

VIA CFTC PORTAL

22 February 2019

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

LCH Limited Self-Certification: Terms of Reference of the Remuneration Committee

Dear Mr Kirkpatrick,

Pursuant to CFTC regulation §40.6(a), LCH Limited ("LCH"), 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 Remuneration Committee of the Board of Directors.

These amendments were approved at the LCH Limited Board meeting on 21st February 2019.

Part I: Explanation and Analysis

The attached Terms of Reference for the LCH Limited Remuneration Committee have been amended to reflect and clarify changes in operation, namely;

- Amending "Annual Remuneration package" to "Recruitment and Termination Package" reflecting actual practice,
- Increasing the threshold for reporting other personnel remuneration packages to the Committee,
- Administrative Changes – e.g. reflecting change of Company name, removing named roles that now fall within ExCo.

Part II: Description of Rule Changes

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

Part III: Core Principle Compliance

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

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

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at: <http://www.lch.com/rules-regulations/proposed-rules-changes>.

Part V: Opposing Views

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

Certification

LCH 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 Limited

Appendix I
Terms of Reference of Remuneration Committee of the Board of Directors

LCH-CLEARNET LIMITED
(the *Company*)

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

Adopted by the board of directors on ~~22 October 2013~~ February 2019

1. DUTIES AND POWERS OF THE COMMITTEE

- 1.1 The Remuneration Committee (the *Committee*) is a committee of the board of directors of the Company. The board of the Company shall approve the remuneration packages which relate to its employees, based on the recommendations of the Committee.
- 1.2 The Committee should carry out the following duties for the Company:

Broad Remuneration Policy

- 1.2.1 determine the broad remuneration policy and principles for the Company, the Executive Management (defined below) and the chairman of the Board in the context of the Group as a whole taking into account all factors which it deems necessary, including the remuneration policy and principles applied by the remuneration committee of LCH-Clearnet Group Holdings Limited (**LCH Group**) and the remuneration committee of London Stock Exchange Group plc (**LSEG**) for its executive management, for approval by the Board;
- 1.2.2 the objective of such policy and principles shall be to ensure that (i) such policies are aligned with the risk tolerance and corporate strategy of the Company, (ii) members of Executive Management, and employees of the Company (as relevant), are provided with appropriate incentives to encourage enhanced performance with a particular focus on risk management as the core purpose of the Company and (iii) such members of Executive Management and employees of the Company are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;
- 1.2.3 review the ongoing appropriateness and relevance of such policy and principles, including testing how the policy will react to future external and internal events;
- 1.2.4 if, and to the extent that, any remuneration policy or proposal includes long term or other incentive or bonus plans which involve the issue of, or the creation of rights over, the shares of LSEG (**LSEG Shares**), or are otherwise linked to the price or market performance of LSEG Shares, ensure that such plans are subject to the approval of LSEG's remuneration committee;

Individual Remuneration

- 1.2.5 within the terms of the remuneration policy and in consultation with the chairman and/or chief executive, as appropriate, determine the total individual remuneration package of the executive directors¹, the members of the Executive

¹ For the purposes of these terms of reference, "executive directors" means directors on the board of any relevant Group company (i.e. statutory directors).

Committee of the ~~Company Group who are employed by the Company, the Chief Compliance Officer of the Company,~~ and any other senior executive personnel designated by any of the Board from time to time, including any personnel with ~~a recruitment or termination package an annual remuneration package~~ of more than £1,0500,000 (or such other amount as fixed by any of the Board from time to time) (together, *Executive Management*), and the chairman of the Board;²

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- 1.2.6 when setting remuneration policy for any relevant person, review and have regard to the remuneration trends across the companies owned held by LCH Group (together LCH-Clearnetthe Group) as a whole and within LSEG;
- 1.2.7 ensure that contractual terms upon recruitment and upon termination, and any payments made, are fair to the individual and the Company;
- 1.2.8 when determining remuneration for personnel engaged in risk management, compliance and internal audit, ensure that they are compensated in a manner that is independent of the business performance of the Company and that the level of remuneration is adequate in terms of responsibility as well as in comparison to the level of remuneration in the business areas;
- 1.2.9 when making any change in the remuneration (including salary, bonus and long term incentives) of either the Chief Executive Officer of the Company (the *CEO*) or any member from time to time of the Executive Committee of the Group who is employed by the Company, ensure that the following procedure is followed:

~~(a) the chairman of the Company and the LSEG chief executive officer shall agree and propose a joint recommendation to the Committee in the case of the remuneration of the CEO;~~

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~~(b)(a) the LCH Group CEO and the LSEG chief executive officer shall agree and propose a joint recommendation to the Committee in the case of the remuneration of any other member of the Executive Committee of the Group;~~

Commented [TS(1)]: This only relates to the Group CEO

~~(c)(b) following receipt by the Committee of such a joint recommendation, the Committee shall discuss the recommendation with the relevant recommending persons and, having considered the proposal and made any changes considered appropriate (having obtained the approval of the relevant recommending persons for any significant changes), the Committee shall recommend the proposal for approval to the Board of the Company;~~

~~(d)(c) once approved by the Board of the Company, the proposal shall be shared with LSEG's remuneration committee for final approval before it is implemented;~~

² The remuneration (if any) of the non-executive directors (other than the chairman of the Company) shall be a matter for the Board (excluding the non-executive directors), provided that the compensation of such non-executive directors shall not be linked to the business performance of the Group. No person shall be involved in any decisions as to their own remuneration.

~~(e)~~(d) in the event that LSEG's remuneration committee does not approve the proposal, the proposal shall be revisited by the relevant recommending persons and reviewed with the Committee, which shall submit a revised proposal to the Board of the Company and then to LSEG's remuneration committee for final approval;

Benefits/incentives

- 1.2.10 review the design of all incentive plans and performance related pay schemes of the Company, for approval by the Board and the LSEG remuneration committee. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards (e.g. the "total bonus pool"), approve the performance targets to be used, and determine the individual awards to any member of Executive Management;
- 1.2.11 determine the policy for, and scope of, pension arrangements for the Company and for each member of Executive Management;
- 1.2.12 oversee any major changes in employee benefits structures of the Company;
- 1.2.13 agree the policy for authorising claims for expenses from the directors;

Peer review/consultants

- 1.2.14 obtain reliable, up-to-date information about remuneration in other companies. To help it fulfil its obligations the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary, within any budgetary restraints imposed by the Board and having regard to the approach of the ~~LCH.Cleantnet~~ Group as a whole;
 - 1.2.15 if requested by the Board, obtain and provide the Board with reliable, up-to-date information about remuneration of non-executive directors in other companies and make recommendations to assist the Board (excluding the non-executive directors) in its determination of the remuneration of the non-executive directors; and
 - 1.2.16 be exclusively responsible for approving the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.
- 1.3 In exercising its duties and powers, the Committee shall be mindful of its obligation to:
- 1.3.1 implement and maintain a remuneration policy which promotes sound and effective risk management and which does not create incentives to relax risk standards;
 - 1.3.2 ensure that the remuneration policy and pension policy of the Company is maintained in line with the business strategy, objectives, values and long-term interests of the Group's stakeholders; and
 - 1.3.3 operate in accordance with the terms set out in clause 12 of the relationship agreement between inter alia ~~LCH~~ Group and LSEG (the **RA**), as amended from

time to time, including liaising with LSEG on a regular basis and in any case prior to changing the remuneration (including salary, bonus and long term incentives) of the CEO and other members of the Executive Committee of the Group, who is an employee of the Company.

- 1.4 The chairman of the Committee (the *Committee Chairman*) and the chairman of the ~~LSEG-LCH Group~~ Remuneration Committee shall consult with each other on a regular basis in respect of the broad policies and principles applicable to the remuneration of their respective directors and employees.
- 1.5 The Committee shall keep itself informed of any changes in the laws and regulations applicable to the Group remuneration policy and the matters for which the Committee is responsible, and shall take these into account in determining remuneration policy.
- 1.6 Nothing in these Terms of Reference shall diminish the responsibility of the Board of the Company to maintain ongoing oversight of the Group remuneration policy.

2. COMPOSITION OF THE COMMITTEE

- 2.1 The Committee shall comprise at least four members, at least half of whom shall be independent non-executive directors of the Board of the Company (the *Independent Directors*). The Chairman of the Board of the Company may also serve on the Committee as an additional member if he or she was considered independent on appointment as chairman. Members of the Committee shall be appointed by the Board of the Company, in consultation with the Committee Chairman.
- 2.2 For so long as LSEG is entitled to exercise or control the exercise of at least 5 per cent of the votes able to be cast on all or substantially all matters at general meetings in the Company, LSEG shall be entitled to appoint one independent non-executive director of the board of LSEG (who may also be, but is not required to be, a director appointed to the Board of the Company by LSEG) to the Committee. Ideally such independent non-executive director of the board of LSEG would also be a member of LSEG's remuneration committee.
- 2.3 The Committee Chairman, who shall be an Independent Director, shall be appointed by the Board of the Company. In the absence of the Committee Chairman and/or an appointed deputy at any meeting, the remaining members present shall elect one of themselves to chair the meeting. The chairman of the Board of the Company shall not be the Committee Chairman.
- 2.4 Appointments to the Committee are made by the Board of the Company and shall be for a period of three years, which may be extended for further periods of up to three-years, provided the director still meets the criteria for membership of the Committee.
- 2.5 The Committee Chairman will keep the Committee's composition under review, and shall make proposals to the Board of the Company accordingly.

3. SECRETARY

The Company Secretary or his or her appointed nominee shall be secretary of the Committee (the *Committee Secretary*).

4. **TIMING OF MEETINGS**

The Committee shall meet at least twice a year and additional meetings shall be arranged as necessary in order to fulfil the duties of the Committee.

5. **NOTICE OF MEETINGS**

5.1 Notice of meetings shall be given by the Committee Chairman, or the Committee Secretary at the request of the Committee Chairman.

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 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.

6. **ATTENDANCE AT MEETINGS**

6.1 Only members of the Committee have the right to attend Committee meetings. Other individuals, such as appropriate senior employees and/or external advisers, may attend all or part of any meeting, as and when appropriate, at the invitation of the Committee Chairman.

6.2 Members of the Committee may hold meetings in person, by telephone or by video conferences.

7. **QUORUM**

The quorum for meetings shall be two members of the Committee, at least one of whom should be independent. 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.

8. **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.

9. **MINUTES OF MEETINGS**

9.1 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.

9.2 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.

10. **AMENDMENT**

10.1 Subject to paragraph 10.2, these Terms of Reference may be amended only with approval of the Board.

10.2 Paragraphs 1.2.1, 1.2.4, 1.2.6, 1.2.9, 1.2.10, 1.3.3, 1.4, 2.2, this paragraph 10.2 and 14.4 of these Terms of Reference may be amended only with approval of the Board and (for so long as LSEG is entitled to exercise or control the exercise of at least 40 per cent of the votes able to be cast on all or substantially all matters at general meetings in the Company and only to the extent that LSEG's rights or interests in those paragraphs are being amended) the consent of LSEG.

11. REPORTING

11.1 The Committee Chairman shall report to the Board on the discussions, decisions and recommendations of the Committee.

~~11.2 The Committee shall produce a report of the Company's remuneration policy and practices (including identifying any remuneration consultants which have been appointed and stating whether they have any other connection with the LCH.Clearnet Group) which 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.~~

12. CONFIDENTIALITY AND CONFLICTS OF INTEREST

12.1 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.

12.2 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.

13. RESOURCES AND INFORMATION

13.1 The Committee shall have access to sufficient resources and information 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.

13.2 In particular, the Committee shall have access to (i) the human resource department, (ii) the risk management department (to assess how the remuneration structure affects the risk profile of the Group) (iii) the compliance department (to ensure legal and regulatory changes are properly implemented) and (iv) the internal audit department (who shall annually carry out and report to the Committee on an independent audit of the design, implementation and effects of the remuneration structure).

14. OTHER

14.1 Every member of the Committee shall be given a copy of these Terms of Reference.

14.2 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.

- 14.3 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 Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 14.4 The rights of LSEG set out in these Terms of Reference shall cease automatically if LSEG ceases to be entitled to exercise or control the exercise of at least 5 per cent. of the votes able to be cast on all or substantially all matters at general meetings of the Company.