Enterprise Risk Management

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Overview

LME Clear has an Enterprise Risk Management Framework ("ERMF") which sets out a comprehensive approach to risk management, to underpin a robust risk management culture. The ERMF manages risks in alignment with the LME Clear Risk Appetite Statement ("RAS"). This document allows all stakeholders to understand the way LME Clear manages risk, which is fundamental to its core regulatory role, therefore the document is owned by the respective Boards.

Risk Governance

The LME Clear Board and its established Committee Structures are responsible for ensuring there is effective identification, management and oversight of risks. They delegate these responsibilities to the respective Chief Executive Officer ("CEO") and Chief Risk Officer ("CRO") through their Remits of Responsibility ("ROR"). The CEO and CRO utilise management level committees to assist them in overseeing the day-to-day risk management activities of the organisations. Each of the risk types at the L0 and L1 levels within the Risk Appetite Statement are overseen by a sub-Committee of the Board or the Board itself.

The three lines of defence model is a risk governance framework for the day-to-day management of risk. The Model is generally considered to be industry best practice, and it splits the responsibility for risk management across three lines of the business. The Model underpins the ERMF by clarifying roles and responsibilities for risk management, encouraging collaboration, and enabling effective coordination of risk and control activities. Independence between the 1st and 2nd line of defence risk teams is maintained through differences in their operating incentives and reporting lines, which include independent executives with responsibility for 1st and 2nd line risk management activities, and independent reporting lines to the respective boards for the CRO and Head of Internal Audit.

Risk Appetite Statement

Risk Appetite is defined as the level of risk that an organisation is willing to accept while pursuing its strategic objectives and business plan. LME Clear maintains a RAS, which is owned by the Board and describes LME Clear's approach to risk, the risks that are acceptable, and those that are not, alongside the approach to measuring, monitoring, and reporting these risks. The RAS is reviewed annually and, where appropriate, designed to be consistent across LME and LME Clear and the wider HKEX Group.

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Managing financial and non-financial risk at LME Clear

- Enterprise risk management uses various tools and sources to gather a holistic view of risk across LME Clear.
- These tools ensure that LME Clear is able to meet its **strategic objectives**, while remaining within **risk appetite**.
- This is achieved through the identification, assessment, monitoring and reporting of risk.
- These elements form the **risk management lifecycle**.

Risk Management Lifecycle: Reporting → Identification → Assessment → Monitoring

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LME Clear's risk management objectives are:

- Ensure that the risk management statements in the annual reports are adequately supported and other relevant corporate governance requirements are met;

- Ensure that the UK EMIR Requirements and Recognition Requirements as well as other applicable statutory legal requirements are met;

- Protect and enhance value by prioritising and focusing attention on managing risk across the CCP;

- Maintain clearing members positions and collateral in a safe and secure manner;

- Ensure sufficient financial resources to manage a default in stressed events that are extreme but plausible;

- Share risk information across the CCP to ensure the LME Clear is making informed decisions;

- Promote open discussion and appropriate escalation of significant risks as soon as they become apparent;

- Embed risk management into the culture and processes for day-to-day activities;

- Ensure awareness at Board level of the key risks and how they are being addressed;

- Ensure there is a rigorous review and due diligence process for all actual and potential members and other counterparts to whom an exposure is expected to arise;

- Maintain effective and efficient operational and change management procedures;

- Maintain robust processes and controls;

- Vigilant maintenance to the uninterrupted availability of systems, data and important business services where applicable;

- Have due regard to the reputation of LME Clear and the broader Group;

- Effective and cautious management and robust control of operations that are outsourced to third parties including LME Clear's systems and technology providers and investment managers;

- Maintain a high level of understanding of the markets and the products which are being cleared; and

- Maintain a high level of competence and experience among staff.