



# Board Risk Committee

Terms of Reference

**LME CLEAR LIMITED**

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A private limited company. Registered in England no 07611628. Registered office as above.

**[LME.COM/CLEAR](https://lme.com/clear)**

## 1 Status

The Board Risk Committee (the “**Committee**”) is a sub-committee of the board (the “**Board**”) of LME Clear Limited (the “**Company**”) to which the Board has delegated consideration of the matters set out in paragraph 4 below.

## 2 Purpose

The Committee shall advise the Board on arrangements that may impact the risk management of the Company (a CCP (Central Counterparty clearing house)), such as a significant change in its risk model, the default procedures, the criteria for accepting clearing members, the clearing of new classes of instruments, or the outsourcing of functions as required under the UK European Market Infrastructure Regulation (“EMIR”)<sup>1</sup>.

## 3 Structure

### (a) Composition

The Committee will be composed of at least six (6) and a maximum of fifteen (15) individuals of whom:

- 1) At least two (2), and a maximum of three (3) shall be Independent Non-Executive Directors (as defined by the articles of association of the Company);
- 2) At least two (2), and a maximum of four (4) shall be representatives of clients of clearing members; and
- 3) At least two (2), and a maximum of eight (8) shall be representatives of clearing members.

The Committee shall be constituted to ensure that as required by regulation no one Committee membership category, as described under (1), (2) or (3), shall have a majority of votes: see 3(g) (Voting). The individuals in (2) and (3), in carrying out their role as members of the Committee, shall have due regard to the interests of the Company.

Only members of the Committee have a right to attend meetings; however other Board directors may be invited to attend at the Committee Chair’s request. The Chief Risk Officer of the Company (“**CRO**”), or their nominee, will be expected to attend the meetings and present papers; the Chief Executive Officer and other senior management of the Company may also be invited to attend. The Bank of England may attend meetings at their request.

### (b) Membership appointment, tenure and re-appointment

Independent Non-Executive Director Committee members shall be appointed by the Board for an initial period of three years, and shall be eligible for reappointment by the Board for up to two additional three-year periods (for a maximum term of nine years). If an Independent Non-Executive Director member of the Committee ceases to be a member of the Board, due to the end of the term of their appointment or for any other reason, their membership of the Committee shall automatically cease.

Clearing member Committee members and clients of clearing member Committee members shall be appointed as risk experts, having been nominated and selected in accordance with the criteria and procedure set out in the Annex, recommended by the Nomination Committee and their appointment approved by the Board. The appointment

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<sup>1</sup> Regulation (EU) No 648/2012 of the European Parliament and of the Council and all supplementary regulations relating thereto

shall be for an initial period of three years.

If eligible and willing, the clearing member and client of clearing member Committee members may be re-appointed at the Committee Chair's discretion for further terms, having regard to the balance of skills and expertise on the Committee and an appropriate composition of representatives within each membership category.

As a general rule, to meet with independence best practice, tenure will be limited to a total of nine years (three terms of three years) but this may be exceeded on an exceptional basis where the Committee Chair considers it appropriate to ensure continuity on the Committee. Any re-appointment which extends beyond nine years may be proposed by the Committee Chair to the Nomination Committee for recommendation to the Board for approval.

The membership on the Committee of the clearing member and client of clearing member representatives is subject to the general conditions set out in clause 3 of the Annex. These include provisions relating to where the member or client represented ceases to be a member or client; and where the representative ceases to be employed by the member or client they represent.

**(c) Chair**

The Committee Chair, who shall be one of the Independent Non-Executive Directors of the Company, will be appointed by the Board on the recommendation of the Nomination Committee and subject to receipt of confirmation of regulatory non-objection regarding the appointment. In the absence of the Committee Chair at any meeting, one of the remaining Independent Non-Executive Directors shall act as chair.

**(d) Secretary**

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.

**(e) Reporting Procedures, Frequency of Meetings and Notice of Meetings**

Unless otherwise agreed, notice of each Committee 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, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

Committee meeting dates shall be agreed in advance affording adequate notice for maximum participation. Papers prepared for the Committee may be sent (by post, fax, email or other medium) between meeting dates and decisions or recommendations solicited and received between meetings, where necessary, to avoid delays in the decision-making process.

Minutes will be taken for all meetings and, when the Committee Chair deems appropriate, tabled at Board meetings.

The Committee may provide reports directly to the Bank of England regarding the Committee's activities and recommendations where requested to do so by the Bank of England and copies of such reports shall also be provided to the Board.

The Committee shall meet four times per year or more frequently if so required.



Meetings can be convened at the request of any of the Committee Chair, Committee members, or the CRO and shall be summoned by the secretary of the Committee.

**(f) Quorum**

The quorum shall comprise four (4) Committee members, including one Independent Non-Executive Director, one representative of a client of a clearing member, one representative of a clearing member and one other Committee member who shall be either a representative of a client of a clearing member or a representative of a clearing member.

Members participate in a Committee meeting when the meeting has been called in accordance with these Terms of Reference and the members can each communicate to the others any information or opinions they have on any particular item of the business of the meeting. All meetings can be facilitated by either telephone conference and/or video conference. If all the members participating at a meeting are not in the same place, they will determine where the meeting is deemed to be taking place.

**(g) Voting**

Recommendations shall, unless confirmed otherwise together with reasons for such confirmation, be determined by simple majority and, in the event of a tie, the Committee Chair shall have a casting vote. While the majority of decisions shall be made through discussion and by consensus, should the will of the Committee meeting - and at the discretion of the Committee Chair - be that any matter discussed at a meeting requires to be put to a vote, the following provisions shall apply:

- (i) The number of votes assigned to each category of Committee members is three (3) per category.
- (ii) Where the number of Committee members for a membership category is three (3) then each Committee member for that category shall have one vote on any matter requiring to be put to a vote.
- (iii) Where the number of Committee members for a membership category is less than three (3) then each Committee member for that category shall have one vote. The remaining unallocated vote(s) for that membership category shall be assigned at the Committee Chair's discretion to one of the representatives for that category present at the meeting at which a matter is required to be put to a vote, in accordance with the criteria set out in (v) below. For the avoidance of doubt the Committee member assigned the additional vote(s) shall be entitled to exercise as many votes as they are assigned.
- (iv) Where the number of Committee members for a membership category is more than three (3) then the three (3) votes for that membership category shall be assigned at the Committee Chair's discretion between the Committee members for that category present at the meeting at which a matter is required to be put to a vote, in accordance with the criteria set out in (v) below.
- (v) As needed, the Committee Chair shall assign the votes for a Committee membership category between those Committee members for that category who are present at the meeting at which a matter requires to be put to a vote in accordance with the following criteria:
  - (1) Area of expertise in matters of risk;
  - (2) Length of service on the Committee;



- (3) Attendance at Committee meetings; and
- (4) Ensuring there is an appropriate composition of representatives within each category of membership.

#### 4 Duties

The duties of the Committee are to:

- (a) advise the Board regarding any arrangements that may impact the risk management of the Company, including a significant change in its risk model, the default procedures, the criteria for accepting clearing members, the clearing of new classes of instruments and the outsourcing of functions;
- (b) advise the Board in relation to developments impacting the risk management of the Company in emergency situations;
- (c) monitor and assess the adequacy and effectiveness of the Company's risk management policies, procedures, and risk management systems and methodology in so far as they relate to market credit and liquidity;
- (d) discuss and advise the Board on the initial versions of, and any changes to the rulebook which impact on the risk profile of the Company;
- (e) the Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within the Committee's purpose and duties; and
- (f) review and make recommendations to the Board (for approval) on the initial versions of, and any proposed material changes to the following policies and arrangements:
  - (i) Default Management Policy;
  - (ii) Membership Criteria;
  - (iii) Outsourcing arrangements (to the extent those arrangements impact on the risk management of the Company); and
  - (iv) Risk Appetite Statement for Market, Credit and Liquidity Risk

and any changes to any of the above ((i) to (iii)) which are not deemed material shall be within the remit of the Committee to approve.

For the avoidance of doubt, the Committee shall act in an advisory capacity to the Board and any recommendations made by the Committee shall not be binding on the Board or on the Company. In the event that the Board decides not to follow a recommendation of the Committee, the Company shall promptly inform the Bank of England.

The Committee shall be notified of changes to the following policies and arrangements which shall be approved by other approving bodies:

Chief Executive Officers via the Executive Committees of the LME and LME Clear:

- (i) Margin Policy
- (ii) Collateral Policy
- (iii) Liquidity Policy and Funding Plans
- (iv) Credit Policy
- (v) Recovery and Resolution Policy
- (vi) Default Fund Policy



LME Clear Audit Committee

- (i) Investment Policy

**5 Other Matters**

- (a) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (b) The Committee shall:
  - (i) have sufficient knowledge and experience of risk management in financial institutions;
  - (ii) have access to sufficient resources and training in order to carry out its duties and newly appointed Committee members shall complete an induction training programme;
  - (iii) have access to members of management and legal counsel at any meeting if necessary;
  - (iv) oversee any investigation of activities which are within scope of its terms of reference; and
  - (v) at least once a year, 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.
- (c) The Committee is authorised to:
  - (i) seek any information it requires from any employee of the Company in order to perform its duties;
  - (ii) obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and
  - (iii) call any employee of the Company to be questioned at a meeting of the Committee as and when required.
- (d) Committee members must ensure that unless outside consultation is agreed, they maintain confidentiality with regard to all matters discussed and all materials and data made available to them in respect of their Committee-related activities. For the sake of clarification, where outside consultation is agreed, the Committee members shall only be relieved of their duty to maintain confidentiality in respect of the subject matter of the consultation.
- (e) A Committee member must declare to the Committee Chair 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 Committee Chair with such details of the matter as is necessary for the Committee Chair to decide how to address the conflict, together with such additional information as the Committee Chair may request. Where the Committee Chair considers that any member has an actual or potential conflict of interest 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 Conflicts of Interest Policy.

## Annex

### Criteria for selecting clearing members and client representatives of the Board Risk Committee (the “Committee”) when a vacancy arises

#### 1. Clearing member representatives

In the event a clearing member representative vacancy arises the selection and appointment process shall be as follows:

- (a) The Nomination Committee will, by written notification to each clearing member, invite each clearing member to submit the name of a candidate within their organisation for consideration as a member of the Committee.
- (b) Within 10 business days of the date of such notification, clearing members may submit the name of their suggested candidate in writing to the Nomination Committee with a copy of a CV giving details of the candidate’s skills and experience relevant to the role on the Committee.
- (c) If more candidates have been suggested by clearing members than there are vacancies, the Nomination Committee with assistance from the Committee Chair and CRO will use the following criteria to compile a shortlist of individuals:
  - (1) select individuals who are representative of the clearing members taken as a whole;
  - (2) ensure that each individual is able to demonstrate the appropriate knowledge and experience of risk management issues within non-banking financial institutions;
  - (3) ensure that each individual is able to meet the necessary time commitment required for the role;
  - (4) not include more than one individual who is an officer, partner or employee of any one clearing member (or client of an organisation determined by the Nomination Committee to be affiliated to such clearing member or client);
  - (5) exclude any individual who is not connected with a clearing member;
  - (6) take account of such other factors as the Board may communicate to the Nomination Committee from time to time.
- (d) The selection process shall ensure that:
  - (1) the Committee as a whole will have the appropriate balance of skills taking into account the need for market, credit and liquidity risk experience as well as broader risk management experience; and
  - (2) the Committee as a whole has sufficient knowledge of the LME market and any other products cleared by LME Clear.
- (e) The Nomination Committee reserves the right to reject any candidate suggested under 1(c). No reason needs to be given.
- (f) The Nomination Committee reserves the right to invite other candidates, if in its reasonable judgement, it considers that the candidates suggested by clearing members do not have the requisite experience.
- (g) On the recommendation of the Committee Chair and with the assistance of the CRO, the Nomination Committee may at its discretion decide to hold interviews with, or request references from, any of the candidates.



- (h) The individual(s) will be invited to join the Committee for an initial term of (three) 3 years and, if eligible and willing, may be re-appointed at the Committee Chair's discretion for up to two additional three year periods (for a maximum term of nine years) having regard to the balance of skills and expertise on the Committee and an appropriate composition of representatives within each membership category.

## 2. **Client representatives**

In the event that a client representative vacancy arises, the selection and appointment process shall be as follows:

- (a) The Nomination Committee shall seek nominations for new client representatives of the Committee through a notice to all clearing members to be forwarded to their respective clients and through a public notice on the website of LME Clear.
- (b) Within 10 business days of the date of such notification, clients may submit the name of their suggested candidate in writing to the Nomination Committee with a copy of a CV giving details of the candidate's skills and experience relevant to the role on the Committee.
- (c) If more candidates have been suggested than there are vacancies, the Nomination Committee with assistance from the Committee Chair and CRO will use the following criteria to compile a shortlist of individuals:
  - (1) select individuals who are representative of the clients taken as a whole;
  - (2) ensure that each individual is able to demonstrate the appropriate knowledge and experience of risk management issues within non-banking financial institutions;
  - (3) ensure that each individual is able to meet the necessary time commitment required for the role;
  - (4) not include more than one individual who is an officer, partner or employee of any one client (or client of an organisation determined by the Nomination Committee to be affiliated to such clearing member or client);
  - (5) exclude any individual who is not connected with a client; and
  - (6) take account of such other factors as the Board may communicate to the Nomination Committee from time to time.
- (d) The selection process shall ensure that:
  - (1) the Committee as a whole will have the appropriate balance of skills taking into account the need for market, credit and liquidity risk experience as well as broader risk management experience; and
  - (2) the Committee as a whole has sufficient knowledge of the LME market and any other products cleared by LME Clear.
- (e) The Nomination Committee reserves the right to reject any candidate suggested under 1(c). No reason needs to be given by the Nomination Committee.
- (f) The Nomination Committee reserves the right to invite other candidates, if in its reasonable judgement, it considers that the candidates suggested by clients of clearing members do not have the requisite experience.
- (g) On the recommendation of the Committee Chair and with the assistance of the CRO, the Nomination Committee may at its discretion decide to hold interviews with, or request references from, any of the candidates.
- (h) The individual(s) will be invited to join the Committee for an initial term of (three) 3 years and, if eligible and willing, may be re-appointed at the Committee's Chair's





discretion for up to two additional three year periods (for a maximum term of nine years) having regard to the balance of skills and expertise on the Committee and an appropriate composition of representatives within each membership category.

**3. General**

- (a) Both Clearing Member representatives and Clients of Clearing Member representatives will be required to adhere to the necessary confidentiality agreements as prescribed by the Company from time to time.
- (b) In the event that a clearing member terminates its membership or defaults as a clearing member any clearing member representative representing such clearing member or client representative representing a client of such clearing member shall retire on the earlier of:
  - (1) the withdrawal of the clearing member becoming effective under LME Clear's rules; or
  - (2) the appointment of a replacement clearing member or client representative (as relevant) to fill the casual vacancy caused by the withdrawal, such appointment to be filled in accordance with the procedure set out above.
- (c) Should a Committee member cease to be employed by the employer by whom they were employed at the time of their appointment, they shall be required to tender their resignation from the Committee (unless the Board declares otherwise).
- (d) Should two or more Committee members become employed by the same employer or the same group as a result of a corporate transaction the Board, in consultation with the Committee Chair, shall determine which member should remain on the Committee.
- (e) The Nomination Committee on behalf of the Board may at its sole discretion request that any member of the Committee resign from the Committee at any time, and such person shall comply with such request. No reason or period of notice need be given.

## Document Distribution

Date	Author	Comments / Summary of Changes
16.12.2013	Board	Version approved by the Board.
15.04.2015	Executive Committee	Proposed changes to allow flexibility in the composition and quorum requirements.
22.04.2015	Board Risk Committee	Endorsed for approval.
23.04.2015	Board	Approved by the Board.
04.04.2016	Executive Committee	Proposed changes to increase number of clearing member representatives
19.04.2016	Board	Revisions approved by the Board
30.11.2016	Board Risk Committee	Annual review
01.12.2016	Board	Annual review
29.11.2017	Board Risk Committee	Annual review
30.11.2017	Board	Annual review
06.12.2018	Board Risk Committee	Annual Review
06.12.2018	Board	Annual Review and Approval.
31.10.2019	Board Risk Committee	Annual Review
31.10.2019	Board	Annual Review
30.11.2020	Board Risk Committee	Annual Review and Approval
08.12.2021	Board Risk Committee	Annual review. Recommended for approval
18.02.2022	Board	Annual review. Approval
28.04.2023	Board	Annual review and recommendation for approval  Changes include increasing maximum membership, adding wording regarding voting provisions, amendments to other clauses and to the Annex

## References

Document Name	Description
Collateral Policy	This document outlines LME Clear's policies in respect of the risk management for margin collateral and Treasury Investment collateral in all forms.
Credit Policy	This policy sets out the process for monitoring and managing credit risk arising from clearing members of the LME, treasury investment counterparts, custodians, concentration banks, settlement banks, liquidity providers, and the credit risk related to margin collateral and treasury investment collateral.
Default Fund Policy	This policy outlines the stress testing framework used in determining the LME Clear default fund, the construction of the LME Clear default fund along with the distribution and replenishment of financial resources to members and LME Clear.
Default Management Policy	This policy sets out the LME Clear default management framework including the default declaration, risk analysis & neutralisation, the treatment of client accounts and the auction process.
Investment Policy	This policy sets out LME Clear's investment principles
Liquidity Policy and Funding Plans	This policy sets out LME Clear's policy with regard to the management of liquidity risk arising through its various operational and default management activities
Margin Policy	This policy sets out how LME Clear's policy for determination and calculation of margin arising from contracts traded by clearing members. It reflects the LME Clear Risk Appetite, particularly in the areas of market risk, credit risk, payment and settlement risk, and concentration risk.
Recovery and Resolution Policy	<p>This policy outlines the proposed recovery and resolution to be followed by LME Clear in the event of:</p> <ul style="list-style-type: none"> <li>the default of one or more clearing members or;</li> <li>losses suffered from a counterparty default situation.</li> </ul>