

Audit Committee Report

The Audit Committee

The Audit Committee (AC) is delegated with the authority by the Board to provide independent oversight of the Group's financial reporting and internal control systems, and the adequacy of the external and internal audits. The AC is provided with sufficient resources to perform its duties, including support, as necessary, from the Internal Audit Department (IAD), the external auditor, legal counsel, regulatory compliance and management, in examining all matters relating to the Group's adopted accounting principles and practices, and in

reviewing all material financial, operational and compliance controls. The AC's terms of reference are available on the HKEX Group website [OS](#).

The AC comprises five INEDs whose names and biographies are set out in the Board and Committees section of this Annual Report. None of the AC members are employed by or otherwise affiliated with the auditor of HKEX. The AC held four meetings in 2020. Members' attendance records are disclosed in the Corporate Governance Report contained in this Annual Report.

Summary of Work in 2020/2021

- Approved revisions to the Group Internal Audit Charter
- Reviewed the AC's terms of reference
- Reviewed and approved amendments to the Group Anti-Bribery and Anti-Corruption Policy, and the Group Whistleblowing Policy
- Reviewed the Group's quarterly, half-yearly, and annual financial results
- Reviewed, with both the external auditor and management, the audit approach and methodology applied, in particular to the Key Audit Matters included in the Auditor's Report
- Approved the internal audit plan for 2021 to 2023
- Reviewed significant findings of the IAD, the external auditor, external consultants and regulators, and management's response to their recommendations
- Reviewed quarterly reports and updates on legal and regulatory compliance matters, including anti-bribery and anti-corruption matters and whistleblowing disclosures
- Reviewed the adequacy and effectiveness of the Group's internal control systems and its accounting, financial reporting, and internal audit functions
- Reviewed the remediation actions taken in response to the independent review of the HKATS (Hong Kong Futures Automated Trading System) derivatives market suspension on 5 September 2019
- Reviewed the continuing connected transactions
- Approved the revised policy on engagement of the external auditor to provide services
- Reviewed and monitored the external auditor's independence and reviewed the engagement to perform non-audit services
- Approved the 2020 external audit engagement letters and fees
- Reviewed and endorsed changes in accounting principles and practices proposed by management

Review of Financial Results

The AC reviewed the 2020 Consolidated Financial Statements in conjunction with the external auditor. Based on this review and discussions with management, the AC was satisfied that the Consolidated Financial Statements were prepared in accordance with applicable accounting standards

and fairly present the Group's financial position and results for the year ended 31 December 2020. The AC therefore recommended that the Consolidated Financial Statements for the year ended 31 December 2020 be approved by the Board.

Review of Key Audit Matters

The AC reviewed and discussed with the external auditor and management the following key audit matters for the audit of the 2020 Consolidated Financial Statements.

Key Audit Matters

Goodwill impairment assessment

Assessment by the AC

The AC was satisfied that sufficient analysis (including the sensitivity analysis on key assumptions) had been performed in this area to conclude that there was no impairment allocated to the group of Cash Generating Units within the respective Commodities and Post Trade operating segments. The assessment was also an area of focus for the external auditor as detailed in the Auditor's Report on page 123.

IT systems and controls over financial accounting and reporting

The external auditor's key audit matters included IT systems and controls since the Group's financial accounting and reporting processes are highly dependent on their design and operating effectiveness. The AC noted and agreed with the external auditor that the key IT systems could be relied on to ensure the accuracy and completeness of the revenue recognition during the financial accounting and reporting processes. The findings of the external auditor are set out in the Auditor's Report on page 124.

Review of Internal Control Systems

The AC reviewed the adequacy and effectiveness of the Group's policies and procedures regarding internal control systems (including the financial, operational, IT, risk management, information security, outsourcing, legal, compliance and those controls designed to detect material fraud) by reviewing the work of the IAD, the Group's external auditor, and external consultants, and regular reports from management including those on risk management, regulatory compliance, and legal matters.

In conjunction with the Risk Committee, the AC reviewed and concurred with the management confirmation that for the year ended 31 December 2020, the Group's risk management and internal control systems were effective with reference to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework 2013 and the ISO 31000 Risk Management principles and guidelines. The AC is satisfied that the Group has complied satisfactorily with the requirements of the Corporate Governance Code in respect of risk management and internal control systems, and that the Group has satisfactorily managed the impact of the Covid-19 pandemic.

Review of Accounting, Financial Reporting and Internal Audit Functions

The AC reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

Review of Continuing Connected Transactions

During 2020, the Group entered into certain continuing connected transactions as disclosed in the Corporate Governance Report contained in this Annual Report. The AC, under the authority delegated by the Board, reviewed these continuing connected transactions pursuant to Rule 14A.55 of the Main Board Listing Rules. The AC confirmed that the transactions were entered into by the Group in accordance with the requirements of the Main Board Listing Rules and the conditions of the waiver granted by the SFC that:

- (i) continuing connected transactions are entered into in the Group's ordinary and usual course of business, and on normal commercial terms or on terms no more favourable than terms available to independent third parties;
- (ii) continuing connected transactions other than Buy-in Transactions are conducted in accordance with the rules and regulations of the relevant Group company governing such transactions, and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
- (iii) continuing connected transactions in respect of Buy-in Transactions are conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all buy-in brokers and at the mutually agreed commission rates payable by HKSCC in respect of Buy-in Transactions generally; and
- (iv) continuing connected transactions are entered into according to the relevant agreements governing each of the continuing connected transactions on terms that are fair and reasonable and in the interests of Shareholders as a whole.

The Company's external auditor was engaged to report on the transactions in accordance with Rule 14A.56 of the Main Board Listing Rules. The AC reviewed the unqualified report issued by the external auditor dated 22 February 2021.

Independence of External Auditor

The AC is mandated to monitor the independence of the Group's external auditor, PricewaterhouseCoopers (PwC), to ensure its objectivity in auditing the financial statements. In general, the external auditor has to refrain from engaging in non-assurance services required by the Group except for limited tax-related services or specifically approved items. All services provided by PwC must be approved by the AC. To ensure that the policy of restricting the non-audit work done by the external auditor is followed strictly by all entities within the Group, appropriate policies and procedures have been established which set out:

- (i) the classification of services as pre-approved, not pre-approved and prohibited; and (ii) the approval process for services that have not been pre-approved. To strengthen the independence of the external auditor, HKEX has adopted a five-year rotation policy regarding engagement partner of the auditor. The current engagement partner has served on the audit of the Group since 2017.

With respect to the independence of the Group's external auditor, the AC received confirmation from and discussed with PwC on its independence and objectivity.

During the year, the AC reviewed PwC's statutory audit scope and non-audit services and approved its fees. Under the approval procedures for audit fees, all audit fees for entities within the Group were coordinated and presented by PwC Hong Kong and were approved by the AC.

External Auditor's Services and Fees

	2020 \$m	2019 \$m
Audit services	19	15
Non-audit services		
• Tax advisory and compliance	2	2
• Proposed combination with LSEG	–	10
• Other services	1	–
Total	22	27

Re-appointment of External Auditor

The AC was satisfied with PwC's work, its independence, and its objectivity, and therefore recommended the re-appointment of PwC (which has indicated its willingness to continue in office) as the Group's external auditor for 2021 for Shareholders' approval at the 2021 AGM.

YIU Kin Wah, Stephen

Chairman of the Audit Committee

Hong Kong, 22 February 2021