

OTC CLEARING HONG KONG LIMITED
TERMS OF REFERENCE AND MODUS OPERANDI
OF
THE BOARD OF DIRECTORS

1. Purpose

1.1 The Board of Directors (the “**Board**”) of OTC Clearing Hong Kong Limited (“**OTC Clear**”) has multiple roles and responsibilities. It oversees OTC Clear’s activities and the execution of its business strategies. In doing so, the Board aims to take into account all relevant stakeholders’ interests, including the interests of OTC Clear’s direct and indirect participants.

2. Membership

2.1 The Board shall consist of:

- (a) at least seven individuals to be appointed by the Majority Ordinary Shareholder of OTC Clear, Hong Kong Exchanges and Clearing Limited (“**HKEX**”), a recognized exchange controller under the Securities and Futures Ordinance; and
- (b) up to three individuals to be appointed by NVO Shareholders (“**NVO Directors**”).

2.2 Of the seven individuals to be appointed by HKEX:

- (a) two individuals shall be the executives of OTC Clear or a group member of HKEX;
- (b) four individuals shall be independent non-executive directors (“**INEDs**”); and
- (c) one individual (who may not be an INED) shall be a senior executive or a director of an entity which is a client of, or which has received client clearing services from, a Clearing Member of OTC Clear or a clearing member of any other OTC derivatives clearing house (i.e. client representative director).

2.3 The chairman of the Board shall be appointed by HKEX, whose chairmanship shall be coterminous with his directorship with the Board.

2.4 The secretary shall be appointed by the Board.

3. Term of office of Directors

3.1 The term of appointment of all Directors except the NVO Directors will normally be for three years.

3.2 Each NVO Director shall be appointed for a term of two years.

3.3 Directors are eligible for re-appointment after expiry of their term of appointment.

4. Duties, powers and functions

4.1 The duties, powers and functions of the Board shall, among others, be as follows:

- (a) to determine OTC Clear's objectives, strategies, policies and business plans and monitor their implementation;
- (b) to ensure performance of OTC Clear's statutory duties as a recognized clearing house and OTC Clear's compliance with all applicable laws, rules and regulations as well as supervisory and oversight requirements;
- (c) to establish and oversee the risk-management function and material risk decision and set appropriate policies to manage risks in the furtherance of OTC Clear's objectives and strategies;
- (d) to put in place appropriate internal control systems to manage and monitor risks associated with OTC Clear's business and operations and to ensure the integrity of its accounting, financial and operational controls;
- (e) to oversee internal control functions including ensuring their effectiveness, independence and adequate resources;
- (f) to determine the annual budget in particular the capital expenditure budget and annual operating plan;
- (g) to be responsible for the preparation and the true and fair presentation of the financial statements in accordance with the prevailing accounting standards and laws, to approve the financial statements and to liaise with the external auditor of the HKEX's group;
- (h) to consider and, if appropriate, declare or recommend to shareholders on appropriation of profit, payment of dividend and allocation to reserve account;
- (i) to interpret and supervise compliance with those parts of the OTC Clear's Clearing Documentation (including OTC Clear's clearing rules, clearing procedures and membership agreement), review the Clearing Documentation and approve any amendments to the Clearing Documentation;
- (j) to form any committee(s) or panels or groups, appoint members thereto, delegate at any time and from time to time to any person(s) or committee(s) or panel(s) or group(s), any of its powers and functions conferred on it hereunder, review and approve the reports of the committees(s), panel(s) and group(s), review their performance and revise their composition and terms of reference as appropriate;
- (k) to oversee, set criteria for and assess the quality and adequacy of outsourcing arrangements including intra-group service provision policies and intra-group services provided by HKEX or other group companies of HKEX;
- (l) to conduct regular evaluation of the Board and its committees as well as individual Board members to ensure their effectiveness;
- (m) to ensure effective monitoring of senior management, provide performance feedback and lay down compensation policies;

- (n) to engage such external legal or other professional advisers to assist and/or advise it on issues as it considers necessary; and
- (o) to provide accountability to the shareholders, Clearing Members and other stakeholders of OTC Clear.

5. Frequency and proceedings of meetings

- 5.1 The Board proceedings shall be governed by OTC Clear's Articles of Association.
- 5.2 The Board normally meets at least once every quarter in a calendar year. Additional meetings should be held as the work of the Board demands. A Director may, and the secretary to the Board on the requisition of a Director shall, at any time summon a meeting of the Directors. The chairman may convene additional meetings at his discretion. Notice of meetings shall be given to all Directors.
- 5.3 The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall have a second or casting vote.
- 5.4 Three Directors, comprising at least two Directors appointed by HKEX and one NVO Director, shall constitute a quorum.
- 5.5 The quorum at an adjourned meeting shall be any two Directors.
- 5.6 Meetings of the Board will normally be held in person in Hong Kong and may be held by telephone or video conference or using other appropriate conference facilities.

6. Review

- 6.1 The Board shall periodically review the adequacy of these Terms of Reference and make appropriate amendments, as and when required, to ensure that they remain relevant to OTC Clear's objectives.

7. Definitions and interpretation

- 7.1 Unless otherwise stated, any capitalised terms used in these Terms of Reference shall have the meaning given to them in the Articles of Association of OTC Clear, as amended from time to time.
- 7.2 Nothing in these Terms of References should be construed to limit the powers and functions of the Board under all applicable laws.
- 7.3 References to one gender shall include all genders.

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