

**OTC CLEARING HONG KONG LIMITED**  
**TERMS OF REFERENCE AND MODUS OPERANDI**  
**OF**  
**THE RISK MANAGEMENT COMMITTEE**

**1. Status**

The Risk Management Committee (the “**Committee**”) is a sub-committee of the board (the “**Board**”) of OTC Clearing Hong Kong Limited (“**OTC Clear**”) and will act as the independent consultation panel of the Board on all important matters relating to the management of risks.

**2. Purpose**

The Committee shall be appointed by the board of directors of OTC Clear to assist the Board in discharging its risk-related responsibilities and to advise it on the overall current and future risk tolerance and strategy of OTC Clear and arrangements that may impact the risk management of OTC Clear.

**3. Administrative Structure**

**(a) Composition**

Subject to casual vacancies from time to time, the Committee shall consist of the following members to be appointed by the Board:

- (i) Three individuals who are independent non-executive directors (“**INED**”) of OTC Clear;
- (ii) One individual who is a senior executive or a director of a Clearing Member of OTC Clear; and
- (iii) One individual who is 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.

**(b) Chairman**

The chairman of the Committee shall be appointed by the Board and shall be an INED of OTC Clear with sufficient knowledge in risk management matters.

**(c) Term of Office of Committee Members**

- (i) With respect to a member of the Committee who is a director of OTC Clear, the term of appointment to the Committee shall, to the extent possible, be concurrent with the member’s term of office on the Board. Accordingly, such member shall vacate his/her office upon:

- a. the expiry of his/her term as a director of OTC Clear unless he/she is re-appointed or re-elected as such and re-appointed by the Board as a member of the Committee; or
  - b. his/her earlier removal as a director of OTC Clear.
- (ii) The term of appointment of all other members of the Committee will normally be for two years. Subject to paragraph 3(c)(i), the members are eligible for re-appointment.
- (iii) The Board may determine to fill any casual vacancies that may occur in the Committee by reason of resignation, retirement, termination or otherwise in any way as it considers appropriate.

**(d) Reporting Procedures, Frequency and Proceedings of Meetings**

- (i) The meetings and proceedings of the Committee shall be governed by OTC Clear's Articles of Association.
- (ii) The Committee will meet at least once every quarter in a calendar year. The chairman of the Committee may call meetings of the Committee. Meetings may also be initiated by the senior management of OTC Clear, especially in situations where emergency assistance of the Committee is required.
- (iii) Meetings of the Committee will normally be held in person in Hong Kong and may be held by telephone or video conference or using other appropriate conference facilities.
- (iv) The Committee shall meet for the dispatch of business, adjourn and otherwise regulate its meetings in accordance with any rules of procedures (including rules governing members' conflict of interest) which may be issued by the Board from time to time.
- (v) The Committee may invite the management of OTC Clear and external or independent experts or professional advisers to attend Committee meetings in a non-voting capacity.
- (vi) The Committee will report to the Board on a regular basis and shall keep the Board properly informed as to the findings and recommendations of the Committee. As a general rule, the Committee will report to the Board on the matters discussed at the Committee at the next Board meeting following a meeting of the Committee.

**(e) Quorum**

Three members shall constitute a quorum.

**4. Areas of Responsibility**

- (a) Generally, the Committee shall advise the Board on matters relating to OTC Clear's risk profile, tolerance and strategy and risk management policies and non-policy documents relating to the clearing of products or asset classes by OTC Clear, including policies and

non-policy documents relating to market risks, counterparty risks, liquidity risks and operational risks.

- (b) More specifically, the Committee shall advise the Board and/or OTC Clear's executives upon their request from time to time on such matters, proposals, recommendations or reports relating to or which may have an impact on the risk profile of OTC Clear or its ability to manage risks, including the matters on the following areas:
- (i) General risk profile of OTC Clear and its consistency with OTC Clear's business strategy and risk-tolerance policy;
  - (ii) Arrangements that may impact the risk management of OTC Clear including, for example, significant changes to risk models, market contingency planning, criteria for accepting Clearing Members and the clearing of new classes of product or instrument;
  - (iii) System of controls and oversight and its adequacy and effectiveness, which may include the adequacy and effectiveness of OTC Clear's governance and project management process, models used to quantify and manage risks, and systems for monitoring or setting limits on total credit exposure and large individual credit exposures (if any);
  - (iv) Risks associated with introduction of new products, implementation of new links, use of new crisis-management frameworks, adoption of processes and templates for reporting significant risk exposures;
  - (v) Processes for adherence to relevant market protocols, including assessment on practices or arrangements that have become established market conventions, adherence to market wide protocols and developments and establishment of relevant standards for OTC Clear;
  - (vi) Effectiveness of participant default rules and practices;
  - (vii) Adequacy and effectiveness of procedures to support capacity with respect to risks which may threaten the viability of OTC Clear as a going concern;
  - (viii) Effectiveness of decision making processes in crisis and emergency situations;
  - (ix) Effectiveness of procedures and rules designed to facilitate the recovery of orderly wind-down of OTC Clear;
  - (x) The Committee's resources and access to the Board;
  - (xi) Adequacy of governance surrounding the adoption and use of models such as credit, collateral, margining and liquidity risk management systems; and
  - (xii) Validation processes on the adoption of models and methodologies, including market data, used to quantify, aggregate and manage risks.
- (c) Coordination with the group risk management committee

- (i) The work of the Committee is complementary to that of the risk management committee of Hong Kong Exchanges and Clearing Limited (“**HKEX RMC**”) established under section 65 of the Securities and Futures Ordinance (“**SFO**”). HKEX RMC is responsible for control and risk management matters at the HKEX group level.
- (ii) HKEX RMC may review risk management matters of OTC Clear, if necessary, and may make recommendations to the Committee. HKEX RMC may request the Committee to review, advise or report on the adequacy of risk controls at, or any risk issues relating to, OTC Clear.

## **5. Authority and Powers**

The Committee is authorised to seek any external expert or professional advice as it considers appropriate.

## **6. Review**

The Committee shall review and evaluate its performance and these terms of reference on an annual basis to ensure that it is operating at maximum effectiveness. As and when required, it shall make minor or housekeeping amendments for the Board’s information and recommend appropriate material amendments for the Board’s approval.

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