

# HONG KONG EXCHANGES AND CLEARING LIMITED

## TERMS OF REFERENCE AND MODUS OPERANDI OF THE REMUNERATION COMMITTEE

### 1. Status

The Remuneration Committee (the “**Committee**”) is a sub-committee of the board (the “**Board**”) of Hong Kong Exchanges and Clearing Limited (the “**Company**”) to which the Board has delegated consideration of the matters set out in paragraph 4 below.

### 2. Purpose

The Committee is to assist the Board in:

- (a) overseeing the development and implementation of the framework and policies on the remuneration of directors and employees of the Company and its subsidiaries (the “**Group**”);
- (b) considering all matters concerning the remuneration and benefits of Group employees including the Chief Executive; and
- (c) setting the framework for the evaluation of performance of Group employees including the Chief Executive.

### 3. Administrative Structure

#### (a) Composition

The Committee shall consist of at least four non-executive directors appointed by the Board after considering the recommendations of the Nomination and Governance Committee. Only members of the Committee have the right to attend meetings; however, other members of the Board or senior management<sup>1</sup> may be invited by the chairman of the Committee to attend, as appropriate. External advisers may also be invited to attend Committee meetings.

#### (b) Chairman

The chairman of the Committee shall be appointed by the Board, subject to the endorsement of the chairman of the Board. In the absence of the chairman and/or an appointed deputy at any meeting, the Committee will elect one of the members present to act as chairman. The chairman of the Committee should attend the annual general meeting to answer shareholder questions on the Committee’s activities.

#### (c) Reporting Procedures and Frequency of Meetings

- (i) Minutes will be taken for all meetings and kept by the secretary of the Committee and, when the Committee chairman deems appropriate, tabled at meetings of the Board. Draft and final versions of minutes of the meetings should be sent to all Committee members for their comment and records within a reasonable time after the meeting.

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<sup>1</sup> “Senior management” refers to the Chief Executive, Chief Operating Officer, Group Chief Financial Officer, Group Chief Risk Officer, Head of Listing and any other member(s) of the Management Committee as determined by the Nomination and Governance Committee from time to time.

- (ii) The Committee shall meet at least three times every year. Additional meetings shall be held at the request of the chairman. Meetings shall be summoned by the secretary of the Committee.
- (iii) The Group Chief People Officer or his/her nominee shall be the secretary of the Committee.
- (iv) The Committee chairman shall report regularly and formally to the Board at the next meeting of the Board following a meeting of the Committee, on matters within its remit.

(d) **Quorum**

Three members shall constitute a quorum. Decisions shall be determined by simple majority and, in the event of a tie, the chairman of the Committee shall have the casting vote. Proceedings of meetings of the Committee shall be governed by the provisions of Article 105 of the Articles of Association of the Company.

#### **4. Areas of Responsibility**

4.1 The Committee's responsibilities shall include the following:

**Remuneration policies**

- (a) formulate, for the approval of the Board, the remuneration structure and policy with respect to all Group employees including policies concerning salary, the structure of variable remuneration including annual and long-term incentive arrangements, employee share plans and "Good Leaver" policy, retirement benefits, malus and clawback, severance payment and termination arrangements, taking into account all factors which the Committee deems necessary including the role and responsibilities of employees, employment conditions, overall market positioning of the remuneration package, the need to link pay to performance by reference to individual performance targets and corporate objectives resolved by the Board;
- (b) advise the Board on the trends in the remuneration of directors, and make recommendations regarding the remuneration structure and policy of directors including non-executive directors and the Chief Executive of the Company as an ex-officio member of the Board, taking into account all factors which the Committee deems necessary including the time commitment and responsibilities of directors, the expertise required, overall market positioning of the remuneration package and the interests of shareholders and investors;
- (c) assess if there are effective safeguards in place to ensure that remuneration policies are aligned with the Group's risk appetite and the regulatory and legal requirements applicable to the Group and make recommendations to the Board;
- (d) implement the remuneration policies as approved by the Board and periodically review such policies;

**Remuneration of the Chief Executive and Group employees**

- (e) determine, review and approve, as appropriate, the remuneration of the Chief Executive, senior management and other Group employees including the terms of service contracts, individual fixed pay, benefits and entitlements, annual bonuses and long-term incentive awards having regard to the corporate objectives resolved by the

Board and other relevant factors, ensuring that the chairman of the Board is consulted on proposals regarding the remuneration of the Chief Executive, and the Chief Executive is consulted on proposals regarding the remuneration of senior management and other Group employees;

- (f) review and approve any compensation arrangement to the Chief Executive or senior management regarding the termination of service contract or for loss of office or appointment or removal for misconduct, ensuring that the arrangement is fair and not excessive and consistent with contractual terms;

#### **Remuneration of non-executive directors**

- (g) make proposals to the Board regarding the remuneration of non-executive directors, taking into account such factors as the Committee considers appropriate;

#### **Performance related incentives**

- (h) review the terms and design, and oversee the implementation and administration, of all share incentive plans and performance related pay schemes or arrangements, and make recommendations to the Board as appropriate;
- (i) with respect to any share incentive plans, make recommendations to the Board each year on whether awards will be made; and if so, the overall amount of such awards, the individual awards to the Chief Executive and senior management, and the performance targets to be used;
- (j) with respect to performance related payments or annual bonuses, make recommendations to the Board each year regarding the total payments or bonuses to be made to the Chief Executive, senior management and other Group employees, and the performance targets to be used;

#### **Performance objectives and evaluation**

- (k) determine, review and approve, as appropriate, the framework and criteria for assessing employee performance, which should reflect the Group's business objectives and targets resolved by the Board;
- (l) review and approve individual performance objectives relevant to the remuneration of the Chief Executive, and in consultation with the Chief Executive, review and approve individual performance objectives relevant to the remuneration of senior management;
- (m) review the actual performance of the Group against the performance targets for annual bonuses and the performance conditions for share incentive plans, and make recommendations to the Board;
- (n) with respect to any clawback policy adopted by the Group, (i) review the clawback policy on an annual basis and approve such amendments to the clawback policy as the Committee considers appropriate as part of such review or on an ad hoc basis, (ii) determine, review and approve, as appropriate, guidelines and criteria for implementing the clawback policy, (iii) review and consider reports of any actual or potential occurrence of clawback trigger events and findings of investigations presented to the Committee, (iv) give such directions, make such determinations and take such actions as the Committee considers appropriate in connection with the clawback policy;

### **Other responsibilities**

- (o) review the Remuneration Committee Report in the Company's annual report for the Board's approval and any public statements concerning remuneration;
- (p) review and evaluate the performance of the Committee and these terms of reference to ensure that it is operating at maximum effectiveness, and recommend any changes it considers appropriate for the Board's approval; and
- (q) do any such things as are necessary to enable the Committee to discharge its responsibilities.

#### **4.2 In carrying out its responsibilities, the Committee shall:**

- (a) ensure that no director or manager, or any of his/her associates, shall be involved in any decision as to their own remuneration; and
- (b) give due consideration to all relevant laws, rules, regulations and regulatory requirements and guidance applicable to the Group.

### **5. Authority and Powers**

- (a) The Committee may:
  - (i) delegate certain of its responsibilities to sub-committees comprising one or more of its members with such powers as are necessary to discharge the relevant responsibilities;
  - (ii) delegate to the chairman of the Committee authority to make decisions on matters which may need attention between Committee meetings, with such decisions to be reported or ratified in the next meeting of the Committee; and
  - (iii) review or consider matters outside these terms of reference if required to do so by the Board.
- (b) The Committee is authorised to:
  - (i) have access to such training and resources (including employees) in order to carry out its duties as it may consider appropriate;
  - (ii) obtain, at the Company's expense, any advice or support from external advisers or experts including remuneration consultants and legal advisers; and
  - (iii) have access to any information, record or report from any Group employee in order to perform its duties and request any employee to attend Committee meetings and answer questions as and when required.

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