to such performance to the Board.

LCH complies with the LCH Group Conflicts of Interest Policy which sets out the methods for identifying and managing potential and actual conflicts of interest. A register of conflicts is held and updated on quarterly cycle. Where a potential conflict may arise, specific conflicts of interest management procedures are applied.

LCH believes the above measures are adequate to ensure that the Board has a sufficient level of oversight of the Chief Risk Officer and Chief Compliance Officer functions, while the direct reporting line remains with the Chief Executive Officer.

▪ **Auxiliary systems – paragraph 4.6.1 (1)**

The proposed definition of the term 'auxilliary' in the context of this section seems broad. LCH believes that the term 'auxiliary systems' cover systems which are part of a clearing agency's ecosystem and under its control. This ensures that the clearing agency's focus both from the perspective of information security controls and the management of the operational risks extends to all systems specifically used by it to carry out its activities.

▪ **Systems reviews – paragraph 4.7.(1) (a)**

The current requirement prescribes that clearing agencies engage with qualified parties to conduct the annual independent system reviews. The proposal mandates the use of external auditors to fulfil the obligation.

LCH meets the current requirement by having the reviews carried out by an independent internal audit function, which adheres to the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing. The independent nature of this function ensures it maintains objectivity, while being familiar and knowledgeable about the systems subjected to the review. Once finalised, the output of the independent system reviews is then reported to the LCH Audit Committee.

LCH does not believe that annual reviews by external auditors would bring additional benefits to the resilience of the control environment. LCH believes it would be reasonable for the requirement to continue to refer to 'qualified party', which could be an external or internal auditor at the clearing agency's discretion.