



Board Risk Committee

Terms of Reference

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 3 below.

2 Structure

(a) Composition

The Committee will be composed of at least 9 individuals of whom:

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

The individuals described in (1) will be appointed by the Board. The individuals described in (2) and (3) will be appointed in accordance with the criteria and procedure set out in Annex 1 to these terms of reference. The BRC shall be constituted to ensure that as required by regulation no one set of individuals described under (1), (2) or (3) shall have a majority of votes.

The individuals described in (2) and (3) will have been appointed in accordance with the criteria set out in Annex 1 as risk experts. In carrying on their role as members of the Committee, they will have due regards to the interests of the Company.

Only members of the Committee have a right to attend meetings; however other directors may be invited to attend. The Chief Risk Officer of the Company 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) Chairman

The chairman of the Committee will be one of the Non-Executive Directors. In the absence of the chairman at any meeting, one of the remaining Non-Executive Directors shall act as chairman.

(c) Reporting Procedures and Frequency of Meetings

- (i) Minutes will be taken for all meetings and tabled at meetings of the Board.
- (ii) 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.
- (iii) The Committee shall meet four times per year or more frequently if so required.

- (iv) Meetings can be convened at the request of any of the Committee members and shall be summoned by the secretary of the Committee.

(d) **Quorum**

4 Committee members, including at least one Non-Executive Director, one representative of clients of clearing members and one representative of clearing member shall constitute a quorum.

Recommendations shall be determined by simple majority and, in the event of a tie, the chairman of the Committee shall have the casting vote.

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. 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.

Non-Executive Director Committee members shall generally be appointed for three years, and shall be eligible for reappointment. If a Non-Executive Director member of the Committee ceases to be a member of the Board, their membership of the Committee shall automatically cease.

Representatives of clearing members and clients of clearing members shall be appointed for a two year period in accordance with the criteria and procedure set out in Annex 1 to these terms of references.

3 Duties

The duties of the Committee are to:

- (a) advise the Board on 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; and
- (d) discuss and advise the Board on the initial versions of, and any changes to the rulebook which impact on the risk management of the Company;
- (e) review and make recommendations to the Board on the initial versions of, and any proposed changes to the following policies and arrangements:
 - (i) Margin Policy;

- (ii) Collateral Policy;
- (iii) Liquidity Policy and Funding Plans;
- (iv) Credit Policy;
- (v) Recovery and Resolution Policy and Plan;
- (vi) Default Fund Policy;
- (vii) Default Management Policy;
- (viii) Membership Criteria; and
- (ix) outsourcing arrangements (to the extent those arrangements impact on the risk management of the Company).

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.

4 Other Matters

- (a) 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;
 - (iii) have access to members of management and legal counsel at any meeting if necessary; and
 - (iv) 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.
- (b) 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.
- (c) 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.

- (d) A Committee member must declare to the chairman of the Committee the nature and extent of any conflict of interest (“**conflict**”) he 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 decide 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 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 1

Criteria for selecting clearing members and client representatives of the Board Risk Committee (the “Committee”)

Clearing member representatives - selection and vacancy process

1. Clearing member representatives for the Committee shall be selected and appointed as follows:
 - (a) not less than once every two calendar years 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 copy of a CV giving details of the candidate’s skills and experience relevant to the role on the Committee;
 - (c) if more than 3 candidates have been suggested, the Executive Committee 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 make the necessary time commitment to 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 Executive Committee from time to time.
 - (d) The Executive Committee may in its sole discretion decide to hold interviews with, or request references from, any of the candidates.
 - (e) The shortlist will then be submitted to the Nomination Committee and the Chairman of the Board Risk Committee who will together select the 3 candidates. The selection process shall ensure that:
 - (1) the Board Risk 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 Board Risk Committee as a whole has sufficient knowledge of the LME market and any other products cleared by LME Clear.
- (f) The Nomination Committee reserves the right to invite other candidates, if in its reasonable judgement, it considers that the candidates on the shortlist do not have the requisite experience. The Nomination Committee may, at its sole discretion, invite any of the candidates for an interview.

The Nomination Committee reserves the right to reject any candidate shortlisted under 1(e). No reason needs to be given by the Nomination Committee.
- (g) The individuals will be invited to join the Board Risk Committee for a term of 2 years. This term may be rolled for a further term of up to 2 years at the Nomination Committee's discretion to ensure continuity within the Committee;

Client representatives – selection and vacancy process

2. Client representatives for the Committee shall be selected and appointed as follows
 - 2.1 The Nomination Committee shall seek nominations for 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.
 - 2.2 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 copy of a CV giving details of the candidate's skills and experience relevant to the role on the Committee.
 - 2.3 If more than 3 candidates have been suggested, the Executive Committee 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 make the necessary time commitment to 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 Executive Committee from time to time.
 - 2.4 The Executive Committee may in its sole discretion decide to hold interviews with, or request references from, any of the candidates.
 - 2.5 The shortlist will then be submitted to the Nomination Committee and the Chairman of the Board Risk Committee who will together select the candidates. The selection process shall ensure that:

- (1) the Board Risk 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 Board Risk Committee as a whole has sufficient knowledge of the LME market and any other products cleared by LME Clear.
- (b) The Nomination Committee reserves the right to invite other candidates, if in its reasonable judgement, it considers that the candidates on the shortlist do not have the requisite experience. The Nomination Committee may, at its sole discretion, invite any of the candidates for an interview.
 - (c) The Nomination Committee reserves the right to reject any candidate shortlisted under 2.5 No reason need to be given by the Nomination Committee.
 - (d) The individuals will be invited to join the Board Risk Committee for a term of 2 years. This term may be rolled for a further term of up to 2 years at the Nomination Committee's discretion to ensure continuity within the Committee.

General

3. Both Clearing Member representatives and Clients of Clearing Members representatives will be required to adhere to the necessary confidentially agreements as prescribed by the Company from time to time.
4. 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:
 - (a) the withdrawal of the clearing member becoming effective under LME Clear's rules; or
 - (b) 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.
5. 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).
6. 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 chairman of the Committee, shall determine which member should remain on the Committee.
7. 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 by the Board.



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

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	This policy outlines the proposed recovery and resolution to be followed by LME Clear in the event of: <ul style="list-style-type: none"> the default of one or more clearing members or; losses suffered from a counterparty default situation.

