

# THE OPTIONS CLEARING CORPORATION

## RISK COMMITTEE CHARTER

### I. Purpose

The Board of Directors (the “Board”) of The Options Clearing Corporation (“OCC”) has established a Risk Committee (the “Committee”) to assist the Board in overseeing OCC’s financial, collateral, risk model and third-party risk management processes. The purpose of the Committee is also to advise management regarding these aspects of OCC’s operation. Additionally, the Committee is responsible for performing those functions delegated to the Committee under OCC’s By-Laws and Rules. In fulfilling its responsibilities, the Committee shall prioritize the safety and efficiency of OCC, generally support the stability of the broader financial system and consider legitimate interests of Clearing Members, customers of Clearing Members and other relevant stakeholders taking into account prudent risk management standards (including systemic risk mitigation) and industry best practices.

### II. Membership and Organization

- A. Composition. The Committee shall consist of (i) the Chairman<sup>1</sup>, (ii) at least one Exchange Director, (iii) at least one Member Director, and (iii) at least one Public Director, each of whom shall be appointed each calendar year by the Board. At least a majority of the Committee shall be composed of directors who are independent directors, consistent with Securities and Exchange Commission Rule 17Ad-25(e) and the judgement of the Board. Committee members will be selected by the Board from among the directors recommended by the then-constituted Governance and Nominating Committee after consultation with the Chairman and shall serve at the pleasure of the Board. In making their nominations, the Governance and Nominating Committee and the Board take into consideration the desire to obtain input from a broad array of market participants on risk management issues and the ability of the Committee to provide a risk-based, independent and informed opinion on all matters presented to it for consideration. The Board may remove or replace any member of the Committee at any time. The Committee shall be chaired by a Public Director. Unless a Chair is elected by the full Board, the members of the Committee shall designate a Chair by majority vote of the full Committee membership. In the absence of the Chair at any meeting of the Committee, those members of the Committee present shall designate a Committee member to serve as the Acting Chair.

In the event of a vacancy on the Committee, the Committee will continue to undertake its responsibilities, so long as the remaining Committee members are capable of satisfying the quorum requirement.

Meetings. The Committee will meet at least four times a year, inclusive of

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<sup>1</sup> Or “Executive Chairman” in the event this role is filled by an Executive Chairman.  
Risk Committee Charter. Last Revised: December 2, 2024

joint meetings with other Board committees. Other meetings may be called by the Chair as circumstances dictate. The Committee Chair or its designee, in consultation with management, as well as the Corporate Secretary, shall establish the agenda for Committee meetings. The members of the Committee may ask members of management or others to attend the meeting and provide pertinent information as is necessary. The Committee may call executive sessions from which members of management and invited guests of the Committee may be excluded. Individual Committee members also may be excluded from executive sessions or portions thereof at which the discussion involves a matter as to which that member has an actual or potential conflict of interest. The Committee will meet in executive session at each regular Committee meeting and will determine who will participate in such session. The Committee Chair or the Acting Chair, as applicable, will serve as chair for the executive session. Members of the Committee may participate in meetings by means of a conference telephone call or other means of communication that allows all participants in the meeting to hear each other. However, as provided in the Code of Conduct for OCC Directors, attendance by telephone or videoconference for meetings that are scheduled for in-person attendance is discouraged. The Committee shall meet regularly, and at least once each calendar year, with members of management and the Chief Risk Officer in separate executive sessions to discuss any matters that either side believes should be discussed privately. Between meetings of the Committee, the Chief Risk Officer is authorized to communicate directly with the Chair with respect to any of the responsibilities of the Committee.

- B. Quorum. A majority of the Committee members shall constitute a quorum for the transaction of business.
- C. Minutes and Reports. The Committee shall maintain minutes of all Committee meetings. The Chair or Acting Chair, as applicable, shall determine whether separate minutes of an executive session are to be recorded as well as determine the level of detail to be included in such minutes, taking into consideration the sensitivity of the matters to be discussed and the possibility that candor might be limited if detailed minutes are recorded. It is expected that meeting minutes will reflect that an executive session was convened and broadly describe the topic(s) discussed. Minutes of Committee meetings shall be circulated to the Board.

The Committee shall make such reports to the Board as deemed necessary or advisable. The Committee Chair is responsible for ensuring that important issues discussed at the Committee meetings are reported timely to the full Board. Each calendar year, the Committee shall provide a report to the Board summarizing its activities during the previous year.

### **III. Authority**

- A. Scope. Subject to the direction of the Board, the Committee is authorized to act on behalf of the Board with respect to any matter necessary or appropriate to the accomplishment of the purpose and responsibilities set forth in this Charter. In discharging its role, the Committee may inquire into any matter it considers appropriate to carry out its purpose and responsibilities, with access to all books, records, facilities and personnel of OCC. The Committee shall confer with management and other employees of OCC to the extent it may deem necessary or appropriate to fulfill its duties. Where the Committee is authorized to approve reports or proposals provided to it by management, the Committee may or may not approve such matters in its business judgment. If the Committee does not approve such a report or proposal, it shall report to management that it has not approved such matter and may provide direction as to revisions or alternative courses of action as appropriate. The Committee shall report to the Board in the event that it does not approve a report or proposal provided to it by management, including the reasons for non-approval.

From time to time, the Committee may receive reports and guidance relating to financial risk issues from, among others, the OCC Financial Risk Advisory Council and, in the exercise of its fiduciary judgment, shall take such guidance into account in the performance of its functions and responsibilities.

The Committee shall have the authority to hire specialists or rely upon other outside advisors or specialists to assist it in carrying out its activities. The Committee also shall have the authority to approve the fees and retention terms applicable to such advisors and specialists. The Committee's annual report to the Board will reference any engagement of specialists or outside advisors, including any fees and expenses associated therewith.

The Committee shall perform its responsibilities in accordance with this Charter and applicable regulatory requirements.

- B. Delegation. The Committee may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Committee and to one or more designated officers. The Committee may refer a risk under its oversight to another committee or the Board as advisable or appropriate. However, in all instances, the Committee retains the obligation to oversee such delegated or referred activity and to assure itself that delegation and reliance on the work of such delegates is reasonable.

#### **IV. Functions and Responsibilities**

The Committee's role is one of oversight. It remains the responsibility of OCC management to identify, measure, manage, monitor and report on financial, collateral, risk model and third-party risks arising from OCC's business activities in light of OCC's role as a systemically important financial market utility.

The Committee shall have the following functions and responsibilities in discharging its oversight role:

- The Committee shall review at least once every twelve months the adequacy of OCC's management of risks related to credit exposures, including its margin and clearing fund methodologies. The Committee shall have the authority to approve all material changes to written policies with respect to the management of risks related to credit exposures. The Committee shall receive a monthly report from management that provides information on the effectiveness of the management of risks related to credit exposures, including the results of (i) a comprehensive analysis of the existing stress testing scenarios, models, and underlying parameters and assumptions, and (ii) a sensitivity analysis of OCC's margin model and a review of the margin model's parameters and assumptions for back testing.
- The Committee shall review at least once every twelve months the adequacy of OCC's management of collateral risks. The Committee shall have the authority to approve all material changes to written policies related to the management of collateral risks. The Committee shall receive a quarterly report from management that provides information on the effectiveness of OCC's management of collateral risks.
- The Committee shall review at least once every twelve months the adequacy of OCC's management of liquidity risks, including the adequacy of any committed liquidity facilities. The Committee shall have the authority to approve all material changes to written policies with respect to the management of liquidity risks. The Committee shall receive a monthly report from management that provides information on the effectiveness of OCC's management of liquidity risks, including the results of a comprehensive analysis of existing stress testing scenarios, models, and underlying parameters and assumptions used in evaluating liquidity needs.
- The Committee shall oversee OCC's risk models and risk model validation process. The Committee shall have the authority to approve all material changes to written policies with respect to risk model management. The Committee shall review and have the authority to approve all new risk models and recommend such changes to the Board for approval. The Committee shall review and have the authority to approve material changes to existing risk models. Additionally, the Committee shall review and have the authority to approve the annual risk model validation plan and plan deviations, and any Chief Risk Officer recommendations for removing or deferring any risk model validation from a previously approved risk model validation plan. The Committee shall receive a quarterly report from the Chief Risk Officer that provides information on progress against the annual risk model validation plan and measures being taken by management regarding findings made. The Committee also shall review the results of any third-party validations of OCC's risk models and, if any, recommended actions and remediation plans.

- The Committee shall review and have the authority to approve at least once every twelve months OCC's risk appetites and risk tolerances.
- The Committee shall review and have the authority to approve new products that materially impact OCC's established risk profile or introduce novel or unique financial, risk model and third-party risks and shall refer such products to the Board for approval.
- The Committee shall oversee OCC's Recovery and Orderly Wind-Down Plan. The Committee shall review and have the authority to approve at least once every twelve months the adequacy of OCC's Recovery and Orderly Wind-Down Plan and recommend approval thereof to the Board. The Committee shall have the authority to approve all material changes to the Recovery and Orderly Wind-Down Plan and recommend such changes to the Board for approval.
- The Committee shall consult with OCC's non-Board-level risk management committee and consider and respond to input from that non-Board-level risk management committee on all matters that could materially affect OCC's risk profile, and provide such information to the Board for its consideration.
- The Committee shall oversee the framework for Clearing Membership, including (i) periodically reviewing and revising, as appropriate, OCC's initial and ongoing requirements for Clearing Membership, (ii) overseeing the processes established for reviewing and monitoring Clearing Membership (including in respect of the continuance of potentially problematic members), and (iii) making recommendations to the Board, as applicable, for final determination in respect of the foregoing. At least once each calendar year, the Committee shall review the investigation and enforcement outcomes of disciplinary actions taken by the OCC against Clearing Members through its established processes.
- The Committee shall at least once every twelve months review the adequacy of OCC's management of third-party risks. The Committee shall receive a quarterly report from management that provides information on the effectiveness of OCC's management of third-party risks, including key linked and vendor relationships, and provide risk assessments to the Board for any service providers providing core services to OCC, consistent with regulatory requirements.
- The Committee shall have the authority to approve management's recommendation to appoint or replace the Chief Risk Officer. The Chief Risk Officer shall report functionally to the Committee and administratively to a member of the Management Committee designated by the Committee. The Committee shall at least once every twelve months review and have the authority to approve the Chief Risk Officer's goals and objectives and any material changes thereto. The Committee shall at least once every twelve months review the performance of the Chief Risk Officer with respect to performance assessment and annual compensation for the Chief Risk Officer.
- The Committee shall at least once every twelve months review the structure and

staffing of OCC's financial risk management and corporate risk management functions.

- The Committee shall review the results of any audits (internal and external) as to financial, collateral, risk model and third-party risk management processes or any other matter relating to the areas that the Committee oversees, as well as management's responses pertaining to such audits.
- The Committee shall identify risk issues relating to the areas that the Committee oversees that should be escalated to the Board for its review and consideration.
- Each calendar year, the Committee shall confirm to the Board that all responsibilities outlined in this Charter have been carried out.
- Each calendar year, the Committee shall assess its and its individual members' performance and provide results of such assessment to the Governance and Nominating Committee for review.
- The Committee shall perform such other responsibilities and functions as shall from time to time be assigned to it under the By-Laws and Rules, other policies or delegated to it by the Board, including authorizing the filing of regulatory submissions pursuant to such delegation.
- The Committee shall perform any other duties consistent with this Charter as the Committee deems necessary or appropriate, or as the Board shall further delegate to the Committee.

## **V. Review Cycle**

The Committee will review this Charter at least once every twelve months. The Committee shall submit this Charter to the Governance and Nominating Committee and the Board for approval, with such changes, if any, as the Committee deems advisable.