



Board Risk Committee

Terms of Reference



LME CLEAR LIMITED

(the "Company")

BOARD RISK COMMITTEE TERMS OF REFERENCE**1 Status**

- 1.1 The Committee is constituted by the Company's board of directors, in accordance with the articles of association of the Company (the "**Articles**").

2 Purpose

- 2.1 The Board Risk Committee is a sub-Committee of the board of the Company established to assist the Board, advise and make recommendations to the board in fulfilling its risk oversight responsibilities and where relevant oversee and/or approve proposals put forward by management.
- 2.2 In discharging its primary purpose, the Committee will take into account the risk appetite of the Hong Kong Exchanges and Clearing Limited group (the "HKEX Group") and at the same time recognise the interests of other relevant stakeholders of the Company. It will consult with the EMIR Risk Committee as appropriate.
- 2.3 The board has delegated the responsibilities set out in section 7 below to the Committee.

3 Definition

Board	means the board of directors of the Company;
Chair	means the chairman of the Committee;
Committee	means the Board Risk Committee established in accordance with these terms of reference;
Company	means LME Clear Limited;
EMIR	means the European Market Infrastructure Regulation on derivatives, central counterparties and trade repositories as transposed into UK law;
HKEX Group	means Hong Kong Exchanges and Clearing Limited and all of its subsidiaries;
Management	means the executive management of the Company.

4 Membership and Attendance**4.1 Membership**

- a. The committee shall comprise at least 3 [three] non-executive directors, the majority of whom shall be independent. The committee shall include at least one member of the audit committee and/or include one non-executive director specifically responsible for risk.
- b. Members shall have the collective knowledge, skills and expertise to fully understand the risk appetite and strategy and as a whole shall have relevant risk expertise. The committee as a

whole shall have competence relevant to financial services, technology, risk management, change management and clearing services in order to oversee the:

- (i) Risk strategy;
 - (ii) Risk appetite; and
 - (iii) Risk profile of the Company.
- c. Members of the committee shall be appointed by the Board on the recommendation of the nomination committee. Appointments shall be for a period of up to three years, renewable to a maximum of nine years at the Board's discretion, provided the director still meets the criteria for membership of the committee.
- d. Only members of the committee have the right to attend committee meetings. However, the CEO, COO, CCO, CFO, CTO and CRO shall be expected to attend meetings of the committee on a regular basis and other individuals may be invited to attend all or part of any meeting as and when appropriate

4.2 Chair

- a. The Board shall appoint the committee Chair who shall be an independent non-executive director. The Chair shall have recent relevant risk experience. In the absence of the committee Chair and/or an appointed deputy at a committee meeting, the remaining members present shall elect one of themselves to chair the meeting.
- b. The Chair's role requires:
- (i) Fostering an open, inclusive and where appropriate, challenging discussion;
 - (ii) Ensuring that the Committee receives the information necessary to discharge its responsibilities;
 - (iii) Facilitating the running of the Committee to assist it in providing independent oversight of executive decisions;
 - (iv) Liaising with other Committees (including the EMIR Risk Committee); and
 - (iv) Reporting to the Boards on the Committee's activities.

4.3 Secretary

- a. The company secretary, or their nominee, shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

5 Meetings

5.1 Quorum

- a. The quorum necessary for the transaction of business shall be 3 [three] members, two of whom shall be independent.
- b. Decisions shall be determined by simple majority and, in the event of a tie, the Chairman shall have a casting vote.

5.2 Frequency of meetings

- a. Meetings will take place at least 4 [four] times per year or more frequently as required and in good time for associated minutes to be provided to the Board.
- b. In the event that the CRO determines that an emergency situation has arisen or is likely to



arise (including but not limited to an extreme market event, cyber-attack or clearing member default), the CRO shall be expected to call a meeting at the earliest possible opportunity to seek the Committee's advice on behalf of management.

- c. There shall be at least one closed session per year without management, with the CRO.

5.3 Notice of meetings

- a. Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members, or at the request of the Chairman of the Board or CRO if they consider it necessary.
- b. Unless otherwise agreed, notice of each meeting confirming the venue, time and date of the meeting, 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 no later than five working days before the date of the meeting (where practical, except in an emergency situation). Supporting papers shall be sent to committee members and to other attendees, as appropriate, at the same time.
- c. The Committee may meet for dispatch of business, adjourn and otherwise regulate its proceedings as its members deem fit. Without limiting the generality of the foregoing, any member may participate in a meeting of the Committee by way of telephone, computer or any other electronic means of communication, provided that each person participating in the meeting is able to hear and speak. The meeting is deemed to take place where the largest group of those participating is assembled or, if there is no such group, the Committee may decide that the meeting is to be treated as taking place wherever any of the participants are located.

5.4 Minutes of meetings

- a. The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance.
- b. Draft minutes of committee meetings shall be circulated to all members of the committee. Once approved, minutes should be made available to all members of the board unless, exceptionally, it would be inappropriate to do so.

6 Reporting

- a. The Committee shall report to the Board after each meeting on how it has discharged its responsibilities, the nature of its discussions, recommendations and actions to be taken and on any other matters referred to it by the Board.

7 Authority and responsibilities

- a. The Committee operates under delegated authority from the Board.
- b. The Committee has authority to investigate any matter relating to the Company that falls within the scope of its remit under these terms of reference.
- c. The specific duties of the Committee shall cover the areas and responsibilities outlined below.

8 Risk management

The Committee shall:

- a. review the development and effectiveness of the Company's risk management framework and systems with a view to identifying and recommending to the Board an approach to managing



- the risks faced by the Company as outlined in the Company's Risk Appetite Statement;
- b. review and assess the effectiveness of the Company's risk control and mitigation tools, approach and methodology, including (but not limited to) the enterprise risk management programme, the stress testing framework, and the Company's business continuity and contingency plans and make recommendations to the Board to enable it to exercise its oversight function;
 - c. review and approve (or where required recommend to the Board) substantial changes to the Company's Risk Policies as outlined in the appendix;
 - d. seek to ensure that management has identified material risks facing the Company and that appropriate arrangements are in place to control and mitigate those risks effectively;
 - e. advise and make recommendations to the Board on the principal and emerging risks the company is willing to take in order to achieve its long-term strategic objectives;
 - f. review and recommend the Group's risk appetite statement to the Board for approval at least once annually, to provide reports to the Board to enable the Board to satisfy itself that the strategy and business plan reflect an appropriate consideration of risk appetite;
 - g. review any risk acceptance decisions made by management, and challenge risk information received from the Company's management functions, whilst seeking to ensure that the Company remains within its Risk Appetite;
 - h. review and approve the statements to be included in the annual report concerning internal controls and risk management including the assessment of principal risks and emerging risks, and the viability statement;
 - i. advise the Board whether there are sufficiently effective extreme event and emergency risk-response protocols to rapidly advise on and escalate significant new, emerging or crystallising risks to the Board in an emergency situation; and
 - j. review significant reports from the Company's regulators, as well as recommendations from internal and external auditor relating to risk management issues and risk exposures and management's responses.

10. Clearing Risk

The Committee shall:

- a. Review, at least annually, the key market, credit and liquidity policies, their implementation and associated process and procedures, taking into account, where necessary, the views of the EMIR Risk Committee.
- b. review the effectiveness of management's processes for monitoring and reviewing the effectiveness of its market, credit and liquidity policies;
- c. review, at least annually, the Investment Policy, its implementation and associated process and procedures ensuring the appropriate balance of risk; and
- d. review, at least bi-annually, the Payment, Settlement and Custody policy, its implementation and associated process and procedures.



11. Default Management

The Committee shall:

- a. Review, at least annually, the Default Management Policy and Default Fund Policy, its implementation and associated process and procedures, taking into account, where necessary, the views of the EMIR Risk Committee and recommend any changes to the Board;
- b. Oversee and participate in default management fire drills, assess the outcome and report its findings to the Board; and
- c. Oversee the periodic testing and review of the Company's default rules and procedures and report its findings to the Board.

12. Operational Resilience

The Committee shall:

- a. review and discuss with management the adequacy of the governance and risk control framework relating to LME Clear's operational resilience arrangements;
- b. review and assess the adequacy of LME Clear's operational resilience arrangements and operational risk profile;
- c. review the Recovery and Resolution Plan of the Company and provide expert input to the Wind Down Plan and Capital Calculations for consideration by the Board;
- d. oversee the Business Continuity framework (including all relevant policies) and its implementation and provide ;
- e. review the Company's process for monitoring its security and business continuity arrangements and make recommendations to the Board to enable it to exercise its oversight function;
- f. review the Company's material outsourcing arrangements and associated mitigants for third-party risk management of Critical Service Providers and make recommendations to the Board to enable it to exercise its oversight function; and
- g. at least annually, review the adequacy of LME Clear's business continuity and disaster recovery arrangements (including, but not limited to the LME Clear Business Continuity Policy and Disaster Recovery Plan) and monitor their effectiveness and make recommendations to the Board to enable it to exercise its oversight function.

13. Technology and Cyber

With respect specifically to LME Clear's risks that relate to technology and change management, the Committee shall:

- a. review any IT resilience, cyber and information security programmes, track progress in relation to such programmes and provide reports to the Boards as appropriate;
- b. receive reports from management on the Company's cyber security arrangements and agreed metrics;
- c. review and discuss with management the adequacy of the governance and control framework



- supporting the technology change portfolio;
- d. provide independent oversight of the change portfolio agenda; and
- e. oversee assurance activities across the technology change portfolio where appropriate or directed by the Board.

14. Other Matters

The Committee shall:

- a. have access to sufficient resources and training in order to carry out its duties;
 - b. have access to members of management and legal counsel at any meeting, if necessary; and
 - c. at least annually, review its own performance, 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.
- 14.1. The Committee is authorised to appoint, at the Company's expense, remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the company in respect of any matter within its terms of reference.
- 14.2. A Committee member must declare to the Chairman the nature and extent of any conflict of interest ("**conflict**") he or she may have as soon as reasonably practicable. The Committee member shall provide the Chairman with such details of the matter as is necessary for the Chairman to determine how to address the conflict, together with such additional information as the Chairman may request. Where the chairman considers that any member has an actual or potential conflict on a particular matter, that Committee member shall not be permitted to vote in relation to that matter. Any conflicts shall be dealt with in accordance with the Company's Conflicts of Interest Policy as applicable from time to time.



Document History

Date	Version	Author	Description
	0.1	Christopher Jones, Gavin Hill, Elizabeth Monk, Claire	Set-up terms of reference



Policy Matrix

Risk Appetite Statement	Policy	Executive	EMIR Risk Committee	Risk Committee of the Board	Board
Market Risk Credit Risk Liquidity Risk Model Risk	Margin Policy Collateral Policy Liquidity Policy and Liquidity Plan Credit Policy Group Model Risk Mgt Policy	Recommend	Advise BRC	Approve	
Payment and Settlement Risk Custody Risk	Payment, Settlement and Custody Policy	Recommend	Advise BRC	Approve	
Market Risk Model Risk	Default Fund Policy Recovery and Resolution Policy	Recommend	Advise BRC	Advise Board	Approve
Market Risk	Default Management Policy*	Recommend	Advise BRC	Advise Board	Approve



Risk Appetite Statement	Policy	Executive	EMIR Risk Committee	Risk Committee of the Board	Board
Third-party Risk	Outsourcing and Critical Service Provider Policy* Group TPRM Policy	Recommend	Advise BRC (OCSP only)	Advise Board	Approve
Operational Risk	Operational Risk Policy Group Incident Escalation and Reporting Policy	Recommend	N/A	Approve	
Credit Risk Liquidity Risk	Investment Policy	Recommend	N/A	Approve	
Business Continuity Risk	Business Continuity Policy and Plan*	Recommend	N/A	Advise Board	Approve
	Risk Appetite Statement* Group Risk Management Policy	Recommend	N/A	Advise Board	Approve
Data Risk	Group record retention Policy	Recommend	N/A	Approve	



Risk Appetite Statement	Policy	Executive	EMIR Risk Committee	Risk Committee of the Board	Board
	Group Privacy Policy LME Clear Transparency Policy				
Change Risk	Group New Product Policy	Recommend	N/A	Approve	
Cyber Risk	Group Cyber Risk Management Policy Group Information Security Policy	Recommend	N/A	Approve	
Technology Risk	Group End User Computing Policy	Recommend	N/A	Approve	

