

# LME Clear Audit Committee Terms of Reference

**THE LONDON METAL EXCHANGE AND LME CLEAR LIMITED**

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The London Metal Exchange is registered in England no 2128666.

LME Clear Limited is a private limited company and is registered in England no 07611628.

Registered offices as above.

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## 1 Status

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

## 2 Purpose/Role

The Committee is to serve as a focal point for communication between other directors, the external auditor and the internal audit as regards their duties relating to financial and other reporting, certain risk management, internal controls, external and internal audits and such other matters as the Board determines from time to time.

The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting and risk management, by satisfying themselves to the effectiveness of the internal controls and risk management function of the Company and its subsidiaries, and as to adequacy of external and internal audits.

Matters to be considered by the committee shall include, but not limited to, the matters set out in paragraph 4.

The Committee should liaise with Hong Kong Exchanges and Clearing Limited (“HKEX”) (together with the Company, the “HKEX Group”), the Audit Committee and Risk Management Committee of HKEX, the LME Audit Committee to facilitate group-wide consolidated financial reporting and risk management requirement as part of HKEX Group.

The Committee will take into account HKEX Group reporting requirements and policies in reviewing the financial statements.

## 3 Administrative Structure

### 3.1 Composition

The Committee will be composed of at least four individuals. At least three Committee members shall be independent directors and at least one of these members shall have relevant and recent financial experience. The Committee as a whole shall have competence relevant to the sector in which the Company operates. The rest of the Committee members shall be either non-executive directors or executive directors. Membership shall run-terminus with the directorship.

Members of the Committee shall be appointed by the Board on the recommendation of the Nomination Committee in consultation with the Chair of the Audit Committee (the “Chair”). Only members of the Committee have the right to attend Committee meetings. However, other senior Executives and Directors may be invited to attend all or part of any meeting as and when appropriate. The external and internal auditors will be invited to attend meetings of the Committee on a regular basis.

### 3.2 Chair

The Board, on the recommendation of the Nomination Committee, shall appoint the Chair who shall be an independent director. In the absence of the Chair and/or appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.



### 3.3 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 ensure full and proper consideration to be given to matters.

The secretary of the Committee shall notify the Chair as soon as possible in the event that the Terms of Reference are not being met or, when it is probably that they will not be met. Members of the Committee will be formally notified of such matters and advised of details of any temporary mitigations that have been put in place or are about to be put in place.

### 3.4 Quorum and Voting rights

The quorum necessary for the transaction of business shall be three members (including the Chair or their delegate). Decisions shall be determined by simple majority and, in event of a tie, the Chair of the Committee shall have the casting vote.

### 3.5 Frequency of Meetings

The Committee shall meet at least four times per year at appropriate times in the reporting and audit cycle and otherwise as required. Meetings can be convened at the request of the Chair, members or the external or internal auditors. Committee meetings shall be agreed in advance affording adequate notice for maximum participation.

Outside of the formal meeting programme, the Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chair, the Chief Executive, Chief Financial Officer, Chief Financial and Administrative Officer and the External Audit lead partner and the head of internal audit.

### 3.6 Minutes of meetings

The secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

The secretary shall ascertain, at the beginning of each meeting, any conflicts of interest and minute them accordingly.

### 3.7 Reporting to the Board

The Chair 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.

Where there is disagreement between the Committee and the Board, adequate time should be made available for discussion of the issue with a view to resolving the disagreement. Where any such disagreement cannot be resolved, the Committee has the right to report on the issue to the Shareholder as part of the report on its activities.

The Committee shall compile a report to the Audit Committee of HKEX on its activities after each and every of its meetings and on its activities to be included in the Company's annual report.



## 4 Designated powers

The LME Clear Board authorises the Audit Committee, within the scope of its responsibilities, to:

### 4.1 Financial Reporting, Internal Controls and Risk Management System

#### 4.1.1 Financial Reporting

- (a) The Committee shall monitor the integrity of the financial statements of the company, including its annual and interim reports and any other formal announcement relating to its financial performance and review and report to the Board on significant financial reporting issues and judgements those statements contain having regard to matters communicated to it by the Auditor.
- (b) The Committee shall review an challenge where necessary:
  - (i) The application of significant accounting policies and practices and any changes to them, having regard to policies and practices across the HKEX Group;
  - (ii) The methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) Whether the company has adopted appropriate accounting policies and auditing standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (iv) The clarity and completeness of disclosure in the Company's financial reports and the context in which the statements are made;
  - (v) All material information presented with the financial statements, including the strategic reporting and the corporate governance statements relating to the audit and to risk management;
  - (vi) Any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation;
  - (vii) The content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
  - (viii) The statements to be included in the annual report concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the viability statement;
  - (ix) Any aspect of the proposed financial reporting by the Company it is not satisfied with and it shall report its views to the Board;
  - (x) Any significant financial reporting issues and judgements and all material information presented with the financial statements, such as significant adjustments resulting from the audit, and the ongoing concern assumption and any qualifications; and
  - (xi) Any significant or unusual items that are, or may need to be, reflected in financial reports and accounts, and must give due consideration to any matters that have been raised by



the staff responsible for the accounting and financial reporting function, compliance function or auditor (internal or external).

#### 4.1.2 Internal Controls

With respect to Internal Controls, the Committee shall:

- (a) Monitor, and review with management, the adequacy and effectiveness of the Company's policies and procedures regarding internal controls relating to the Key Risk types, for which it is responsible; financial and capital, , compliance and those controls designed to detect fraud, and any statement concerning internal controls to be included in the annual accounts prior to endorsement by the Board; and
- (b) Discuss with management the scope and quality of systems of internal control and review annually that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff to the accounting and financial reporting function, and their training programmes and budget;
- (c) Keep under review the Company's internal financial controls systems, that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;
- (d) Keep under review the Company's policies as they relate to the compliance, Whistleblowing and Fraud;
- (e) Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- (f) Review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls.

#### 4.2 Anti-bribery and Anti-Corruption, Whistleblowing, Fraud Prevention and Financial Crime

The Committee shall:

- (a) Review and approve the Company's assessment of the corruption risks to which it is subject and the framework of controls put in place to mitigate those risks, including but not limited to the Company's policies on anti-bribery, anti-corruption and risk management;
- (b) Consider corruption risk within the framework of the risk management and compliance policy statement;
- (c) Monitor and oversee compliance with the Company's anti-bribery and anti-corruption Policy, including reviewing this policy on an annual basis to ensure that it remains adequate for the purposes of the Bribery Act 2010 (UK) and any other applicable legislation;
- (d) Where appropriate, seek advice or information from the Chief Compliance Officer or an other person it deems necessary regarding the Company's policy, on anti-bribery and anti-corruption;
- (e) Establish and review the Company's policies and systems for its employees and third parties who deal with the Company to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters related to the Company, with the Committee. The Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up actions; and



- (f) Review the Company's procedures for detecting internal fraud, findings of internal investigations and management's response into any suspected frauds or irregularities or failures or internal controls or infringements of laws, rules and regulations.

### 4.3 Internal Audit

The Committee shall:

- a) Monitor and review annually the effectiveness of the Company's internal audit function, in particular to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget;
- b) Ensure co-ordination between the internal and external auditors and ensure that the internal audit function has appropriate standing within the Company and within the HKEX Group;
- c) Review and approve the annual internal audit plan and discuss with the internal auditor any significant findings and recommendations arising from the internal audit activities;
- d) Determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business;
- e) Review and monitor management's responsiveness to the findings and recommendations of the internal auditors;
- f) Meet with the Head of Internal Audit regularly throughout the year as the Head of Internal Audit may require;
- g) At every meeting, discuss the remit and any issues arising from the internal audits carried out;
- h) Where consultants or internal group resources are engaged by management of the Company to review particular aspects of the Company's risk identification and/or risk management issues and/or internal control issues the Committee should have access to all such reports and presentations and if considered appropriate request that such consultant(s) present to the Committee;
- i) Where consultants of internal group resources are engaged by management of the Company to review particular aspects of the Company's risk identification and/or risk management issues and/or internal control issues the Committee should have access to all such reports and presentations and if considered appropriate request that such consultant(s) present to the Committee;
- j) Ensure the internal audit function has direct access to the Board Chair and to the Committee Chair, providing independence from management and accountability to the Committee;
- k) Approve the Internal Audit Charter and review its effectiveness on an annual basis;
- l) Approve decisions regarding the appointment, removal and salary of the Head of Internal Audit; and
- m) Review the performance evaluation of the Head of Internal Audit.

### 4.4 Compliance

The Committee shall:



- (a) Monitor and review annually the effectiveness of the Company's Compliance function, in particular ensure the adequacy of resources, staff qualifications and experience, training programmes and budget;
- (b) Ensure the Compliance function has appropriate standing within the Company and within the HKEX Group;
- (c) Review and approve the annual Compliance Monitoring and Policy Plan and discuss with the Chief Compliance officer any significant findings and recommendations arising from the compliance activities;
- (d) Review the Conflicts of Interest Policy, the associated controls and exceptions on an annual basis;
- (e) Determine whether it is satisfied with the quality, experience, and the expertise of the compliance function and whether the function is appropriate for the business;
- (f) Review and monitor management's responsiveness to the findings and recommendations of the compliance function; and
- (g) Approve the Compliance Monitoring Programme and review its effectiveness on an annual basis.

#### 4.5 External Audit

The Committee shall:

- a) Consider and make recommendations to the Board, in relation to the appointment, re-appointment and removal of the Company's external auditors, oversee, in consultation with HKEX, the selection process for new auditors and investigate a resignation.
- b) Oversee the relationship with the external auditors including but not limited to:
  - (i) Approval of the remuneration (after consultation with HKEX), whether the level of fees for audit or non-audit services is appropriate, including whether it is consistent with an adequate audit being conducted;
  - (ii) Develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
  - (iii) Assessing and monitoring annually their independence and objectivity taking into account relevant legal, professional, and regulatory requirements, the Ethical Standard and the relationship with the auditors as a whole;
  - (iv) Assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures. Discuss with the external auditor the nature and scope of the audit and reporting obligations;
  - (v) Seek from external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;



- (vi) Approve their terms of engagement including any engagement letter issues at the start of each audit and the scope of the audit;
  - (vii) Seek to ensure coordination of the external audit with the activities of the internal audit function; and
  - (viii) Agree with the Board the policy relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The Committee will consider whether as a result of such hiring there has been any impairment of the auditor's judgement or independence in respect of an audit. A former partner of the existing external auditing firm should be prohibited from acting as a member of the Committee for a period of 1 year from the date of his/her ceasing to be a partner of the firm or to have financial interest in the firm, whichever is later.
- c) Meet with external auditors (it being noted that the external auditors may participate in such meetings by telephone):
- i. At every meeting to discuss their remit of any issues arising from the audit. Management of the Company shall not be present for such discussions; and
  - ii. Regularly throughout the year (including in the planning stage before the audit and at the reporting stage after the audit) as the external auditors shall require.
- d) Review and approve the annual external audit plan and ensure that it is consistent with the scope of the audit engagement;
- e) review the findings of the external audit with the external auditors (if necessary in the absence of management), including but not limited to, the following:
- i. a discussion of any major issues and recommendations which arose during the audit;
  - ii. any key accounting and audit judgments;
  - iii. levels of operational and financial errors identified during the audit; and
  - iv. any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the financial statements.
- f) obtain comments of management regarding the responsiveness of the external auditor to the needs of the Company, and review the effectiveness of the audit;
- g) review any representation letter(s) requested by the external auditors before they are signed by management;
- h) review the management letter and management's response to the external auditors' findings and recommendations; and
- i) if required, appoint any accounting firm to perform an external review on the effectiveness of its designed control objectives and control activities. It will be responsible for overseeing the engagement process and approval of their remuneration. It will review and approve any report produced and ensure that it is in line with the terms of engagement.
- j) Notwithstanding the matters above listed as part of the Committee's authority, the Committee shall not have authority to approve any decision that could have a significant impact on the



risk profile of the Company. Any such decision shall be referred to the Board for approval.

- k) The engagement of the Company's external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditors due to their unique expertise in a particular area, this matter shall be considered in accordance with the HKEX
- l) Group Policy on external auditors providing services and the prior approval of the Committee is required.

## 5 Other Matters

### Authority and Duties

The Committee shall:

- (a) have access to sufficient resources and training in order to carry out its duties, including access to the Company Secretariat for advice and assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- (c) give due consideration to all relevant laws and regulations, investigate any activity within its terms of reference;
- (d) have access to members of management, legal counsel, and invite the attendance of outsiders with relevant experience and expertise at any meeting if necessary;
- (e) undertake regular and thorough review to ensure that the Company is meeting its requirements as a central counterparty;
- (f) 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; and
- (g) report on its activities on a quarterly basis to the Board.
- (h) In addition to the above, the Committee may investigate, discuss or review matters outside its terms of reference if required to do so by the Board.

### Powers

The Committee is authorised to:

- (a) have access to any information, record or reports it requires from any employee of the Company in order to perform its duties and all employees are directed to cooperate with the Committee;
- (b) obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- (c) call any employee of the Company to be questioned at a meeting of the Committee as and when required.



## 6 Confidentiality and Conflicts of Interests

Committee members must ensure that, unless outside consultation is specifically agreed, all matters discussed, and all materials and data made available to them in respect of their Committee-related activities are kept confidential at all times.

Further, Committee members must not abuse their Committee status and must not be involved in any decision-making processes in respect of which they may have a personal conflict of interest<sup>1</sup>. Where Committee members think they may have a personal conflict of interest in relation to any matter to be discussed at a Committee meeting or that comes under discussion at a Committee meeting, they must, where possible, raise this at the start of Committee proceedings and, in all cases, recuse themselves from the part of the meeting at which that matter is discussed. The minutes of the meeting must record the absence.

Further, where the Committee Chair considers that there may be a personal conflict of interest in respect of any matter to be discussed at a meeting or that comes under discussion at a Committee meeting and it is appropriate for a Committee member to recuse themselves, the Committee Chair shall ask the member to do so. Similarly, a Committee member may propose that the Committee Chair should recuse themselves and, in these circumstances, the delegate Chair will be responsible for managing the discussion

Certain Committee members [including the Committee Chair] may have potential or actual conflicts of interest arising from their role within LME Clear or the LME Group. For instance, they may have responsibilities across both LME Clear and LME or more than one role within LME Clear which, on occasion, may create a conflict of interest in the context of specific proposals or requests for decisions put to Committee. In these instances, impacted Committee members are not required to recuse themselves from such discussions or decisions unless the Committee Chair or other Committee member reasonably assert that the conflict has manifested itself in such a way as to be unmanageable.

However, Committee members must, in any case:

at all times be mindful of the potential conflict associated with their role(s) in the context of their responsibilities to the Committee; and ensure that, when appropriate, the existence of their potential conflict of interest is highlighted to the Committee in the context of relevant discussions or decisions.

### 6 Key Risk Types Mapping

Risk Type	Key LMEC Committee Consideration Ownership
Strategic	Board
Legal	Board Risk Committee
Technology	Board Risk Committee
Operational	Board Risk Committee
Third Party	Board Risk Committee
Data	Board Risk Committee
Change	Board Risk Committee
Cyber	Board Risk Committee
Business Continuity	Board Risk Committee
Human Capital	Board risk Committee
Fraud	Audit Committee
Compliance	Audit Committee
Conduct	Board Risk Committee
Capital	Board Risk Committee
Credit	Board Risk Committee
Market	Board Risk Committee
Payment and Settlement	<i>Not applicable</i>

<sup>1</sup> In this context, a personal conflict of interest is defined as including an individual's personal, professional, financial or other interests outside of LME Clear that have any potential to impact their role on the Committee. It does not refer to other interests arising directly from their role(s) within LME Clear or LME Group.



Custody	<i>Not applicable</i>
Liquidity	<i>Board Risk Committee</i>
Model	<i>Board Risk Committee</i>
Markets and Trading	<i>Board risk Committee</i>
Physical Delivery Operations	<i>Board Risk Committee</i>

## 7. Document Change History

Date	Author	Comments/ Summary of Changes
16.12.2013	Board	Version approved by the Board
23.04.2015	Audit Committee	Proposed changes approved to align all Group Audit Committees and incorporate best practice for UK Audit Committee
23.04.2015	Board	Version 1.1 approved by the Board
01.11.2016	Audit Committee	Proposed changes approved to align all HKEX Group companies ToRs and to reflect changes in HKEX Group policies
02.11.2016	Board	Version 1.2 approved by the Board
20.04.2020	Company Secretariat	Amendments to reflect transfer of responsibilities to the Technology and Operational Resilience Committee ("TORC")
27.04.2020	Audit Committee	Amendment to incorporate comment received from the Audit Committee regarding overlap of responsibilities with the TORC.
30.09.2021	Company Secretariat	Annual review
14.10.2021	Board	Version 1.3 approved by the Board.
18.08.2022	Company Secretariat	Annual review against CGI Model Terms of Reference
17.01.2025	Company Secretariat	Annual Review against CGI Model Terms of Reference as well as a review against the new risk type mapping across the LME Clear Committees.
20.02.2025	Board	Version 1.4 Approved by the Board



