



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 (the 'Committee') is a sub-Committee of the board (the "**Board**") of the Company established to assist the Board in fulfilling its oversight of management's responsibility for the Company's risk structure and governance of the risks the Company faces including but not limited to default, resilience, regulatory and strategic risk. In particular, the Committee's role is to provide assurance that the Company's risks are being managed within, and behaviours consistent with the agreed risk appetite.
- 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 and the Audit Committee as appropriate.
- 2.3 The board has delegated the responsibilities set out in section 7 below to the Committee. While overall oversight of the Company's risk profile is delegated to the Committee, some of the core risk types are reviewed in more detail by the EMIR Risk Committee (in an advisory function to the BRC) and the Audit Committee who own their own risk types. Responsibility for oversight of each risk type is provided in Appendix A.

3 Definition

Board	means the board of directors of the Company;
Chair	means the chair 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 Administrative Structure**4.1 Composition**

- 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 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. Membership shall run co-terminus with the directorship 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 and CRO are required to attend the meetings where appropriate. Other key members of the executive team shall be expected to attend meetings of the committee and other individuals may be invited to attend all or part of any meeting as and when appropriate.

4.2 Chair

- a. The Board, on the recommendation of the Nomination Committee, shall appoint the committee Chair who shall be a 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 considering the views and recommendations of the EMIR Risk Committee); and
 - (v) 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 matters.
- b. The secretary of the committee shall notify the Chair as soon as possible if the Terms of Reference are not being met or, when it is probable that they will not be met. Members of the committee will be formally notified of such matters and advise of details of any temporary mitigations that have been put in place or are about to be put in place.
- c. The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance.



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 Chair 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 as appropriate.
- b. 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 Chair of the Board or CRO if they consider it necessary.

6 Reporting

- a. The Chair of 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 Areas of Responsibility

Risk management

The Committee shall:

- a. Review the development, implementation and effectiveness of the Company's risk management framework, policies and processes for identifying, assessing and monitoring risks.
- b. Review regularly and approve (or where required recommend to the Board) substantial changes to the Company's Recovery and resolution plan, risk policies, risk appetite statement including proposing an appropriate risk position for principal risks, and considering the strategy and business plan of LME Clear.
- c. Review regular reporting of LME Clear's risk position versus the agreed risk appetite. Consider any situations where management believes LME Clear has moved outside risk appetite and actions taken by management to manage and remediate risks.
- d. Review the emerging risks identified by management and stress testing and scenario analysis results related to material risks facing the Company ability to deliver its strategy and core business.
- e. Review and evaluate the second line risk management function including its organization,



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- practices, experience and resources.
- f. Review risk reporting from core business teams including risks, identified issues, mitigating actions and material risk acceptances that could have a significant impact on the Company's risk position.
 - g. Review the extreme event and emergency risk- response protocols of management to ensure they escalate significant new, emerging or crystallising risks to the Board in an emergency situation.
 - h. Advise the Board, following the resolution of a crisis as to whether: (i) policy in relation to incident or crisis management should be reviewed or altered; (ii) whether the Executive has brought the Company back to within its risk appetite; and on the performance of the Executive.
 - i. Review significant risk related reports from the Company's regulators, and material recommendations from internal and external auditors relating to risk management issues.
 - j. Advise the internal auditor of any areas the Committee deems appropriate to be considered as part of the audit plan.
 - k. Oversee, assess and participate in default management fire drills as appropriate to test the Company's default rules and procedures.
 - l. Review, the implementation and effectiveness of the governance, policies, risk control framework and risk profile relating to LME Clear's operational resilience and disaster recovery arrangements and make recommendations to the Board to enable it to exercise its oversight function;
 - m. review updates on the physical security arrangements pertaining to premises used by the Company and make recommendations to the Board to enable it to exercise its oversight function;
 - n. review the Company's material outsourcing arrangements and associated mitigants for third-party risk management of Critical Service Providers
 - o. provide oversight to review risks, governance and controls affecting change programmes and provide oversight in relation to such programmes.

9 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.
- 9.1 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.
 - 9.2 Committee member must declare to the 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 Chair with such details of the matter as is necessary for the Chair to determine how to address the conflict, together with such additional information as the Chair



may request. Where the chair 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.



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Appendix A

Risk Type	LME Clear Oversight Board Committee	LME Clear Board Advisory Committee	LME Clear Advisory executive Committee
Strategic	Board	-	Executive Committee
Legal	Board Risk Committee	-	Executive Risk Committee
Technology	Board Risk Committee	-	Executive Risk Committee
Operational	Board Risk Committee	-	Executive Risk Committee
Third Party	Board Risk Committee	EMIR Risk Committee	Executive Risk Committee
Data	Board Risk Committee	-	Executive Risk Committee
Change	Board Risk Committee	-	Executive Committee
Cyber	Board Risk Committee	-	Information Security Committee
Business Continuity	Board Risk Committee	-	Operational Resilience Governance Committee
Human Capital	Board Risk Committee	-	Executive Committee
Fraud	Audit Committee	-	Executive Risk Committee
Compliance	Audit Committee	-	Executive Risk Committee
Conduct	Board Risk Committee	-	Executive Risk Committee
Capital	Audit Committee	-	Executive Risk Committee
Credit	Board Risk Committee	EMIR Risk Committee	Clearing Risk Committee
Market	Board Risk Committee	EMIR Risk Committee	Clearing Risk Committee
Payment and Settlement	Board Risk Committee	EMIR Risk Committee	Clearing Risk Committee
Custody	Board Risk Committee	EMIR Risk Committee	Clearing Risk Committee
Liquidity	Board Risk Committee	EMIR Risk Committee	Clearing Risk Committee
Model	Board Risk Committee	EMIR Risk Committee	Clearing Risk Committee

