

**VIA EMAIL TO: [SECRETARY@CFTC.GOV](mailto:SECRETARY@CFTC.GOV)**

7 May 2014

Ms. Melissa Jurgens  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Ms. Jurgens

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited (“LCH.Clearnet”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (“CFTC”), is submitting for self-certification several governing documents that have been recently amended.

The submission cover sheet and relevant documents are attached as appendices, together with a request for confidential treatment.

### **Explanation and Analysis**

The attached Audit Committee ToR have been updated to include a specific requirement for the committee to review reports setting out information on the operational risk policy and framework of LCH.Clearnet.

The attached Remuneration Committee ToR have been adopted by the LCH.Clearnet Board to form a Remuneration Committee. This committee is comprised of at least four members at least half of whom shall be independent non-executive director. The committee chairman is an independent non-executive director.

The attached Management Committee ToR have been adopted to form a LCH.Clearnet Management Committee to advise and support the Chief Executive Officer on all key management matters of the company, in order for the Chief Executive Officer to discharge his responsibilities.

LCH.Clearnet is submitting a self-certification for the sake of good order and to ensure full transparency with respect to LCH.Clearnet’s governance structure.

### **Description of Rule Changes**

Changes to the attached documents did not require any changes to the LCH.Clearnet Rulebook.

### **Core Principle Compliance**

The amendments described above relate primarily to LCH.Clearnet’s compliance with Core Principles O (Governance Fitness Standards) and Q (Composition of Governing Boards). LCH.Clearnet has concluded that the changes reflected herein will ensure continued compliance with the Core Principles.

### **Public Information**



LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of this submission on LCH.Clearnet's website at:

[http://www.lchclearnet.com/rules\\_and\\_regulations/ltd/proposed\\_rules.asp](http://www.lchclearnet.com/rules_and_regulations/ltd/proposed_rules.asp)

### **Opposing Views**

There were no opposing views expressed to LCH.Clearnet by Governing Board or Committee Members, Members of LCH.Clearnet or market participants that were not incorporated into this submission.

### **Certification**

LCH.Clearnet hereby certifies to the CFTC, pursuant to the procedures set forth in the CFTC regulation §40.6, that the attached submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions regarding this submission please contact Charlotte Woodward at [charlotte.woodwards@lchclearnet.com](mailto:charlotte.woodwards@lchclearnet.com) , or me at [jay.iyer@lchclearnet.com](mailto:jay.iyer@lchclearnet.com) .

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jay Iyer', with a stylized flourish at the end.

**Jay Iyer**

Chief Compliance Officer, LCH.Clearnet Ltd

+44 20 7426 7285

Appendix A

Submission Cover Sheet

<b>SUBMISSION COVER SHEET</b>	
Registered Entity Identifier Code (optional) LCHLTD Date: 2 May '14	
<i>IMPORTANT: CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.</i> <input checked="" type="checkbox"/>	
<b>ORGANIZATION</b>	LCH.Clearnet Limited
<b>FILING AS A:</b>	<input type="checkbox"/> DCM <input type="checkbox"/> SEF <input checked="" type="checkbox"/> DCO <input type="checkbox"/> SDR <input type="checkbox"/> ECM/SPDC
<b>TYPE OF FILING</b>	
<ul style="list-style-type: none"> <li>• <b>Rules and Rule Amendments</b> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Certification under § 40.6 (a) or § 41.24 (a)</li> <li><input type="checkbox"/> "Non-Material Agricultural Rule Change" under § 40.4 (b)(5)</li> <li><input type="checkbox"/> Notification under § 40.6 (d)</li> <li><input type="checkbox"/> Request for Approval under § 40.4 (a) or § 40.5 (a)</li> <li><input type="checkbox"/> Advance Notice of SIDCO Rule Change under § 40.10 (a)</li> </ul> </li> <li>• <b>Products</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Certification under § 39.5(b), § 40.2 (a), or § 41.23 (a)</li> <li><input type="checkbox"/> Swap Class Certification under § 40.2 (d)</li> <li><input type="checkbox"/> Request for Approval under § 40.3 (a)</li> <li><input type="checkbox"/> Novel Derivative Product Notification under § 40.12 (a)</li> </ul> </li> </ul>	
<b>RULE NUMBERS</b>	
Not Applicable	
<b>DESCRIPTION</b>	
LCH.Clearnet Limited is submitting for certification recently amended committee terms of reference.	



**Appendix B**

**Request for Confidentiality**



**VIA EMAIL TO: [FOIAsubmissionis@cftc.gov](mailto:FOIAsubmissionis@cftc.gov)**

7 May 2014

Commodity Futures Trading Commission  
Attention: FOIA Compliance Officer  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

**RE: FOIA Request for Confidential Treatment**

Dear Sir/Madam:

In accordance with Commission Regulation 145.9(d), LCH.Clearnet Ltd ("LCH.Clearnet") respectfully requests confidential treatment under the Freedom of Information Act (the "FOIA"), 5 U.S.C. §552, for the confidentially-marked governing documents attached to today's rule change submission, including subsequent emails and replies between LCH.Clearnet and Commission staff (the "Information").

LCH.Clearnet is requesting confidential treatment for the Information pursuant to Commission Regulation 145.9(d)(ii), which provides that confidential treatment may be requested on the grounds that disclosure would reveal trade secrets or confidential commercial or financial information. LCH.Clearnet further requests that the Information receives confidential treatment in perpetuity.

This request is not to be construed as a waiver of any other protection from disclosure or confidential treatment accorded by law, and LCH.Clearnet will rely on and invoke any such confidentiality protection. LCH.Clearnet requests notification from the Commission in advance of any disclosure of the Information pursuant to the FOIA or the Commission's Rules of Practice so that this request for confidential treatment may be substantiated.

Yours faithfully

A handwritten signature in blue ink that reads 'Charlotte Woodward'.

**Charlotte Woodward**

Compliance & Public Affairs

+44 207 426 7462



**Appendix C**

**LCH.Clearnet Limited – Audit Committee Terms of Reference**

**LCH.CLEARNET LIMITED**  
(the *Company*)

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

Adopted by the board of directors on 22 October 2013

**PURPOSE**

The Audit Committee (the *Committee*) shall be appointed by the Board of Directors of the Company (the *Board*) and shall represent the interests of the Board in the sound financial management and internal control management of the Company.

The Committee shall determine whether management has put in place adequate internal control systems that provide reasonable assurance that corporate objectives will be achieved and that the Company complies with applicable regulatory requirements, in force from time to time.

The Committee shall assist the Board in fulfilling its responsibility relating to:

Review of the Company's audited financial statements;

Review of the external auditor appointed by the Company (the *External Auditor*);

Review of the Company's internal audit function;

Review of the Company's regulatory compliance;

[Review of the Company's operational risk framework;](#)

[Review of the Company's combined assurance report;](#)

~~1.3.5~~ Review of the Company's internal control environment; and

~~1.3.6~~ Review of the Company's Information Security and Business Continuity Planning programmes.

The Committee shall keep itself informed of any changes in the laws and regulations applicable to the audit policy of the Company and the matters for which the Committee is responsible.

Nothing in these Terms of Reference shall diminish the responsibility of the Board to maintain ongoing review of the Company's audit policy.

## STRUCTURE AND MEMBERSHIP

### Composition

The Committee shall comprise no fewer than four non-executive directors of the Board, of which:

no fewer than two shall be independent non-executive directors of the Board, each of whom has been appointed in accordance with, and satisfies the criteria for independence set out in, the terms of reference of the LCH.Clearnet group nomination committee (the *Independent Directors*) and one of such Independent Directors shall be appointed chairman of the Committee (the *Committee Chairman*);

one shall be a member of the Risk Committee of LCH.Clearnet Limited;

one shall be a director associated with or connected to LCH.Clearnet Group Limited shareholders other than exchanges, trading venues, multilateral trading facilities, alternative trading systems or similar (*User Director*); and

for so long as London Stock Exchange Group plc (*LSEG*) is entitled to exercise or control the exercise of at least 20 per cent. of the votes able to be cast on all or substantially all matters at general meetings of LCH.Clearnet Group Limited (*Material Interest*), one shall be a director recommended or approved by LSEG (the *LSEG Director*) (or, following the appointment of one independent non-executive director to the Board of LCH.Clearnet Group Limited by LSEG pursuant to Clause 10.10 of the Relationship Agreement between the Company and LSEG (*RA*), the LSEG chief financial officer, the LSEG chief risk officer or the LSEG head of audit, or any other person of appropriate seniority and expertise as may be agreed from time to time between LSEG and the Chairman of the Board (the *LSEG Audit Representative*)).

Members of the Committee shall ideally have significant, recent and relevant financial experience, either by virtue of their experience in the senior executive or non-executive management or regulation of another financial institution, or as an auditor or finance director (or holding that responsibility) within a different company. At least one Committee member should have a professional qualification from one of the professional accountancy bodies.

### Selection and Removal

Subject to paragraph 2.1.1(d), members of the Committee shall be selected and appointed by the Board at any time in consultation with the Committee Chairman.

Subject to paragraph 2.1.1(d), the Board may remove members of the Committee with or without cause.



### **Committee Chairman**

The Board normally elects the Committee Chairman. On an exceptional basis and in the absence of the appointed Committee Chairman, the Committee shall elect a substitute Committee Chairman from amongst its ranks by majority vote.

The Committee Chairman will keep the Committee's composition under review and shall make proposals to the Board accordingly.

### **Secretary**

The secretary to the Committee (the *Committee Secretary*) shall be the Company secretary or such other person as he may nominate.

The Committee shall have access to sufficient resources 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.

### **Notice of Meetings**

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

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 or permitted 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.

### **Frequency of meetings and location**

The Committee shall meet as frequently as it determines necessary, but not less frequently than four times per year and otherwise as required. Other than in exceptional circumstances, all meetings shall be held in one of the registered offices of the Group entities. The Committee Chairman, or any other member of the Committee, may call meetings of the Committee. The External Auditor may request a special meeting at any time.

### **Attendance**

Only members of the Committee have the right to attend Committee meetings.

Members of the Company's executive, the Head of Internal Audit of the Company and representatives of the External Auditor may attend the meetings by invitation as and when appropriate and necessary, in accordance with items on the agenda.

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

### **Quorum**

The quorum for meetings shall be (i) the Committee Chairman, (ii) the User Director, (iii) for so long as LSEG holds a Material Interest in LCH.Clearnet Group Limited, the LSEG Director or, following the appointment of one independent non-executive director to the Board of LCH.Clearnet Group Limited pursuant to Clause 10.10 of the RA, other LSEG Audit Representative and (iv) one other member of the Committee. Two of the directors present shall be Independent Directors and one shall have recent and relevant financial experience. 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.

### **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.

### **Remuneration**

The remuneration of Committee members shall be as determined by the Board. No member of the Committee may receive any consulting, performance, advisory or other compensatory fee from the Company other than fees paid in his or her capacity as a member of the Board or as a member of a Committee of the Board.

### **AUTHORITY AND RESPONSIBILITIES**

The Committee's role is one of review. The authority and responsibilities set forth do not reflect nor create any duty or obligation of the Committee to (i) plan or conduct any audit, although the Committee is responsible for agreeing the programme of audits proposed by the Internal Audit department and challenging the outcome of the audits, as appropriate, (ii) determine or certify that the Company's financial statements are complete, accurate, fairly presented, or in accordance with generally accepted accounting principles or applicable law, or (iii) guarantee the External Auditor's report.

These Terms of Reference of the Committee are in accordance with the principle of the unitary board. All directors remain equally responsible for the affairs of the Company of which they are a director, as a matter of law, notwithstanding the fact that the Company, LCH.Clearnet Group Limited, LCH.Clearnet SA and LCH.Clearnet LLC now hold combined audit committee meetings.

The Committee shall perform the following specific functions:

*Review of the Company's Financial Statements*

The Committee shall review, discuss with and challenge where necessary the Company's management and the External Auditor with regard to the Company's audited financial statements, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, before their approval by the Board, notably concerning:

Compliance with accounting standards, policies, practices, legal requirements as well as any changes;

Major judgmental areas;

Any significant adjustments arising from the audit;

The "going-concern" assumption;

The proposed statement on the directors' review of the Company's system of internal control;

Other material written communication between the External Auditor and Company management.

#### *Review of the External Auditor*

Insofar that the same External Auditor is appointed in respect of both the Company and LCH.Clearnet Group Limited, it will be the primary responsibility of the Audit Committee of LCH.Clearnet Group Limited for the selection, assessment of independence and review of the services and remuneration of the External Auditor as defined in that Committee's terms of reference.

The Committee will retain the following responsibilities:

*Review.* The Committee shall have responsibility for the resolution of disagreements between Company management and the External Auditor regarding financial reporting. It shall ensure that the External Auditor has the fullest co-operation of staff.

*Access.* The Committee has the right to have direct access to the Company's External Auditor on a confidential basis at any time. It shall meet the External Auditor without executives of the Company being present at least once a year.

*Reports.* The Committee shall review with the External Auditor:

the interim and final audits;

any matters the External Auditor may wish to discuss;

any representation letters required by the External Auditor before they are signed by management;

the management letter and the responses from management; and

compliance with any codes of conduct of corporate governance applicable from time to time or which the Board otherwise determines should be complied with to achieve best practice corporate governance standards.

#### *Review of the Company's Internal Audit Function*

The Committee shall regularly review the functioning of the Internal Audit department, notably concerning:

*Internal Audit Charter.* The Committee shall review from time to time and no less frequently than once every three years, the Internal Audit Charter of the Company.

*Audit Planning.* The Committee shall review and confirm the annual audit plan prepared by the Internal Audit department and after approval by the CEO of the Company. In doing so, the Committee shall determine whether the audit programme provides appropriate coverage and may request any special tasks or projects to be included in the plan. The Committee shall also ensure that the plan is effectively coordinated with the External Auditor and shall respond to requests from the LCH.Clearnet Group Audit Committee to make changes to the programme of work.

*Quality and Effectiveness.* The Committee shall monitor the quality and effectiveness of the Internal Audit department. An external review of Internal Audit will be conducted at least every three years.

*Reporting line.* The CEO shall, with the assistance of the advice and recommendations of the Committee, approve the appointment or termination of employment of the Head of Internal Audit of the Company, to the extent such position exists within the Company from time to time, and keep under review the reporting line to ensure independent operation of the department. In the event of an unresolved dispute between the executive and Internal Audit, or in respect of any matter he deems as being necessary, the Head of Internal Audit of the Company, to the extent such position exists within the Company from time to time, has the absolute right to report directly to the Committee Chairman or any Committee member.

*Resources.* The Committee shall monitor the adequacy of resources within the Internal Audit department.

*Reporting.* The Committee shall agree and receive regular reporting from the Internal Audit department including coverage of completed audit assignments, follow up of issues and planned progress. It shall meet the Head of Internal Audit of the Company, to the extent such position exists within the Company from time to time, without executives of the Company being present at least once a year.

*Review of the Company's regulatory compliance*

The Committee shall:

review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up actions;

review the Company's procedures for detecting and preventing financial crime including fraud, bribery and money-laundering;

discuss with management and the External Auditor any correspondence with regulators, which raise material issues regarding the Company's financial statements, accounting policies and/or internal control system;

monitor the Company's procedures for ensuring compliance with regulatory reporting requirements and its relationship with the relevant regulatory authorities;

review the performance of the Company's Chief Compliance Officer and make recommendations with respect to such performance to the Board; and

discuss legal matters that may have a material impact on the financial statements or on the Company's compliance policies.

*Review of the Company's Internal Control Environment*

*Internal Control.* The Committee shall:

keep under review the Company's framework of internal controls and make recommendations for change to the Board;

consider internal reports on the operation of controls and the proposals for implementation of change and strengthening;

receive annually reports as required by law or regulation from time to time;

review at least once a year the provisions for business continuity and disaster recovery and the assessment of the effectiveness of the arrangements in place;

review at least once a year the measures taken to control outsourced activities and any risks the Company may incur; and

determine whether the risk control and monitoring resources are adequate and whether such controls and monitoring have appropriate standing within the Company.

*Issues.* The Committee shall consider any major findings, and management response(s) arising from internal audits, external audits, management reporting and internal investigations, and any other reviews carried out (including recommendations from regulatory authorities) and take appropriate actions, which include escalating issues to the Board where appropriate.

#### *Review of the Company's Information Security and Business Continuity Planning programmes*

Review written reports or minutes of meetings regarding the Company's information security programme and business continuity planning programme. The written reports or minutes should address the results of the risk assessment process; risk management and control decisions; service provider arrangements; results of security monitoring and testing; business continuity planning exercise schedules and results; business continuity planning invocations; security breaches or violations and management response; information security; business continuity planning awareness programme status; and recommendations for major changes to the information security or business continuity planning programmes.

Provide feedback and questions to information security and business continuity planning management on desired metrics, reporting detail and specific concerns.

#### *Coordination with the Group Audit Committee and Limited Risk Committee*

The work of the Committee is complementary to that of the Audit Committee of LCH.Clearnet Group Limited. It will be that Committee's responsibility to consider issues at the Group-level.

Internal audits, external audits, investigations and reviews carried out under the auspices of (and contained in the relevant reporting to) the Committee will include control areas responsible for executing the policies and methodologies set by the Company's Risk Committee.

### *Other Subjects*

*Operational Risk Policy.* The Committee shall establish the Company's operational risk policy and will review the same on an annual basis. The Committee will (i) assess operational risk within the risk management processes and the related mitigating actions, requesting additional actions from the relevant business areas if necessary and (ii) assess any incidents resulting from operational risks in the risk management processes and the measures taken to prevent their recurrence in the future. The Committee will provide a report to the Risk Committee on the same.

*Combined Assurance Report.* The Committee will (i) review the summary rating of the enterprise-wide risks against the tolerance for the risk. (ii) assess actions to mitigate the risk levels and request additional actions from the relevant business areas if necessary and (iii) assess any significant incidents impacting each risk type and the measures taken to prevent their recurrence in the future. The Committee will provide a report to the Board on the same.

~~(a)~~ *Board Direction.* The Committee shall consider any other matters as directed by the Board.

## **PROVISIONS FOR ACCESS**

### **Access to Management**

The Committee shall have full and unrestricted access to the Company's management and employees, and to the Company's Internal and External Auditor. All employees are directed to cooperate with any requests made by the Committee.

### **Access to Outside Advisers**

The Committee is authorised by the Board, at its discretion, to obtain independent professional advice and to secure the assistance of outsiders with relevant expertise. This shall apply both to the Committee as a whole and to individual Committee members. Costs relating to the provision of advice shall be borne by the Company.

### **Access to Company Information**

The Committee shall have full and unrestricted access to (i) any systems or facilities of the Company and of the LCH.Clearnet group (the **Group**) and (ii) any books, records or other data it requires from the Company and from the Group in order to carry out its functions.

## **REPORTING**

*Minutes / Agenda.* 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. 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.

#### *Board Reporting*

The Committee Chairman shall report the Committee's discussions, decisions and recommendations to the Board, which shall decide on an appropriate policy response.

The Committee shall have no executive powers with respect to those findings and recommendations.

The Committee shall ensure that the Board is regularly informed of the adequacy of key control systems in the financial, operational and compliance-related areas.

#### *Annual Reports*

The Committee Chairman, or his or her designee, will make available to the Chief Compliance Officer of the Company such information relating to the Committee's work as is necessary for the Chief Compliance Officer of the Company to draft and submit the annual compliance reports required by the CFTC Rules and other applicable regulations in force from time to time.

The Committee shall produce a report including (i) a summary of its main responsibilities and the work of the Committee in discharging those responsibilities, (ii) details of its composition, including relevant qualifications and experience, (iii) an explanation of how it assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the External Auditor, (iv) information on the length of tenure of the current audit firm and when a tender was last conducted, (v) if the External Auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded and (vi) any significant issues the Committee considered in relation to the financial statements. This report 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.

Where requested by the Board, the Committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

#### *Regulatory Reporting*

The Committee shall ensure that the Company reports to the CFTC of any decision in which the Board has rejected a recommendation of, or superseded an action by, the Committee, such report to contain at a minimum the following:

the Committee's recommendation or action, as applicable;

the rationale for such recommendation or action;



the rationale of the Board for rejecting such recommendation or superseding such action;  
and

the course of action the Board decided to take contrary to such recommendation or action.

*Provision of information to LSEG*

The Chairman of the Committee shall liaise regularly with the chairman of the audit committee of LSEG with a view to assisting LSEG in fulfilling its own audit requirements, including with respect to the information set out at paragraph 3.3.1 above and as referred to in paragraph 5.10 below.

The Committee shall have regard for LCH.Clearnet Group Limited's obligations under the RA to provide information to LSEG, in particular under clause 21 of the RA and in particular with regard to LSEG's status as a listed issuer required to comply with the UK Corporate Governance Code.

## **EDUCATION, TRAINING AND COMPETENCE**

An induction programme shall be provided for new Committee members. This shall cover the role of the Committee, including its terms of reference and expected time commitment by members and an overview of the Company's business, identifying the main business and financial dynamics and risks.

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.

Induction and training may be provided on a joint basis with all or any of the audit committees of LCH.Clearnet Group Limited, LCH.Clearnet SA and LCH.Clearnet LLC.

## **CONFIDENTIALITY AND CONFLICTS OF INTEREST**

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.

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.

Any disagreement within the Board, including disagreement between the Committee's members and the rest of the Board, should be resolved at Board level. Where disagreements between the Committee and the Board cannot be resolved, the Committee will report the issue



through the Audit Committee of LCH.Clearnet Group Limited to the Board of LCH.Clearnet Group Limited.

#### **ANNUAL EVALUATION AND TERMS OF REFERENCE REVIEW**

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 these Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.



**Appendix D**

**LCH.Clearnet Limited – Remuneration Committee Terms of Reference**

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

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 Limited (*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 directors<sup>1</sup>, the members of the Executive Committee of 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 an annual remuneration package of more than £500,000 (or such other amount as fixed by any of the Board from time to time) (together, *Executive Management*), and the chairman of the Board;<sup>2</sup>

- 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 Group (together *LCH.Clearnet 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, 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;
  - (b) the 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;
  - (c) 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;

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

<sup>2</sup> 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.

- (d) 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;
- (e) 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.Clearnet 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 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.
- 1.4 The chairman of the Committee (the **Committee Chairman**) and the chairman of the LSEG 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, each of whom has been appointed in accordance with, and satisfies the criteria for independence set out in, the terms of reference of the LCH.Clearnet Group Nomination Committee (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.



**Appendix E**

**LCH.Clearnet Limited – Local Management Committee Terms of Reference**

**Confidential Treatment Requested**